

BRIDGE REPORT



Koji Egusa,
President & CEO

TOW Co., Ltd. (4767)



世界一の
“感動体験”をクリエイトし、
笑顔を増やす。

Company Information

Market	TSE 1st Section
Industry	Service
President	Koji Egusa
HQ Address	Tokyo, Minato-ku, Toranomon 4-3-13, Hulic Kamiyacho Building
Year-end	June
Homepage	http://www.tow.co.jp/

Stock Information

Share Price	Shares Outstanding		Total market cap	ROE Act.	Trading Unit
755	22,468,422 shares		16,964 million	14.9%	100 shares
DPS Est.	Dividend yield Est.	EPS Est.	PER Est.	BPS Act.	PBR Act.
30.00	4.0%	60.20	12.5 x	415.20	1.8 x

*Share price as of closing on August 23, 2019. Number of shares issued at the end of the most recent quarter excluding treasury shares.

*ROE and BPS are results at FY June 2019. EPS is a forecast as FY June 2020. All the numbers are rounded off.

Consolidated Earnings

Fiscal Year	Sales	Operating Income	Ordinary Income	Net Income	EPS	DPS
June 2016 (Act.).	15,230	1,678	1,682	1,083	48.35	22.00
June 2017 (Act.).	16,251	1,811	1,823	1,206	53.74	26.00
June 2018 (Act.).	16,688	1,825	1,873	1,207	53.75	27.00
June 2019 (Act.).	16,278	1,995	2,017	1,345	59.88	29.00
June 2020 (Est.).	16,829	2,040	2,040	1,352	60.20	30.00

*Unit: million yen

* Estimates are those of the Company. Effective from fiscal year March 2016, the definition for net income has been changed to net income attributable to parent company shareholders (Abbreviated hereafter as parent net income).

We present this Bridge Report reviewing the fiscal year ended June 2019 earnings results and the outlook for the fiscal year ending June 2020 for TOW.

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Key Points

- In FY June 2019, sales decreased by 2.5% year on year and ordinary income increased by 7.7%. The project unit price improved due to the healthy orders of the exiting brands and acquisition of new large-scale projects. On the other hand, sales slightly dropped in reaction to the large-scale projects in the suburban area in the previous year. As for profit, ordinary income margin rose from 11.2% in the previous fiscal year to 12.4% as a result of company-wide promotion of “securing appropriate profit by making high value-added proposals,” “decrease of large-scale projects yielding low profit,” “extensive cost control” and “strict control of SG&A expense.” Each profit marked a record high for 4 consecutive terms.
- Sales in FY June 2020 are expected to increase by 3.4% year on year to 16,829 million yen and ordinary income is expected to grow 1.1% year on year to 2,004 million yen. The company will continue to aim for and promote “experience design production” that combines its strength of “real (experience) promotion” with new fields such as digital, movies, PR and data. The growth of orders related to international events is projected to be healthy. The dividend is expected to be 30.0 yen/share (including 15.0 yen/share in the first half).
- As suggested at the time of announcement of the financial results for the third quarter, profit increased in FY June 2019 against the forecast. While sales declined in reaction to the large-scale projects, the company’s strategy to put emphasis on profit met with success. In addition, effects of strengthening of planning ability also became apparent with the rising success rate of plans. The first half of FY June 2019 is packed with big events such the Rugby World Cup in September, and the Tokyo Motor Show, which is held every two years. The second half is also expected to be busy with upcoming orders for 2020 project. It is high time for the company to show its improving planning ability in earnest.

*It is to design a system in which, starting with “Wow!” type of interactions with “Experience design” brands, people become fans of the brand and maximize the spread and sharing of the experience using various media, especially SNS.

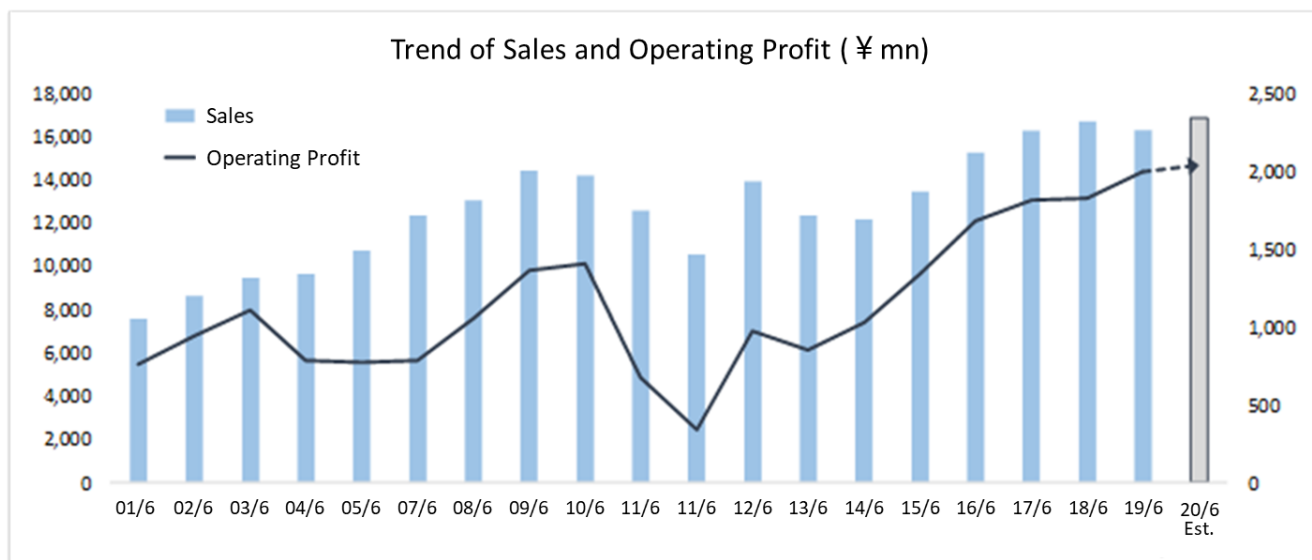
1. Company Overview

TOW Co., Ltd. is the top ranked independent company in the sales events and promotions industry and a Tokyo First Section publicly traded company. TOW engages in event and promotion planning, creation and operations, in addition to goods and printed materials relating to sales promotions. TOW is aware of the growing influence of the Internet and is placing increased emphasis on utilizing their many years of experience in event planning and idea generation by utilizing digital technologies to create interactive promotions (IP). The Company name TOW is derived from the slogan “Top Of the World” based upon TOW’s corporate philosophy of “spreading smiles by creating the world’s most unique experiences”.

In addition to TOW, the Group also boasts of the one consolidated subsidiary at the end of the first half of FY 2019: T2C Co., Ltd., which conducts event creation, operation, production and visual contents creation.

*The company had 2 consolidated subsidiaries as of the end of FY June 2018, but Sport Is Good Co., Ltd. was resolved as of the end of November 2018. The impact of the resolution on the business performance is minor.

Moreover, “interactive promotions” use digital technologies and ideas to create impressive experiences that are turned into information to be proliferated and shared as part of overall promotions.



1-1 Business Description

Flow of Event Planning to Implementation

Demand for event related work appears as soon as promoters come up with an objective (Transmission of information to the promoter’s audience). TOW begins work on creating a plan as soon as they are briefed by the promoter about the objective. Thereafter, meetings are held at every step of the workflow process from proposal, basic plan, implementation plan, detailed plan, progress script, construction drawing, time schedule chart and document creation. TOW also creates stages and conducts rehearsals until the day of the actual event.

Scope of TOW's Business

In the case of events, TOW receives orders that span the entire range of the workflow process from planning to the actual holding of the event, and performs “planning”, “production”, “operations”, and “staging” activities, in addition to conducting various onsite services during the time that the actual event is conducted. Specifically, these are tasks involved with lighting, sound, visual, stage creation, and model, companion and security guard casting. In addition, TOW provides services related to preparation, site disassembly and removal, and cleaning. TOW is responsible for acting as a total director to oversee the entire event process and outsources these various tasks to specialized service providers with a goal of ensuring that the objectives of the promoter are accurately implemented and conveyed to the audience. The consolidated subsidiary T2 Creative Co., Ltd. specializes in event “production” and “operations”, while Sports Is Good Co., Ltd. specializes in sporting event experience planning and production.

The main services of promotions include “planning”, “design”, and “production”, printing, premium goods and services, graphic design, executive operations, OOH (Out Of Home: Advertising in public transportation, outdoors), website production and other services are conducted, in addition to the service provided by TOW in its events business of total direction overseeing all aspects of promotions including direction, production and product delivery services.

2. Medium Term Business Plan

Medium Term Business Plan: Japan's First "Experience Design Production"

Experience design" encapsulates things such as the way people make purchases, the way things are made, the way things are sold and encompasses the entire brand experience. “Wow!” type of interactions with brands is the starting point for experiences, and these experiences allow brands to build fans. In particular, leveraging social network sites (SNS) as hubs allow for the maximum dispersion of experience information relating to promotions across diverse media. TOW seeks to produce the Japan's first "experience design" production, and conducts efforts to pursue business opportunities in upcoming 2020 global sporting events and through alliance strategies. Moreover, expanding scale (maintaining high profitability x increasing competitiveness) will be also pursued.

"Experience Design Production"

By leveraging and combining strengths such as “real promotion events”, TOW facilitates interactive promotion (IP) alliance unit and data usage, and pursues results for the next phase of growth. Specifically, TOW seeks to strengthen IP by combining "data driven PR promotions" with integrated promotion capabilities including “internet (SNS) promotions”, “interactive events utilizing AR, VR, apps and other digital technologies”, and “video production, promotions”.

Promote Efforts for Alliance Strategies

Investments and M&A activities with firms that have strengths in “real”, “digital”, “video”, “PR”, and “data” will be pursued to establish deeper alliance relationships. Alliance relationship partners include the content creation company Kayak Co.Ltd. and CR boutique One to Ten design Co., Ltd. in the "digital" realm, Taiyo Kikaku Co. Ltd. and Geek Pictures, Inc. in the "video" realm, and PR firm Material Co. Ltd. in the "PR" realm. With regard to the "data" realm, boom research was implemented, which enables trend analysis on social media, and allowed TOW to facilitate project and effectiveness validation through its ability to allow access from all staff computers.

Scale Expansion

In order to expand the scale of the business, TOW has been increasing and incorporating a young team by hiring new graduates. 11 hires were made in April 2014, 15 in April 2015, 17 in April 2016, 20 in April 2017. The TOW Group has grown from 169 employees at the end of fiscal year June 2016 (TOW: 133, T2C 36) to 188 employees (TOW: 138, T2C 50) at the end of fiscal year June 2017, and 210 employees at the end of fiscal year June 2018.

TOW is endeavoring to increase competitiveness by maintaining high profitability for fiscal year June 2019 and beyond.

Medium Term Strategy Review and Countermeasures

(1) Responses to organizational reforms by some large clients

- The company assigned “Managing Director in Charge of Sales Management” on January 1st. It launched an executive system to control company-wide sales.
- Transfer of employees within the head office has also been implemented.
- It will carry out resource distribution across the company when necessary.
- The company will strive to homogenize knowledge of sales management and promote measures to improve capacities to receive orders and develop proposals from a medium-term perspective.

The amount of orders of the Group in FY June 2019 exceeded that in the previous term. The company will continue to maintain and strengthen these strategies and provide the required solutions.

(2) Maintain High Profitability x Fortify Business Strategy and Personnel = Business Scale Expansion

- Operating margin: 10.94% (FY 6/ 18) → 12.26% (19/6) **up 1.3 points.**
- Proposal success rates: 34.0% → 40.8% **up 6.8 points.**
- Number of employees within Group companies
196 (beginning of FY June 2017) → 214 (beginning of FY June 2019) → 205 (beginning of FY June 2020)
- * **Active recruitment of new graduates and mid-career workers is important for strengthening personnel.**

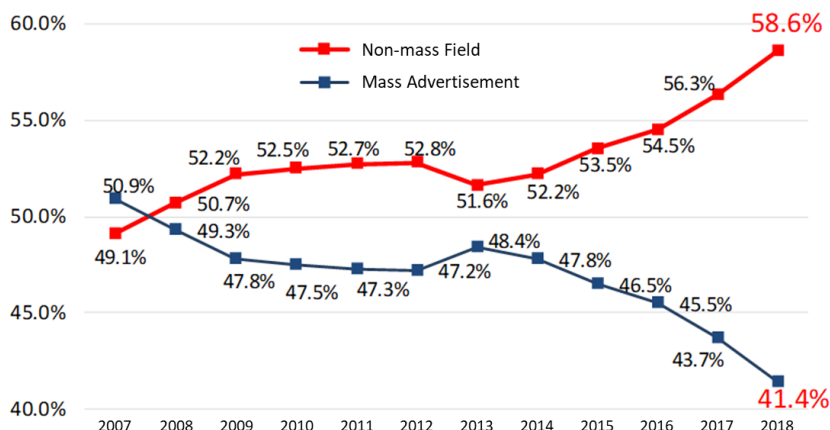
(3) Strengthen the position of TOW as Japan’s first “Experience Design Production”

- The company is in the process of improving employees’ experience design capabilities (from bilingual to multilingual)
⇒ **The company is continuously implementing various measures to improve employees’ experience design capabilities including training, study groups, regular project reviews, internal commendation, evaluation system and overseas study visit.**
 - **The company hired a video producer, a PR producer, an art director, an art designer and a data analyst to improve experience design capabilities.**
⇒ **Medium and large-scale projects incorporating experience design are also increasing.**
 - Customers and the staff in the industry are also evaluating the company’s experience design capability highly.
⇒ **The company won numerous advertising awards, and one of its employees got selected to become a judge for the ACC Award.**
 - In the future, it will make the company-wide efforts to visualize performance indicators by **utilizing data** and further improve and deepen experience design capabilities by **strengthening alliance.**
- Also, the company received many global advertising awards.
An increasing number of advertiser value “non-mass field” (**promotion digital, etc.**)

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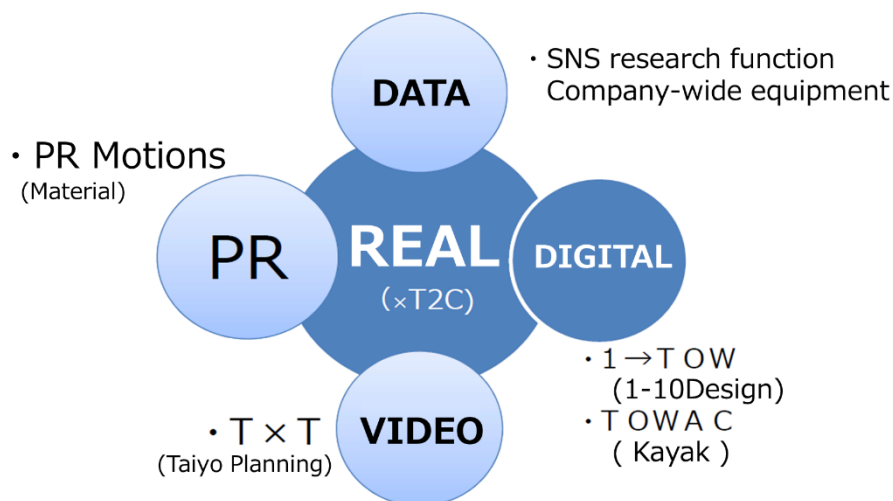
Changes in Ratios of Non-mass Field and Mass Advertisement



Source: the company

People are not moved just by mass-media advertisement.

The company designs experiences and moves people and hearts.



Source: the company

(4) Six years from 2019 to 2025 are the Golden International Event Years, including 2020 projects.

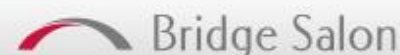
Many international big events where people from all over the world come together will be held for the coming six years, including G20 Osaka Summit, Rugby World Cup (2019), World Masters Games (2021), and Osaka Expo (2025). Promotion efforts of various companies are also expected to be active.

The company will make efforts in acquiring projects related to event promotion of associations, government and companies.

(5) Further Fortify Business Alliance Strategy

The company will strive for expansion of growth direction and area through collaboration, investment and M&A. The company will maximize the brand experience value with “real,” “digital,” “video,” “PR” and “data.”

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Expanding the number of orders for integrated promotion projects by “Improving Experience Design Capabilities”

+

Acquiring large-scale event projects during the “Golden International Event Years”

+

Expansion of “Direct Client Business”

Growth with 3 wheels

3. Fiscal Year June 2019 Earnings Results

(1) Consolidated Earnings

	FY 6/18	Ratio to sales	FY 6/19	Ratio to sales	YoY	Forecast	Difference from the forecast
Sales	16,688	100.0%	16,278	100.0%	-2.5%	15,436	+5.5%
Gross profit	2,691	16.1%	2,825	17.4%	+5.0%	-	-
SG&A	866	5.2%	829	5.1%	-4.2%	-	-
Operating Income	1,825	10.9%	1,995	12.3%	+9.3%	1700	+17.3%
Ordinary Income	1,873	11.2%	2,017	12.4%	+7.7%	1714	+17.7%
Net Income							
Attributable to Owners of Parent	1,207	7.2%	1,345	8.3%	+11.4%	1129	+19.1%

*Unit: million yen. Figures include reference figures calculated by Investment Bridge Co., Ltd. and actual results may differ (applies to all tables in this report)

Sales decreased by 2.5% year on year while ordinary income grew 7.7% year on year, marking a record high for 4 consecutive terms.

Sales decreased by 2.5% year on year to 16,278 million yen. Continuing from the previous term, in order to respond to the customers' needs shifting from mass media advertising to comprehensive promotions, the company is aiming for and promoting “experience design production” that combines its strength of “real (experience) promotion” and new fields such as digital, movies, PR and data. The project unit price improved and the business fields expanded due to the healthy orders of the exiting brands and acquisition of large-scale projects of the new brands. On the other hand, sales slightly dropped in reaction to the large-scale projects in the suburban area in the previous year. As for profit, Ordinary income increased by 7.7 percent to 2017 million yen.

Ordinary Income margin rose from 11.2% in the previous fiscal year to 12.4% as a result of company-wide promotion of “securing appropriate profit by making high value-added proposals,” “reduction in large-scale projects yielding low profit,” “extensive cost control” and “strict control of SG&A expense.” Each profit marked a record high for 4 consecutive terms.

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Non-consolidated Earnings

	FY 6/18	Ratio to sales	FY 6/19	Ratio to sales	YoY
Sales	12,897	100.0%	13,283	100.0%	+3.0%
Gross profit	1,767	13.7%	1,974	14.9%	+11.7%
Operating Income	955	7.4%	1,198	9.0%	+25.4%
Ordinary Income	1,423	11.0%	1,781	13.4%	+25.1%
Net Income	1,066	8.3%	1,389	10.5%	+30.2%

*Unit: million yen. Consolidated sales declined mainly due to the reaction to large-scale projects in T2C in the previous term. On a non-consolidated basis, sales grew by 3%.

Sales by Category (Excluding Planning)

	FY 6/18	Ratio to sales	FY 6/19	Ratio to sales	YoY
Sales Promotion	9,221	55.3%	6,512	40.0%	-29.4%
Publicity	5,253	31.5%	7,463	45.9%	+42.1%
Culture and Sports	578	3.5%	537	3.3%	-7.0%
Exhibition	0	0.0%	-	-	-
Productions	1,541	9.2%	1,684	10.3%	+9.3%

*Unit: million yen

By category of sales, the ratio of “publicity,” such as large-scale internal events and recitals, grew.

Sales by Industry (Excluding Planning)

	FY 6/ 18	Ratio to sales	FY 6/ 19	Ratio to sales	YoY
Information, Communication	4,130	24.9%	4,109	25.4%	-0.5%
Automobiles	4,114	24.8%	3,031	18.7%	-26.3%
Foods, Beverages and luxury goods	1,907	11.5%	2,145	13.3%	+12.5%
Cosmetics, Toiletries and Sundries	1,703	10.3%	1,860	11.5%	+9.2%
Governments, Organizations	1,272	7.7%	1,510	9.3%	+18.7%
Finance	559	3.4%	979	6.1%	+75.1%
Precision Instruments, Other Manufacturing	673	4.0%	490	3.0%	-27.2%
Wholesale, Retailing	755	4.5%	363	2.2%	-51.9%
Others	1,477	8.9%	1,707	10.5%	+15.6%

*Unit: million yen

By industry category, sales to the food, beverages and luxury goods industry, the governments and organization industry, the finance industry, etc. increased significantly. For the automobiles industry, sales decreased in response to a large-scale project in the previous term. Increased sales in other industries indicate the expansion of the business area.

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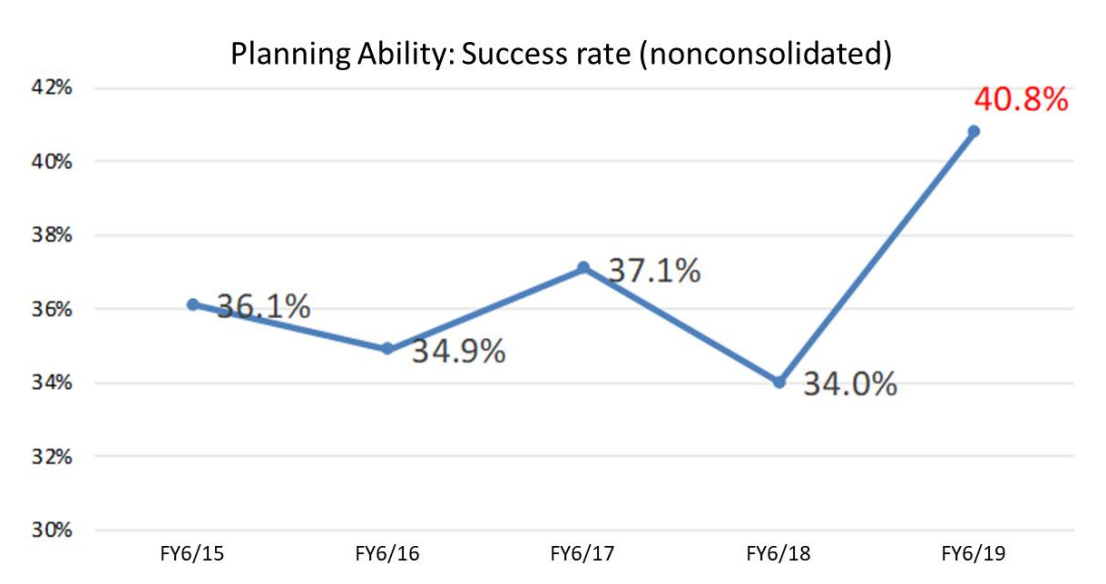


Orders Number by Sale (non-consolidated)

	FY 6/18	FY 6/19	Increase/decrease
<¥10.00mn	862	858	-4
¥10.00~20.00mn	130	131	+1
¥20.00~50.00mn	104	115	+11
¥50.00~100mn	40	30	-10
>¥100mn	15	20	+5
Total	1,151	1,154	+3
Average Price (¥ 10,000)	1,112	1,144	+31

The number of large-scale projects worth over 100 million yen increased, and the average unit price and the number of projects improved slightly. Also, a decrease in the number of large-scale projects yielding low profit contributed to the improved profit margin.

The company has been able to maintain a success rate (The number of successful promotions divided by the total number of projects planned) above its guideline of 30%.



Taken from the material of the company

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**(2) Financial Condition & Cash Flow**

Financial Condition

	FY 6/18	FY 6/19		FY 6/18	FY 6/19
Cash, Equivalents	4,098	4,754	Accounts Payable	1,868	2,028
Accounts Receivable	5,673	5,496	Short Term Debt	840	840
Uncompleted Work Payments	245	467	Taxes Payable	369	302
Uncollected Payments	1,178	1,290	Retirement Benefits for Directors	404	399
Prepaid Expenses	31	32	Liabilities	4,164	4,263
Current Assets	11,265	12,100	Net Assets	8,832	9,416
Investments, Other	1,625	1,460	Total Liabilities, Net Assets	12,996	13,679
Noncurrent Assets	1,730	1,578	Interest bearing liabilities	840	840

*Unit: :million yen Accounts Receivable: Uncollected Sales/Loans transferred using the factoring methods

Total assets as of the end of FY June 2019 were 13,679 million yen, up 683 million yen from the end of the previous term.

Current assets increased by 835 million yen to 12,100 million yen. Electronically receivable monetary claim decreased 160 million yen, but cash and deposits increased 656 million yen, uncompleted work payments increased 222 million yen and uncollected payments increased 111 million yen.

Noncurrent assets dropped 151 million yen to 1,578 million yen. Property, plant and equipment increased 17 million yen to 102 million yen. This is mainly due to the purchase of personal computers. Intangible assets declined 5 million yen to 16 million yen. This is mainly due to depreciation. Investment and other assets also dropped 164 million yen to 1,460 million yen. Deferred tax assets augmented 43 million yen due to a decrease in investment securities by 205 million yen.

Current liabilities grew 143 million yen to 3,846 million yen. This is due to increases in accounts payable and allowance for employees' bonuses of 119 million yen and 66 million yen, respectively, while corporate tax payable decreased 66 million yen.

Noncurrent liabilities declined 44 million yen to 416 million yen, mainly due to a decrease in deferred tax liabilities of 42 million yen.

Net assets increased 584 million yen to 9,416 million yen. This is mainly due to an increase in retained earnings of 738 million yen, while valuation difference on available-for-sale securities decreased 49 million yen.

Capital-to-asset ratio improved 1.0 point to 68.2%.

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**Cash Flow**

	FY 6/18	FY 6/19	YoY	
Operating CF (A)	1,240	1,310	+69	+5.6%
Investment CF (B)	-53	-34	+19	-
Free CF (A+B)	1,187	1,276	+89	+7.5%
Financing CF	-585	-620	-35	-
Cash, Equivalents at the end of term	4,098	4,754	+656	+16.0%

*Unit: million yen

The balance of cash and cash equivalents at the end of FY June 2019 was 4,754 million yen, an increase of 656 million yen from the end of the previous term.

A net inflow of cash of 1,310 million yen was recorded in operating CF (it was a net inflow of 1,240 million yen in the previous term). The main factors contributing to the expansion in the net inflow are an increase in inventories of 222 million yen, tax payments, such as corporate tax, of 755 million yen, an increase in uncollected payments of 111 million yen and a decrease in other current liabilities of 38 million yen, in addition to a decrease in trade receivables of 176 million yen, net income before income taxes and other adjustments of 2,014 million yen and increases in accounts payable of 160 million yen and allowance for bonus of 66 million yen.

The net cash outflow of investing CF was 34 million yen (it was a net outflow of 53 million yen in the previous term). The main factors contributing to this outflow include purchase of property, plant and equipment of 23 million-yen, purchase of investment securities of 9 million yen and purchase of intangible assets of 3 million yen.

Consequently, free cash flow increased 89 million year on year to 1,276 million yen.

A net outflow of 620 million yen was recorded in financing CF (it was a net outflow of 585 million yen in the previous term). Factors behind this net outflow include the payment of dividends amounting to 606 million yen and payment of liquidating dividends of 12 million yen to non-controlling interests.

4. Fiscal Year ending June 2020 Earnings Forecasts

(1) Consolidated Earnings

	FY 6/19 Act.	Ratio to sales	FY 6/20 Est.	Ratio to sales	YoY
Sales	16,278	100.0%	16,829	100.0%	+3.4%
Gross profit	2,825	17.4%	2,925	17.4%	+3.5%
Operating Income	1,995	12.3%	2,040	12.1%	+2.2%
Ordinary Income	2,017	12.4%	2,040	12.1%	+1.1%
Net Income Attributable to Owners of Parent	1,345	8.3%	1,352	8.0%	+0.5%

*Unit: million yen

Forecast for FY June 2020 expects 3.4% and 1.1% increases in sales and ordinary income respectively.

Sales in FY June 2020 are estimated to increase 3.4% year on year to 16,829 million yen and ordinary income is expected to rise 1.1% year on year to 2,004 million yen. Unpredictability is still expected as the world economy is becoming increasingly uncertain and some Japanese companies are concerned about their profit growth, but the company anticipates that there will be a demand related to international events within the country. Under such business circumstances, the company will continue to aim for and promote “experience design production” that combines its strength of “real (experience) promotion” and new fields such as digital, movies, PR and data.

Orders related to international events grew steadily.

Order Backlog (non-consolidated)

	FY 6/19(as of August 8, 2018)	FY 6/20(as of August 8, 2019)
Sales	13,283	13,155
Order Backlog (Total of A, B, i)	5,183	6,705
Orders • Production during terms (Total of A, B, i)	8,100	6,450
Total of ii and iii	2,365	1,769

*Unit: million yen

A: Events whose scale (Value amount) and implementation dates have been determined

B: Event orders have been determined, but their scale and implementation date have yet to be determined

i: Projects for which TOW expects to book orders with a high rate of confidence (Over 80%probability)

ii: Plans, project proposals for which TOW expects to book orders with a medium rate of confidence (Over 50% probability)

iii: Plans, projects proposal for which TOW has an uncertain level of confidence to book

(2) Dividends, Shareholder benefits

TOW uses dividend payout ratio and dividend yield on a consolidated basis as two fundamental indicators to determine profit distribution. TOW uses dividend payout ratio and dividend yield on a consolidated basis as two fundamental indicators to determine profit distribution. Furthermore, the Company uses a dividend payout ratio target of 40% based upon consolidated earnings for the coming year and a dividend yield target of 4.5% based upon the closing share price on the day before the earnings announcement (2019/08/07), and selects the higher of the two indicators to determine its dividend payment. Based upon the fundamental policy for retained earnings, a maximum dividend payout ratio of 50% has been determined.

Using the above calculations, fiscal year June 2019 dividend per share is expected to be ¥30.10. Given this estimate, the expected dividend is ¥30, for a ¥1 increase from the previous fiscal year, and ¥15 is expected to be paid at the end of first half.

Also, the company adopted a shareholder benefits system. It will sequentially send out a QUO card (prepaid card) of 500-yen worth to the shareholders possessing 500 shares and above for a period longer than a year, and a QUO card of 2,000-yen worth to the shareholders possessing shares for a period longer than 3 years, once a year in late November.

5. Conclusions

As suggested at the time of announcement of the financial results for the third quarter, profit increased in FY June 2019 against the forecast. While sales declined in reaction to the large-scale projects, the company's strategy to put emphasis on profit met with success. In addition, effects of strengthening of planning ability also became apparent with the rising success rate of plans. The first half of FY June 2019 is packed with big events such the Rugby World Cup in September, and the Tokyo Motor Show, which is held every two years. The second half is also expected to be busy with upcoming orders for 2020 project. It is high time for the company to show its improving planning ability in earnest.

Regarding corporate governance

◎ Organization type, and the composition of directors and auditors

Organization type	Company with audit and supervisory committee
Directors	9 directors, including 4 outside ones

◎ Corporate Governance Report Updated on October 10, 2018

Basic Policy

Our company recognizes corporate governance as "building and operating a structure that achieves appropriate and efficient decision making and business execution by the management, prompt result reports to stakeholders, and soundness, fairness and high transparency of business administration in order to continuously improve the corporate value." In order to achieve sustainable growth and improve our medium and long-term corporate value while fulfilling our responsibility to shareholders, customers, employees and other stakeholders, our company will achieve effective corporate governance in accordance with the basic policy stated below.

1. Respect the rights of shareholders and ensure equality.
2. Consider the interests of stakeholders including shareholders and cooperate properly.
3. Disclose company information properly and ensure the transparency.
4. Improve the effectiveness of the supervisory function for business execution by the board of directors.
5. Have constructive dialogue with shareholders who have an investment policy that matches the interests of shareholders over the medium to long term.

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

Supplementary Principle 1-2-4 Electronic exercise of voting rights and the English translation of the notice of convocation

We will consider the introduction of a platform for electronically exercising voting right and the English translation of the notice of convocation in light of trends of ratios of institutional investors and foreign investors among the company's shareholders.

Supplementary Principle 3-1-2 Disclosure and provision of information in English

We prepare an English version of business reports and also disclose analyst reports in English semi-annually on our website. In the future, we will consider provision of the materials for results briefing and contents of the convocation notice, etc. in English in light of trends of ratios of institutional investors and foreign investors among the company's shareholders.

Supplementary Principle 4-10-1 Involvement and advice of independent outside directors regarding nomination and compensation etc.

In order to strengthen the independence, objectivity and accountability of the functions of the Board of Directors in relation to the nomination and compensation, etc. of directors etc., when examining the nomination and compensation etc., we will examine the development of a system aimed at implementing more fair and transparent examinations and procedures, including deeper collaboration with independent external directors.

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

【Principle 1-4 Cross-holding shares】

The basic policy in making investments other than for pure investment purposes is to create synergy effects in the company's integrated promotion business through business alliances and information sharing with companies that we invest in. In order to improve value in the medium- to long-term perspectives, we hold the minimum number of listed shares only when it is determined that holding the shares would be effective in consideration of strengthening relationships with business partners, etc.

With regard to the exercise of voting rights of cross-holding shares, in order to ensure appropriate responses, we examine each case from comprehensive viewpoints including the medium- to long-term improvement of the corporate value of the share issuing company as well as the medium- to long-term growth of economic benefits for us. For the major cross-holding shares, we will report the status of the exercise of voting rights to the Board of Directors.

【Principle 4-9 Independence Standards and Qualification for Independent External Directors】

We select external director candidates who meet the independence criteria set by the Tokyo Stock Exchange.

【Supplementary Principle 4-11-1 View on the balance, diversity and scale of knowledge, experience and capabilities as the entire Board of Directors】

The company stipulates the number of directors as 14 or less by the articles of incorporation, and as of October 1, 2018, the Board of Directors consists of 9 members (including 4 external directors). For the members of the Board of Directors, we take into consideration the diversity of experience, knowledge, capabilities, etc.

【Principle 5-1 Policy for having constructive dialogue with shareholders】

We are convinced that the most important mission to fulfill our company's responsibility is to promote two-way constructive dialogue with shareholders and investors, and to realize effective corporate governance in order to achieve sustainable growth and improve our medium and long-term corporate value.

Based on this idea, our company will implement the following measures.

1. Designation of directors in charge of dialogue with shareholders

In our company, executives have dialogue with shareholders, and the managing director controls IR activities.

2. Measures for organic coordination of in-company departments

In our company, the general affair team, which is also in charge of IR activities, discusses and exchanges opinions on a daily basis with the accounting team and they also collaborate in preparing the disclosed materials and discuss the content with executives.

3. Efforts for enhancing dialogue methods other than individual interviews

Our company will conduct the general shareholders' meeting that earns shareholders' trust by valuing the general shareholders' meeting as an opportunity for important dialogue with shareholders and ensuring sufficient information disclosure of our business. In addition, our company will work on achieving closer communication with shareholders and investors by regularly holding financial results briefing.

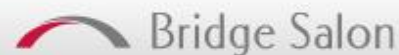
4. Measures for feedback of opinions and concerns of shareholders

Our company will compile the opinions and concerns about our company heard in the dialogue with shareholders and investors at the department in charge and develop a system that reports this regularly to executives and the board of directors according to its importance and nature.

5. Measures for managing insider information

The basic policy of our company is to provide fair information disclosure in order to ensure substantive equality for shareholders and

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investors. Based on this policy, we will disclose important information about our company in a timely and fair manner, and strive to manage the information rigorously so that it will not be provided only to some shareholders and investors.

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