
 Yuji Otsu, President	<b>NISSEN INC. (6543)</b>
	 株式会社 日宣

## Company Information

Market	TSE JASDAQ
Industry	Service
President	Yuji Otsu
HQ Address	Nissen Kanda 2nd Building, 2-6-5 Kandatsukasamachi, Chiyoda-ku, Tokyo
Year-end	End of February
HOME PAGE	<a href="https://www.nissenad.co.jp/">https://www.nissenad.co.jp/</a>

## Stock Information

Share Price	Shares Outstanding		Total market cap	ROE Act.	Trading Unit
1,399	1,951,300 shares		2,729 million	8.7%	100 shares
DPS Est.	Dividend yield Est.	EPS Est.	PER Est.	BPS Act.	PBR Act.
42.00	3.0%	120.67	11.6 x	1,395.09	1.0 x

\*The share price is the closing price on April 25. The number of shares outstanding is as of the end of February, 2019. ROE and BPS are the actual values for the previous term.

## Earnings Trend

Fiscal Year	Sales	Operating Income	Ordinary Income	Net Income	EPS	DPS
Feb. 2015 (Actual)	3,939	180	190	84	50.79	20.00
Feb. 2016 (Actual)	4,338	344	331	199	117.56	25.00
Feb. 2017 (Actual)	4,690	375	418	259	151.71	38.00
Feb. 2018 (Actual)	4,711	342	380	654	336.64	42.00
Feb. 2019 (Actual)	5,021	304	341	229	118.52	42.00
Feb. 2020 (Forecast)	5,582	330	344	233	120.67	42.00

\*The forecast is done by the Company. Net income is profit attributable to owners of the parent. The Company conducted a stock split of 1:20 on November 1, 2016. EPS and DPS are retroactively calculated.

\*Unit: million yen.

We would like to briefly report the financial results of NISSEN Inc. for the Fiscal Year (FY) ended February 2019.

## Key Points

### 1. Company Overview

### 2. Fiscal Year February 2019 Earnings Results

### 3. Fiscal Year February 2020 Earnings Estimates

### 4. Conclusions

<Reference: Regarding Corporate Governance>

## Key Points

- The Company's major customers are in the broadcast/communication, housing/living and medical/health industries and it provides one stop services including development of strategies for problem solving, promotion design, production/development and execution/operation. It has successfully achieved a position with high competitive advantage by using "comprehensive capability," "flexibility" and "detailed services." It is focusing on expanding the digital domain using virtual reality (VR) technologies, etc. It is aiming at early achievement of "sales of 10 billion yen, an ordinary income of 1 billion yen, and a digital area composition ratio of 30%."
- Sales for the FY ended February 2019 were 5,021 million yen, up 6.6% year-on-year (YoY), driven by major restaurant chains and major drugstores. Operating income was 304 million yen, down 11.2% YoY. Although gross profit increased 6.0% YoY, it could not cover upfront investments in new services in the digital domain, in China, etc., and an increase in personnel expenses and M&A related expenses. As gain on sale of noncurrent assets was recorded in the previous FY, net income declined 65% YoY. The full-year forecast was revised downwardly in January 2019. The results followed the revised forecast as a whole.
- Sales for the FY ending February 2020 are estimated to be 5,582 million yen, up 11.1% YoY, and operating income is expected to grow 8.7% YoY to 330 million yen. They will be driven by other industries as in the previous FY. The broadcast/communication, housing/living businesses are on a recovery trend. As the Company will make strategic upfront investments this FY as well, income is expected to increase due to larger sales. The dividend is to be 42.00 yen/share as in the previous FY. The expected dividend payout ratio is 34.8%.
- Although the performance in the first half was healthy, the growth of both sales and income slowed down in the second half. While sales in the medical/health and other industries are expected to hit a record high this FY, it is desirable to expand businesses in the broadcast/communication, housing/living fields, which account for a large proportion of sales. As for M&A, which is one of the Company's growth strategies, it acquired Nissansha. Inc. as its subsidiary. How the Company will exert synergies is noteworthy.

## 1. Company Overview

The Company's major customers are in the broadcast/communication, housing/living and medical/health industries and it provides one stop services for companies including development of strategies for problem solving, promotion design, production/development and execution/operation. It has successfully achieved a position with high competitive advantage by using "comprehensive capability," "flexibility" and "detailed services."

The Company is focusing on expanding the digital domain such as online advertising and customer support using virtual reality (VR) technologies, etc. It is aiming at early achievement of "sales of 10 billion yen, an ordinary income of 1 billion yen, and a digital area composition ratio of 30%."

### 1-1 Corporate history

President Yuji Otsu's grandfather, Kenjiro Otsu, who was aiming to be a Japanese painter, worked at a high-class art printing company in Kobe as a designer. Later, he went to the Pacific War, and after being demobilized in April 1947, he founded an advertising company, Senden Goyo Company, which became the predecessor of the Company, in Kobe city.

In addition to general advertising business, it coordinated launching ceremonies carried out by shipbuilders due to the characteristics of Kobe city, organized events and made posters for department stores. It also expanded its customer base in the textile industry, which was the central industry of postwar economic recovery.

The Company also handled the high-class packaging for the launch of “Hong Kong shirt (short sleeve shirt)” which became a major hit product of Teijin Ltd. in the 1960s. The Company’s excellent design and creative capabilities, product promotion capabilities, and convenience of one stop services including printing were highly appreciated by the costumers. The Company’s characteristic of providing excellent plans and creativity through direct transactions with good industries and customers has been inherited from its founding time till now.

In 1955, Tokyo office was established with a view to expanding the businesses.

While pursuing customer development in Tokyo, it began business in 1972 with Asahi Kasei Homes, one of its current major customers. After that, it expanded the customer base to the broadcast/communication industry and medical/health industry, and sales and profits steadily grew.

In February 2017, it got listed on the Tokyo Stock Exchange JASDAQ market.

**1-2 Corporate Philosophy / Management Philosophy**

We pursue the happiness of both sides of all employees.	Being a company that employees are happy to work with will enhance the value provided to customers, leading to management that emphasizes stakeholders, including shareholders.
By providing unique communication services, we will contribute to the management of our customers.	Our goal is to solve your business problem. Based on specialized marketing, we will create unique communication mechanisms, media, content, and experiences.

**1-3 Environment surrounding NISSEN INC.**

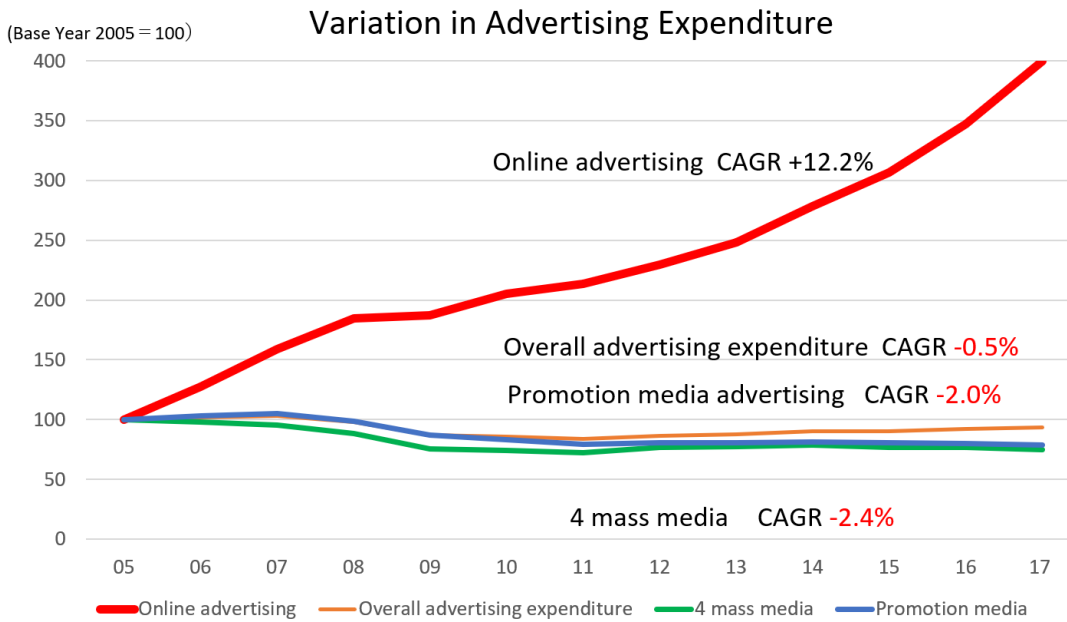
◎ **Change in the advertising market**

In the conventional advertising market, especially in the advertising business using the media such as television and newspaper, monopolistic and exclusive inventory of stocks was the most important factor for businesses development for the media and advertising agencies that were on the supply side.

Major advertising agencies have been gaining significant profits by capturing almost all of the limited advertisement spots of TV and newspapers and holding price leadership against the advertisers.

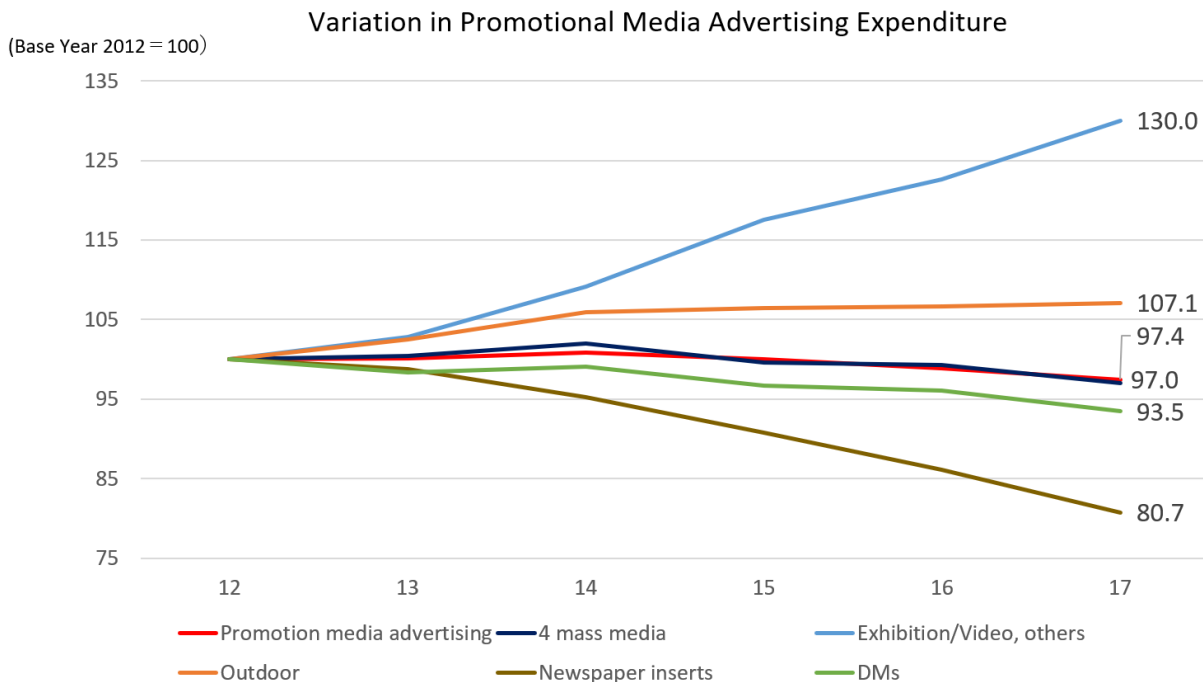
However, the demand for mass media advertising is on a downward trend due to the end of rapidly growing economy and the advent of online advertising, which is characterized by inexpensiveness of the cost compared to conventional media and interactivity which is its essence.

According to “Advertising Expenditure in Japan in 2017” by Dentsu Inc., as the graph below shows, the total advertising expenditure in Japan has remained almost unchanged in the past 12 years. The CAGR (compound annual growth rate) of so-called four mass media including newspapers, magazines, radio and TV decreased 2.4% while online advertising expenditure, which was 377.7 billion yen in 2005, continued to grow at the CAGR of 12%, and it reached 1 trillion yen in 2014 and was 1.5 trillion yen in 2017.



Advertising through promotional media such as newspaper inserts, free papers, and direct mails (DMs) also declined 2.0% in the past 12 years.

However, looking at the trend of promotional media advertising expenditure since 2012, while it is on a negative trend for newspaper inserts and DMs, it is steadily increasing for exhibitions, images, and outdoor advertising. POP production cost also increased about 7 % compared with 2012. This indicates that as the cost-effectiveness awareness rises among the advertisers, utilization of promotional media for advertising using the characteristics of each medium for targeted marketing is advancing.



As consumers' tastes and behavior diversify, the need for marketing and promotion, which will lead to "increased sales" by advertisers, is expected to grow in the future.

### ◎Comparison of Advertisement/Promotion related Companies

Code	Company name	Sales	Sales growth rate	Operating income	Income growth rate	Operating income margin	Market cap.	PER	PBR
2180	SUNNY SIDE UP Inc.	15,000	10.8	500	40.7	3.3%	15,630	47.9	8.7
2411	GENDAY AGENCY Inc.	9,800	-18.8	480	-31.9	4.9%	7,013	22.6	1.3
2487	CDG	10,500	-3	300	-52.9	2.9%	8,187	20.0	1.5
3977	FUSION Co., Ltd	1,330	10.2	12	235.6	0.9%	745	104.1	3.3
4317	Ray Corporation	12,000	4.6	655	-26.9	5.5%	5,531	12.0	1.1
6176	Brangista	3,500	3.9	350	-	10.0%	13,015	64.9	5.3
<b>6543</b>	<b>NISSEN</b>	<b>5,582</b>	<b>11.2</b>	<b>330</b>	<b>8.7</b>	<b>5.9%</b>	<b>2,730</b>	<b>11.6</b>	<b>1.0</b>
9466	Aidoma Marketing Communication Corp.	9,800	14	1,050	11.6	10.7%	6,408	8.9	1.7
9782	DMS	25,662	6.9	1,222	11.3	4.8%	13,522	12.7	1.0

\* Sales and operating income are forecasts made by the Company for this term. Market capitalization is the latest end-of-quarter stock number × closing price on April 25, 2019. PER (forecast) and PBR (actual) are based on the closing price of April 25, 2019.

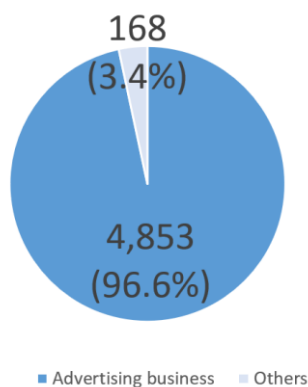
(Unit: Million yen, %, -fold)

## 1-4 Business contents

### Business Segment

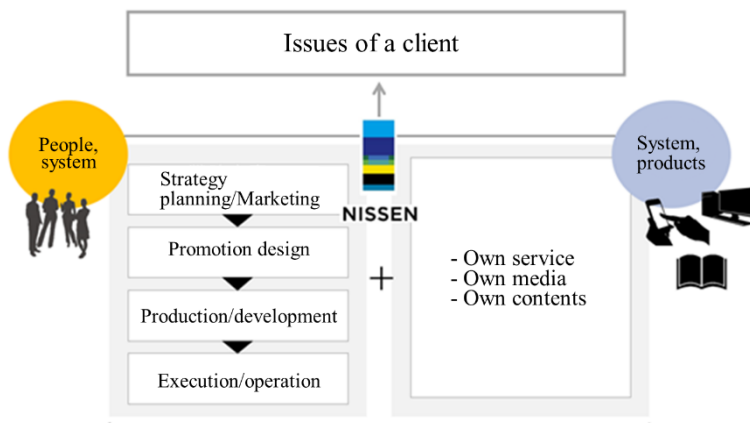
The business segments comprise “Advertising business” and “Others.” (Report segment is Advertising business only.)

Composition of Sales  
(FY Feb. 2019, Unit: million yen)



#### 1. Advertising business

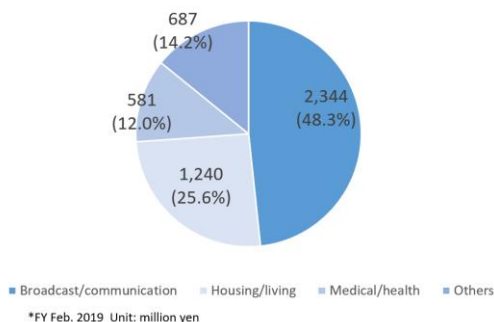
The Company determines an industry to focus on and deals directly with client companies. It provides one-stop advertisement solutions from developing strategies/marketing for a challenge, promotion design, production/development and execution/operation by using its own service, own media and own contents.



(Source: the company)

At this point in time, the Company provides services to the following 3 industries.

Composition of Sales by industry



《 Broadcast/communication 》

The Company provides sales promotion services to acquire new subscribers and promote viewing to the nationwide CATV stations, major communication carriers, and program supply companies.

The core of the business is the planning and production of the television program listings information magazine called “Channel Guide” (monthly magazine) for the subscribers of about 100 CATV stations nationwide, and the circulation is about 1.5 million copies per month.

The CATV stations have about 130 channels including communication satellite (CS), broadcast satellite (BS), terrestrial and terrestrial BS, and the Company needs to write articles to introduce each program as well as prepare each TV guide for 100 stations monthly and make them easy to read and accurate, through editing.

To undertake this type of work, a certain investment is necessary for system construction, and accumulation of sufficient know-how is required for the operation. These are becoming high entry barriers, and currently there is only one competitor, although there were about 5 before.

There are about 300 CATV stations across Japan. About 240 of them develop TV guides, and the Company’s market share is 40 percent. It is an essential existence for the CATV stations.



Channel Guide



Baseball Navi

(Source: the company)

In addition, the Company operates the recommendation site of video distribution service operated by a major telecommunications carrier and provides various sales promotion.

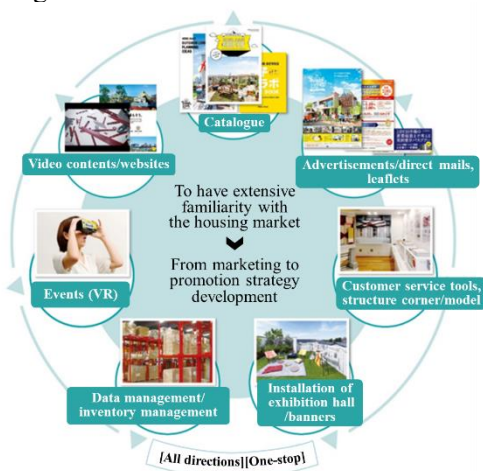
《Housing/living》

**(Housing)**

For more than 40 years, the Company is involved in sales promotion of a major housing manufacturer “Asahi Kasei Homes Co., Ltd.”

The Company’s services include the general design of nationwide campaigns, individual advertisement promotion planning, development of catalogs, DMs, leaflets and housing exhibition tools, event planning and management, website/video production, and space design. As for catalogues and sales tools, it also handles inventory control.

In recent years, it offers the “geo-targeting” service that sends pinpoint information to the target using geographic information and attracts customers. It also offers new digital related services such as the latest interactive theater room using 360 ° video and VR.



(Source: the company)

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**The latest interactive theater room by Asahi Kasei Homes “HEBEL HAUS TOKYO PRIME SQUARE”**

In January 2017, Asahi Kasei Homes opened the interior and facility showroom “Design Studio Tokyo” and the studio “HEBEL HAUS TOKYO PRIME SQUARE “with the interactive theater room “THE VISION HEBEL HAUS” in Tokyo Sales Headquarters (Shinjuku NS Building, 2-4-1 Nishi Shinjuku, Shinjuku-ku, Tokyo)



Overview of “THE VISION HEBEL HAUS”

- With 360 ° expressive image on a continuous large screen installed on the walls and ceiling in 4 directions (front, right, left, top), the visitors can experience virtual housing space of about 20 cases including new HEBEL HAUS products and the latest exhibition halls. The visitors can easily experience many exhibition halls with fun without having to actually visit.
- It is based on an interactive operation in which the users move the images by moving the palm toward the screen while sitting on the sofa. Unlike virtual reality videos for which the users must wear specified goggles, all visitors can share the same experiences, so the entire family can have fun together and communicate with each other.

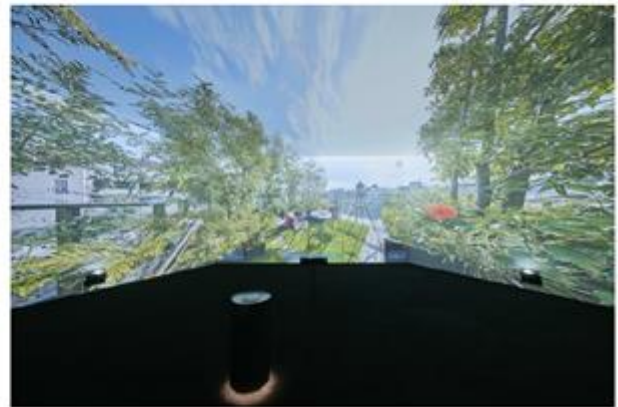
<The Vision HEBEL HAUS>

Theater room: Approximately 60 m<sup>2</sup>. Up to 10 people can experience at the same time.

Video contents: Housing space virtual experiences of new products and the latest models with 360 ° image, movie on storage techniques, movie on introducing HEBEL HAUS, movie on long-life housing concept, etc.



Inside of the theater room: Visitors can experience various room layouts and interior designs



Inside of the theater room: Visitors can have a realistic experience of living with a rooftop

(From ASAHI KASEI HOMES release information)

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**(Home improvement stores, etc.)**

The Company plans and issues free information magazine “Pacoma” (monthly magazine) for visitors of home improvement stores nationwide. The circulation is about 300,000 copies.

Main sales are generated from collecting advertisements from manufacturers and selling the magazine to the companies owning home improvement stores.

In addition to offering various sales promotion tools to the companies mainly in the lifestyle industry, the Company is also offering online promotion/PR measures through the online magazine “Pacoma” by utilizing its content capacity.





Home improvement stores magazine “Pacoma”



Online magazine “Pacoma”

(Source: the company)

《Medical/health》

**(Pharmaceutical companies)**

The Company is planning and developing disease prevention awareness programs in which doctors appear (televised on cable TV and radio nationwide) to support the activities of pharmaceutical companies’ MRs (medical information staff). About 700 programs have been produced so far.

In addition, the Company is also entrusted with planning and operation of seminars sponsored by pharmaceutical companies and academic meetings.



(Source: the company)

**(Drug stores)**

The Company plans and issues free information magazine “KiiTa” (quarterly magazine) for visitors of drug stores. The magazine is distributed to about 10,000 stores nationwide.

Also since December 2016, it has been releasing the free information magazine “Re: KiiTa” (quarterly magazine), targeting salespeople of drug store companies.

Both magazines are official information magazines recognized by the Japan Association of Chain Drug Stores, and sales are generated from collection of advertisements from pharmaceutical companies, etc.



KiiTa



Re:KiiTa

(Source: the company)

《Others》

The Company is also actively working on increasing customers in other industries.

Particularly, it is strengthening the approach to companies that have store networks, using its customer attraction capabilities and store-front promotion planning capabilities, which are the Company’s strengths gained by working with the companies that operate home improvement stores and drug stores.

Most recently, for Japanese Subway that operates the sandwich restaurant chain “SUBWAY,” the Company obtained an account from a major general advertising agency. It is now handling all of their marketing measures ranging from media handling, advertising work to production of storefront tools.

The Company is offering integrated services including planning, attracting customers and purchasing promotion from planning of the concept of a campaign, customer attraction using web advertising to the development of storefront tools such as flyers, posters and menus.



Campaign planning

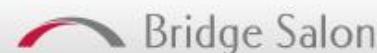


Storefront staging

(Source: the company)

Furthermore, for Japan Pizza Hut which operates the pizza shop chain “Pizza Hut,” in order to expand the fans of Pizza Hut and increase the awareness of the movie “Spiderman” by taking advantage of the fun aspect and the fan base of the movie content, the Company undertook the overall designing of the campaign that included “dissemination of self-shooting images with Spiderman via social networking services, making use of augmented reality (AR),” “production of pizza box,” and “operation of events for the fans,” etc. and executed the plan.

BRIDGE REPORT



This is the original box that is delivered during the campaign period. When waving the smartphone application on it, the Spiderman shows up.



People can take a picture with the Spiderman, and they can post the pictures on twitter or Instagram.



The Company planned and organized events for the fans.

(Source: the company)

2. Others

NISSEN Printing Co., Ltd., the Company’s subsidiary, receives orders for various types of commercial printing. It also receives orders and manufactures catalogs, pamphlets, leaflets, direct mails, posters, etc.

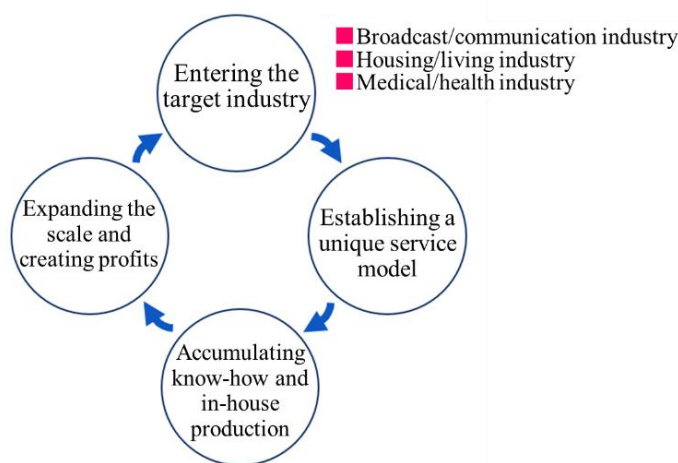
In addition, NISSEN Printing owns a unique machine to print and stick images on fans. They are called “Eco paper fans,” for which it owns the manufacturing patent. It receives orders from various industries across the country as their “sales promotion tools” and manufactures them.

1-5 Characteristics and strengths

◎To determine good industries to target, build a unique service model, and expand its scale

As mentioned in the history above, the Company has been developing by targeting growing and excellent industries of the era as major customers. For example, it worked with the textile industry in the 1960s, the housing industry in the 1970s, and, broadcast/communication and medical/health industries thereafter. The needs and challenges for advertising and SP are different for each industry.

The Company can provide highly unique one-stop solutions combining various approaches for attracting customers and expanding sales by grasping unique issues and needs of each industry. The Company calls it the “unique service model.” The Company is expanding the size by repeating the cycle of accumulating know-how in providing services, increasing the profitability by promoting insourcing of making core products, expanding the volume and creating profits, and defining a new target industry and entering there.



◎Internal system that supports the unique service model

The internal system that supports the “unique service model,” which is the Company’s unique characteristic, is also a major feature.

Because the Company does not involve agents with customers and all businesses are handled directly with the customers, it can directly identify issues of the industries and companies to which the customers belong.

For the identified issues, the in-house specialized teams consisting of creative directors, planners, copywriters, web designers, and video directors create optimal solutions.

In the past, the Company was mainly outsourcing. However, based on the policy of President Otsu, who is aiming at strengthening competitiveness, the Company began to develop in-house creative teams about 10 years ago. Currently it has about 30 staff who gained extensive experiences at major advertising agencies, etc.

The Company is accumulating know-how by internalizing production of the core parts for creating the optimal solution, while, for the other parts, it builds and utilizes close and strong relationships with excellent external partner companies (website production, SP production, paper, printing, logistics, etc.). It provides one-stop optimal solutions for customers.

**◎It has achieved a position with high competitive advantage in the advertisement/SP industry based on the “comprehensive capability.”**

Although there are various players in the advertising industry depending on the scale and specialty fields, the Company has succeeded in achieving a position with high competitive advantage through its unique “comprehensive capability.”

As mentioned in the market environment section, major advertising agencies, which follow the business model with an oligopolistic control of advertisement spaces, are beginning to focus on online advertising, as the negative growth of mass media such as TV and newspapers continues. However, to maintain their corporate size, they need to efficiently earn income using the mass media. Even if there are needs of POP and SP among the customers, the major advertising agencies need to outsource the work in these fields where flexibility is required. This makes it difficult for them to gain sufficient customer satisfaction.

Meanwhile, advertising agencies specializing in the Internet have grown significantly with the expansion of online advertising and many of them have gotten listed, but they do not have analog solutions for “sales floors” such as POP and SP. They are less likely to choose internalization of producing solutions from their corporate culture.

Under these circumstances, the Company’s comprehensive capability to offer a wide range of one stop solutions from planning, production to execution of advertisement/SP, including analog and digital, is extremely attractive to the customers. The Company recognizes that being in a position to offer solutions based on “comprehensive capability,” “flexibility” and “detailed service” is their strong competitive advantage in a field where it is difficult for both major advertising agencies and Internet specialized advertising agencies to provide adequate services, and it will continue to strengthen this position.

## 2. Fiscal Year February 2019 Earnings Results

### (1) Consolidated Earnings Results

	FY2/18	Ratio to sales	FY2/19	Ratio to sales	YoY	Compared with the initial forecasts	Compared with the revised forecasts
Sales	4,711	100.0%	5,021	100.0%	+6.6%	-6.0%	-1.8%
Gross profit	1,144	24.3%	1,212	24.2%	+6.0%	-	-
SG&A	801	17.0%	908	18.1%	+13.3%	-	-
Operating Income	342	7.3%	304	6.1%	-11.2%	-19.1%	+1.4%
Ordinary Income	380	8.1%	341	6.8%	-10.3%	-10.6%	+2.3%
Net Income	654	13.9%	229	4.6%	-65.0%	-10.9%	+1.8%

\*Net income is profit attributable to owners of the parent.

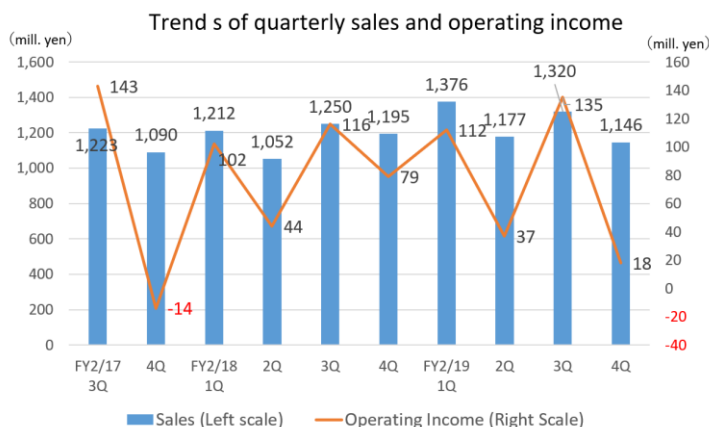
\*Unit: million yen

**Sales grew, while profit declined**

Sales were 5,021 million yen, up 6.6% year-on-year (YoY), driven by major restaurant chains and major drug stores. Operating income was 304 million yen, down 11.2% YoY. Although gross profit increased 6.0% YoY, it could not cover upfront investments on new services in the digital domain, in China, etc., and an increase in personnel expenses and M&A related expenses.

As gain on sale of noncurrent assets was recorded in the previous FY, net income declined 65% YoY.

The full-year forecast was revised downwardly in January 2019. The results followed the revised forecast as a whole.



Although the performance in the first half was healthy, the plan was not achieved as a large-scale campaign was not conducted in the broadcast/communication industry like in the same period of the previous year in the second half. Both sales and operating income in the fourth quarter dropped year on year.

**(2) Trend by industry**

	FY2/18	FY2/19	YoY
Broadcast/communication	2,440	2,344	-3.9%
Housing/living	1,330	1,240	-6.8%
Medical/health	351	581	+65.3%
Other business	404	687	+69.8%
Sales total	4,527	4,853	+7.2%
Operating income	322	288	-10.4%

\*Unit: million yen

Though medical/health and other businesses were healthy, and sales hit a record high, it could not cover weak performance in the broadcast/communication or housing/living industries, resulting in a decline of income.

**\*Broadcast/communication field**

In addition to the “Channel Guide,” the Company received orders for sales promotion measures from CATV stations, program supply companies, and major communication carriers.

Although the Company worked on expanding the market share of the “Channel Guide” as one of its key measures and acquired multiple stations in the second half, it could not compensate for the decrease of orders from major communication carriers.

**\*Housing/living field**

With regard to Asahi Kasei Homes Group, which is the Company’s core customer, the Company proceeded with the integration of marketing and production processes. However, income decreased 3% YoY.

Sales promotion from client companies of “Pacoma,” which is a charge-free information magazine for home improvement stores, was ineffective.



**\*Medical/health field**

Sales hit a record high.

The Company approached pharmaceutical companies, which are major clients, to increase transactions with them, and provided a wide range of services from event management to SNS measures, and then sales grew.

The Company launched communication brochures, etc., for major drugstore chains at the start of the fiscal year, and they contributed to sales as planned.

**\*Other fields**

Sales hit a record high.

This is thanks to the significant growth of major restaurant chains the Company cultivated last year, the increase of new customers through projects in China and M&A, and so on.

As for efforts in the digital domain, the Company launched its own media and also held an exhibition.

**(3) Financial standing and cash flows****◎Main BS**

	End of Feb. 2018	End of Feb. 2019		End of Feb. 2018	End of Feb. 2019
Current assets	2,174	1,902	Current liabilities	861	614
Cash and deposits	1,508	1,094	Trade payables	358	410
Trade receivables	543	662	Short-term interest-bearing debts	87	67
Noncurrent assets	2,257	2,307	Noncurrent liabilities	988	937
Property, plant and equipment	1,924	1,899	Long-term interest-bearing debts	647	589
Buildings and structures	927	903	Total liabilities	1,849	1,552
Land	966	966	Net assets	2,582	2,657
Intangible assets	18	24	Retained earnings	1,979	2,090
Investments and other assets	313	383	Total liabilities, net assets	4,431	4,209
Total assets	4,431	4,209	Equity ratio	58.3%	63.1%

\*Unit: million yen

Due to a decrease in cash and deposits, current assets decreased 272 million yen from the end of the previous fiscal year. Noncurrent assets increased 50 million yen, and total assets decreased 222 million yen to 4,209 million yen from the end of the previous fiscal year.

Total liabilities decreased 297 million yen from the end of the previous fiscal year to 1,552 million yen due to a decrease in short and long-term debts.

Net assets increased 75 million yen from the end of the previous fiscal year to 2,657 million yen due to an increase of treasury stocks.

As a result, equity ratio rose 4.8 points from the end of the previous fiscal year to 63.1%.

**◎Cash Flow**

	FY2/18	FY2/19	Increase/decrease
Operating Cash Flow	213	-7	-220
Investing Cash Flow	907	-116	-1,023
Free Cash Flow	1,120	-123	-1,243
Financing Cash Flow	-896	-202	+693
Term End Cash and Equivalents	1,488	1,161	-326

\*Unit: million yen



Operating CF turned negative due to a decrease in quarterly net income before tax adjustments, etc., and investing CF and free CF, too, became negative as the Company did not have proceeds from sales of tangible assets (land for the old head office) like in the previous FY.

The deficit of financing CF was reduced as the repayment amount for long-term debts decreased.

The cash position has declined.

**(4) Topic**

**1 Progress in the digital field**

In May 2018, the Company launched its own media, “NISSENDIGITALHUB,” and started providing consulting services in the AI field. In June 2018, the Company attracted new and existing customers and subsequently held its first exhibition in the digital domain, “N Tech,” successfully receiving orders from multiple companies.

In July 2018, the Company invested in fintech funds in order to develop business. They engage in full-scale development and operation of its solution service, by increasing staff.

The ratio of sales in the digital domain to total sales was 8.4% in FY ended February 2018, and 8.3% in FY ended February 2019. Though it has been flat, the Company has made progress through its own media and the exhibition, and is focusing on customer acquisition in the digital domain.

(Source: the company)



**2 Acquisition of Nissansha Inc., a comprehensive advertising company, as a subsidiary**

In December 2018, the Company acquired Nissansha Inc. as a 100% subsidiary, which is a comprehensive advertisement company that manages business regarding media, events, promotions, websites, etc. With 60 years of history in the industry, Nissansha Inc. has built healthy relationships with a variety of clients, such as general contractors.

The liabilities of Nissansha Inc. in the fiscal year ended March 2018 exceed its assets by 249 million yen. However, both companies expect that they can exert significant synergistic effects as Nissansha Inc. will be able to provide a wide range of services to its existing customers from now on, utilizing resources of Nissen Inc.

**3. Fiscal Year February 2020 Earnings Estimates**

**(1) Earnings Forecasts**

	FY2/19	Ratio to sales	FY2/20 (Forecast)	Ratio to sales	YOY
Sales	5,021	100.0%	5,582	100.0%	+11.2%
Operating Income	304	6.1%	330	5.9%	+8.7%
Ordinary Income	341	6.8%	344	6.2%	+0.9%
Net Income	229	4.6%	233	4.2%	+1.8%

\*Net income is profit attributable to owners of the parent.

\*Unit: million yen

### Sales and profit estimated to grow

Sales are estimated to be 5,582 million yen, up 11.1% YoY, and operating income is expected to grow 8.7% YoY to 330 million yen.

They will be driven by other industries like in the previous FY. The broadcast/communication, housing/living businesses are on a recovery trend. As the Company will continue strategic upfront investments this FY, income is expected to increase due to larger sales.

The dividend is to be 42.00 yen/share as in the previous FY. The expected dividend payout ratio is 34.8%.

### (2) Trend by industry

	FY2/19	FY2/20 (Forecast)	YOY
Broadcast/communication	2,344	2,394	+2.1%
Housing/living	1,240	1,384	+11.6%
Medical/health	581	585	+0.8%
Other advertisements	687	1,052	+53.1%
Advertisement business total	4,853	5,415	+11.6%

\*Unit: million yen

#### \*Broadcast/communication industry

The Company aims to grow by receiving orders for 4K/8K campaigns and digital measures from CATV station, in addition to acquiring new stations for the “Channel Guide.”

It plans to provide diverse services, by utilizing a wide range of networks in the broadcast/communication field.

#### \*Housing/living industry

As for Asahi Kasei Homes Group, the Company will utilize its know-how for creating all kinds of tools for attending to customers and focus on introducing digital technologies to sales floors such as exhibitions in order to recover and increase sales.

With regard to “Pacoma,” the Company will strategically propose both online and offline measures to receive orders as an advertising company that operate media, to increase transactions with clients.

#### \*Medical/health industry

In order to expand the market share in the existing promotional domain, the Company will aim to attract more foreign pharmaceutical companies, which are its major clients, and start providing differentiated services to new pharmaceutical companies.

#### \*Other industries

While proceeding with share expansion and cross-selling for strategically targeted customers, the Company will support brand development and marketing automation for new customers. Its service providing area has been expanding.

It will also aim to increase sales by sharing resources with customers of Nissansha Inc., which the Company acquired as a subsidiary.

### (3) Efforts

#### (Increasing efforts in the digital domain)

“NISSENDIGITALHUB,” the Company’s own media launched in May 2018, has steadily increasing page views and unique users.

The Company will provide services and plan events centered around “NISSENDIGITALHUB” in order to increase customers and develop services.

In addition, the Company plans to utilize its deep knowledge of the customer industry, and collectively provide not only online promotions but also promotional measures that contribute to business expansion in order to attract major clients.

Furthermore, the Company will offer services utilizing its expertise including fan-based marketing via media and signage for sales floors.

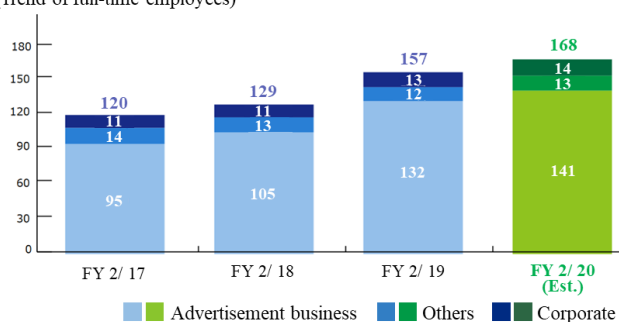
**(Accelerating recruitment and HR development)**

The Company has mainly hired experienced and mid-career workers so far. However, as it is necessary to enhance organizational capabilities mainly with young people to strengthen marketing and solution capabilities in the digital age, it is currently accelerating recruitment and training of employees including new graduates, and recruitment of the core personnel (full-time employees) is proceeding smoothly.

In the fiscal year ended February 2019, the number of employees increased significantly as the Company changed the status of part-time employees who were involved in the work of “Channel Guide” in broadcast/communication business to full-time employees, strengthening recruitment of new graduates and acquiring companies as subsidiaries.

In the fiscal year ending February 2020, the Company plans to recruit people with experience in the digital field, and mid-career workers as well as developing abilities of employees in order to enhance organizational capabilities.

(Trend of full-time employees)



(Source: the company)

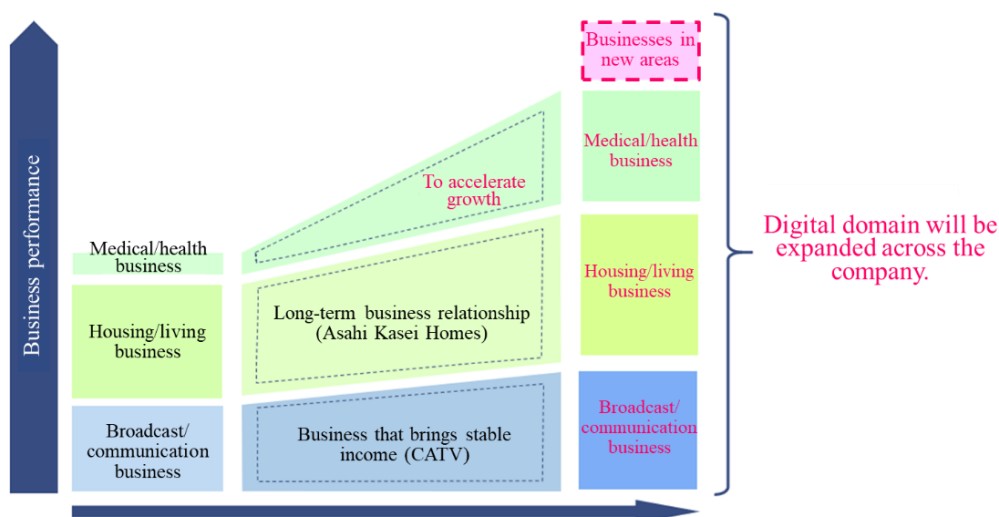
**(Policies and progress of M&As and business alliances)**

The Company plans to work on M&As of small and medium-sized advertising companies with long-time loyal customers, aiming to increase new customers and synergistic effects via resources sharing.

The Company will also make venture capital investments, strengthening relationships with promising venture companies and developing new business partners in order to support venture marketing and acquire and commercialize advanced technology.

**(Growth outlook)**

As the Company aims to achieve sales of 10 billion yen early, it plans to enter new industries and expand its scale via increase of new customers, M&As, and business alliances.



(Source: the company)

## 4. Conclusions

Although the performance in the first half was healthy, the growth of both sales and income slowed down in the second half. While sales in the medical/health and other industries are expected to hit a record high this FY, it is desirable to expand businesses in the broadcast/communication, housing/living fields, which account for a large proportion of sales. As for M&A, which is one of the Company's growth strategies, it acquired Nissansha, Inc. as its subsidiary. How the Company will exert synergies is noteworthy.

### <Reference: Regarding corporate governance>

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

Organization type	Company with an audit and supervisory board
Directors	6 directors, including 1 outside one
Auditors	3 auditors, including 3 outside ones

#### ◎ Corporate Governance Report

Last update date: Dec 27, 2018

<Basic idea>

Under the corporate philosophy of “By providing unique communication services, we will contribute to the management of our customers” and management philosophy of “We pursue the happiness of both sides of all employees,” the Company believes that continuous enhancement of corporate value are the most important management challenges for all stakeholders including shareholders, business partners and employees. Therefore, in addition to the sustainable development of the company group and maximization of the corporate value, the Company is working to strengthen corporate governance through the supervisory functions of the Board of Directors and Board of Corporate Auditors and the internal control system.

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

It is stated that “We are implementing all the basic principles of corporate governance code.”

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