



Kazuhiro Miyazawa, President

WELLNET CORPORATION (2428)



Company Information

Market	TSE 1st
Industry	Service
President	Kazuhiro Miyazawa
HQ Address	1-1-7 Uchisaiwaicho, Chiyoda-ku, Tokyo
Year-end	June
HOME PAGE	http://www.well-net.jp/

Stock Information

Share Price	Shares Outstanding		Total market cap	ROE Act.	Trading Unit
¥707	18,756,952 shares		¥13,261 million	4.7%	100 shares
DPS Est.	Dividend yield Est.	EPS Est.	PER Est.	BPS Act.	PBR Act.
-	-	-	-	¥392.04	1.8 x

*The share price is the closing price on September 6 2019. Number of shares outstanding at the end of the most recent quarter excludes treasury shares.

*ROE and BPS are from financial results of FY 6/19.

*The earnings forecast for the fiscal year June 2020 have not been announced yet due to a lot of uncertainties.

Earnings Trend

Fiscal Year	Sales	Operating Income	Ordinary Income	Net Income	EPS	DPS
June 2016 Act.	10,529	2,054	2,007	1,350	71.91	40.00
June 2017 Act.	10,260	1,099	1,239	869	46.36	50.00
June 2018 Act.	9,783	677	708	495	26.31	50.00
June 2019 Act.	10,032	503	530	374	20.02	50.00
June 2020 Est.	-	-	-	-	-	-

*units: million yen and yen. The estimates were from the company.

*A 2 for 1 stock split was implemented on July 1 2016.

*EPS, DPS were fixed retrospectively.

*The earnings and dividend forecast for the fiscal year June 2020 have not been announced yet due to a lot of uncertainties.

This report introduces WELLNET CORPORATION's earnings results for the fiscal year June 2019 and interview with President Miyazawa etc.

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Key Points

- The sales for the fiscal year June 2019 were 10,032 million yen, up 2.5% year on year. The market of non-face-to-face payment settlement is still expanding. The sales of the billing service using paper declined, while the sales of E-Billing grew, indicating the diffusion of cashless payment. Gross profit decreased, due to the rise in commissions for payment processing, the augmentation of depreciations for “Bus Mori!” and “Shiharai-Hisho,” and the subsidence of the sale of PIN and POSA. SGA decreased, but could not be offset. As a result, operating profit dropped 25.8% year on year to 503 million yen.
- As the company continues development for adding new functions to “Bus Mori!” and “Shiharai-Hisho” and automating their operation and conducts active promotion for increasing their popularity and the number of downloads of their apps, there are many unconfirmed elements that affect the business results, so the earnings forecast for the fiscal year June 2020 has not been announced as of the beginning of the term. The company plans to announce the forecast, as soon as it becomes possible to forecast the results reasonably. The minimum dividend amount has been 50 yen/share until the fiscal year June 2019, and the dividend for the fiscal year June 2020 is still to be determined. The company plans to keep payout ratio over 50% this term, too.
- We interviewed President Miyazawa about the overview of the financial results for the fiscal year June 2019, their future activities, his message toward shareholders and investors, and so on. He said, “The significant investment in Shiharai-Hisho has been finished. The number of active users and the number of bus routes where Bus Mori! is available have increased steadily,” and “All of us will join hands and make efforts so that all stakeholders will say ‘Wellnet is a good company or a grown-up company.’ I would appreciate your support from the mid/long-term viewpoint.”
- The quarterly variations in sales and operating profit indicate that sales increased year on year for the 5th consecutive term. While the market of non-face-to-face payment settlement is expanding continuously, the effects of the integration of convenience store chains, the revision to prices for large-scale clients, the shrinkage of OEM, etc. have apparently subsided. We would like to see how rapidly the company will recover its performance. Especially, we would like to pay attention to when Shiharai-Hisho will start contributing to revenue.

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.

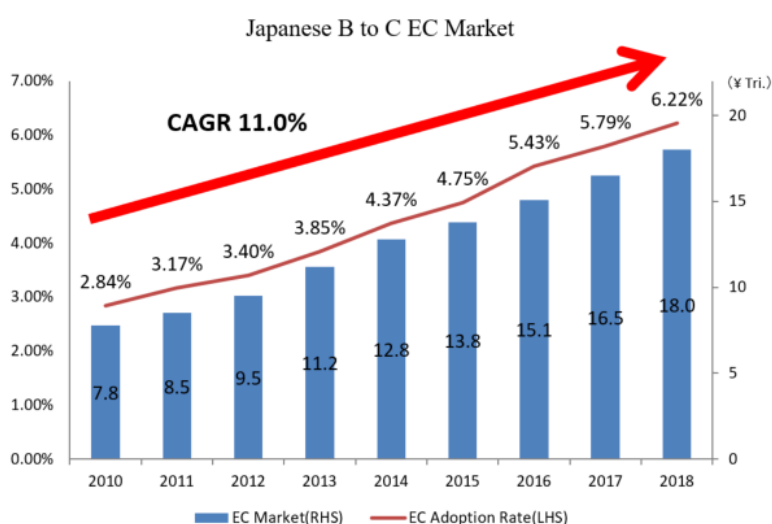
Thereafter, WELLNET has expanded the provision of its “multiple payment service”, offering its services to large companies such as amazon, Yahoo! Shopping, Yahoo! Auction, low cost carrier (LCC) airlines, West Japan Railway Company and JR Kyushu Railway Company. In addition, the Company has also focused 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.

It was listed in the first section of Tokyo Stock Exchange in December 2014.

The company recently concentrates on earning profits from two of their product services called “Bus Mori!”, an innovative solution that uses IT for bus operation which can significantly enhance the convenience for both bus operators and users, and “Shiharai-Hisho,” a server-based electronic money service.

Market Environment

According to the Ministry of Economy’s “Development of infrastructure for a data-driven society in Japan in fiscal 2018 (E-Commerce Market Survey)” issued on May 16 2019, the Japanese electronic commerce market (B to C) for individual consumers rose by 9.0% compared to last year to ¥18 trillion in 2018. Compound average growth rate (CAGR) from 2010 to 2018 is 11.0%.



(Source: The chart is 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 6.22% for the sale of goods, but it is growing steadily.

<B to C EC Market Scale by Industry (2018)>

Industry		EC MARKET (¥100mn)	YY Change (%)	EC ADOPTION RATE (%)
Sale of goods	Clothing/Accessories	17,728	+7.7%	12.96%
	“Home appliances	16,467	+7.4%	32.28%
	Food/ Beverages/ Alcohol	16,919	+8.6%	2.64%
Services	Travel services	37,186	+10.3%	
	Financial services	6,025	-0.8%	
	Ticket sales	4,887	+6.3%	
Digital	Online games	14,494	+3.0%	
	E-publishing (digital books/magazines)	2,783	+7.6%	
	Paid music streaming	645	+12.5%	

(Source: The chart is 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 and direct sales platform” to provide not only its customers (i.e. the purchaser of service and goods) with **the convenience** of being able to purchase whatever they want at any time and any place, but also 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 only business segment being introduced in this report is “ the payment settlement and authentication business.” The following section will introduce the primary services of WELLNET.

«Settlement service»

1 Multi-payment service

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

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.

(Features)

- Business operators only have to offer data to WELLNET after transactions of purchasers and users are settled. WELLNET is in charge of explaining 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.

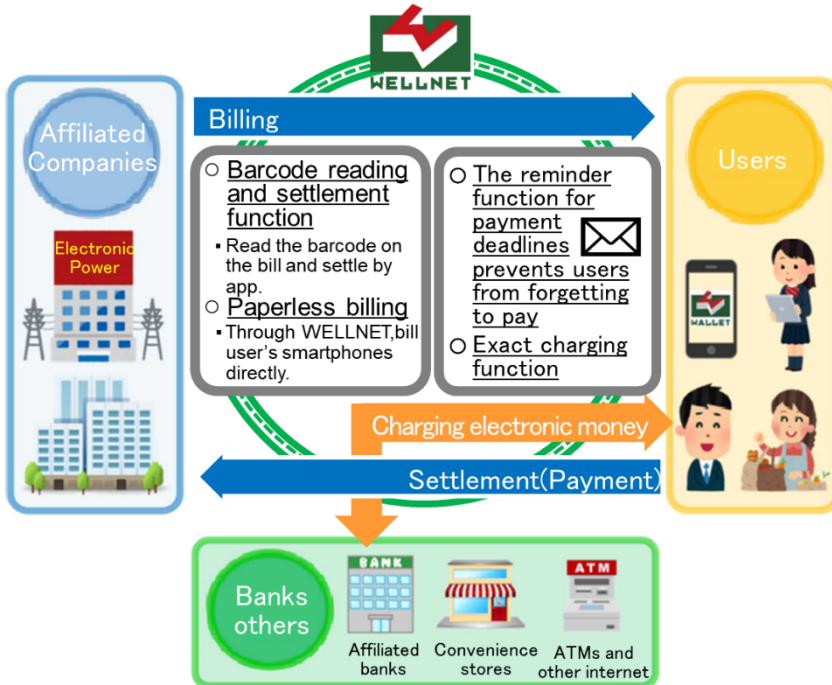
(Features)

- 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.

The company aims to spread and diffuse this service as “a FinTech service for daily life.”



(Source: the company)

(Features)

- It is possible to pay a bill immediately just by reading the barcode on the bill sent to the customer with a camera.
- It is also possible to make payment immediately by inputting the number for payment (settlement code).
- 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.

Major clients that have adopted this service	Kansai Electric Power, Kyushu Electric Power, Tohoku Electric Power, Shikoku Electric Power, Hokkaido Electric Power, Hokuriku Electric Power, JR Bus Group, Ibaraki Kotsu, ALPICO Kotsu, Meitetsu Bus, Mie Kotsu, Kaetsunou Bus, Kawagoe Motor, Kyushu Sanko Bus, Eniwa City in Hokkaido, Hokkaido Chuo Bus, Hokuto Kotsu, Hokuriku Railroad, Zentan Bus, Nishi-Nippon Railroad, Kan-etsu Koutsuu, Showa Bus, Chikuma Bus, Hiroshima Electric Railway, Chugoku Bus, Minamietsugo Sightseeing Bus, Kanto Railway, Takamatsu Express, Northern Iwate Transportation, JR Shikoku Bus, East Japan Railway, West Japan Railway (e5489), Chigin Network Service, AirAsia Japan, Peach Aviation, Kintetsu Department Store, Brandear Auction, Sony Music Artists, Shimamura Music, Qoo10, Okeiko Town, Mingles etc.
Affiliated banks	Sumitomo Mitsui Banking, Daisan Bank, Mie Bank, Japan Post Bank, Chiba Kogyo Bank, Taiko Bank, Hokkaido Bank, Ehime Bank, Akita Bank, Awa Bank, Kagawa Bank, Bank of Kochi, Shikoku Bank, Tokushima Bank, Hyakujushi Bank, Daishi Bank, Sendai Bank, Chikuho Bank, Tottori Bank, Fukui Bank, Toyama Bank, North Pacific Bank, Tsukuba Bank, Tajima Bank, Hokkoku Bank, Nishi-Nippon City Bank, Hokuriku Bank, Aichi Bank, First Bank of Toyama, Fukuho Bank, etc.

《Cash transferring service》

1 Cash transferring 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 has been conducted.

(Features)

- 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.

(Features)

- 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.

(Features)

- Payments can be made 24 hours a day, 365 days a year at nationwide convenience stores (Available at approximately 58,600 stores with 10 different convenience store chains, as of August 2019), 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 and help 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. In addition, through this service, WELLNET will receive digital billing information from enterprises, which helps consumers get rid of the process of reading the barcode of billing information, and boosts the popularity of Shiharai-Hisho among consumers.

《Bus IT solution “Bus Mori!”》

In March 2001, WELLNET launched the service that helps customers to buy booked tickets for an inter-city express bus at any time 24 hours a day at convenience stores for the first time in Japan, which makes the company to be the pioneer of digital ticket services. Since then, the company has concluded contracts 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.

Until now (August 2019), the total downloading number of “Bus Mori!” is about 280,000. The total number of active users who use the app at least once per month was about 37,000, and the number of routes that apply to smartphone tickets is 300.

The company added several functions including “Smartphone Commuter Pass,” “Electronic Coupons,” “Smartphone Electronic Ticket Collection,” and “Free Pass” and so on to promote the “Bus IT Project.”, which brings huge advantages to both bus companies and users. After Smartphone Commuter Pass was adopted by not only bus companies, but also the Sekihoku Line of JR Hokkaido, a demonstration experiment of Smartphone Commuter Pass for students began in some lines of JR East in September 2019. Like this, it is being distributed to railway companies, too.

【“Bus Mori!”, a smartphone application for searching, booking express bus seat, purchasing tickets, 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.

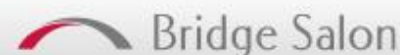
In addition to tickets issued at convenience stores, electronic tickets which are displayed on the screen of smartphones are now available, resulting in significant improvement of user-friendliness because users can buy tickets anywhere and anytime 24 hours a day with their smartphones at hand.

In addition, the company also started a service for customers to purchase bus tickets in Japan via Alipay’s website. Accordingly, it is expected that the sales of foreign visitors’ segment will grow.

As for the methods of authenticating electronic tickets, in addition to “Bus Mori! MONTA” which is an in-vehicle tablet terminal that has been already released, the company added function to authenticate tickets with “electronic punching” to “Bus Mori!” for bus agencies with no “authentication terminal”. This covers almost all of the bus routes which mean the number of routes apply to “electronic tickets” 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.
One click purchase is available when a frequently used ticket is registered in “Instant Purchase.
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
Ticket cancellation on smartphone.
Other than Japanese, several foreign languages are available, including English, Chinese (simplified), Korean. (Some of the contents are not available.)

BRIDGE REPORT

【“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.

(Features)

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

«“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.

(Features)

- 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

	FY 6/ 14	FY 6/ 15	FY 6/ 16	FY 6/ 17	FY 6/ 18	FY 6/ 19
ROE (%)	11.3	11.5	16.3	10.2	6.0	4.9
Net Profit Ratio Margin	12.01	10.55	12.83	8.48	5.06	3.74
Total Asset Turnover	0.36	0.43	0.52	0.47	0.50	0.56
Leverage	2.58	2.50	2.44	2.54	2.38	2.36

ROE has been decreasing for the recent three terms.

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

We would like to pay attention to the moment when profitability gets recovered and causes ROE to rebound in the future.

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 among industries 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, etc.
Buses	Over 500 Japanese bus lines from over 100 bus routes. 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.), etc.
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, etc.
Internet DE Transfer	All Nippon Airways, Peach Aviation, So-net, Sagawa Express, Sumitomo Mitsui Card, Japan Securities Finance, JFX, Hirose Trader, Brother Industries, Future, Recruit, Benesse Corporation, GREE, Vanilla Air, ASKUL, Yamaha Motor, etc.

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 120 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 ended June 2019 Earnings Results and Fiscal Year ending June 2020 Earnings

Forecasts

(1) Fiscal Year ended June 2019 Earnings Results (Non-Consolidated)

① Business Results

	FY 6/ 18	Ratio to sales	FY 6/ 19	Ratio to sales	YoY
Sales	9,783	100.0%	10,032	100.0%	+2.5%
Gross profit	1,866	19.1%	1,609	16.0%	-13.7%
SG&A	1,188	12.1%	1,106	11.0%	-7.0%
Operating Income	677	6.9%	503	5.0%	-25.8%
Ordinary Income	708	7.2%	530	5.3%	-25.1%
Net Income	495	5.1%	374	3.7%	-24.4%

* Unit: million yen

Sales grew and profit declined.

Sales were 10,032 million yen, 2.5% up compared to last term. The market of non-face-to-face payment settlement is still expanding. The sales of the billing service using paper declined, while the sales of E-Billing grew, indicating the diffusion of cashless payment. Gross profit decreased, due to the rise in commissions for payment processing, the augmentation of depreciations for “Bus Mori!” and “Shiharai-Hisho,” and the subsidence of the sale of prepaid cards (PIN and POSA). SGA decreased, but could not be offset. As a result, operating profit dropped 25.8% year on year to 503 million yen.

② Financial standing and cash flows

◎ Summarized Balance Sheet

	End of June 2018	End of June 2019		End of June 2018	End of June 2019
Current Assets	14,471	15,138	Current liabilities	8,725	11,325
Cash	10,564	12,915	Payables	585	476
Receivables	575	560	Settlement Deposits	6,959	9,393
Securities	1,999	-	Noncurrent liabilities	178	191
Noncurrent Assets	2,339	3,822	Long-term Accounts Payable	119	119
Tangible Assets	528	2,027	Total Liabilities	8,904	11,517
Intangible Assets	1,105	1,080	Net Assets	7,907	7,443
Investment, Others	705	714	Retained earnings	4,690	4,017
Total assets	16,811	18,960	Treasury Stock	-1,054	-841
			Total Liabilities and Net Assets	16,811	18,960

* Unit: million yen

* 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 grew 600 million yen from the end of the previous term, due to the redemption of securities, the increase in cash and deposits, etc. Cash and deposits include a deposit of 9.3 billion yen for payment settlement (which will be remitted to enterprises in the following month), which is posted in current liabilities. Fixed assets increased 1.4 billion yen to 3.8 billion yen for the sake of purchase of Land for constructing a new building of the company in Sapporo. Total assets rose 2.1 billion yen year on year to 18.9 billion yen. As for liabilities, current liabilities augmented 2.5 billion yen year on year, due to the increase in deposits for payment settlement, and

some other factors. Total liabilities rose 2.6 billion yen to 11.5 billion yen.

Due to the decline in retained earnings, net assets dropped 400 million yen to 7.4 billion yen.

Consequently, capital-to-asset ratio decreased by 7.7% to 38.8% from 46.5% at the end of the previous term.

(It is 76.9% if the settlement deposits are excluded from assets and liabilities.)

◎Cash Flow

	FY 6/ 18	FY 6/ 19	Increase/decrease
Operating Cash Flow	-3,993	3,177	+7,171
Investing Cash Flow	35	-477	-512
Free Cash Flow	-3,958	2,699	+6,658
Financing Cash Flow	-1,405	-848	+557
Cash Equivalents	9,983	11,835	+1,851

* Unit: million yen

Due to the augmentation of deposits for payment settlement, and so on, operating CF and free CF turned positive. The cash position improved.

(2) Regarding Fiscal Year ending June 2020 Earnings Forecasts

As of the date of the announcement of financial results for the fiscal year June 2019 (Aug. 7, 2019), the earnings forecast for the fiscal year June 2020 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. Also, the amount of dividend has not been determined yet at this point.

(3) Topics

① Progress of the Shiharai-Hisho service

◎Business operators and financial institutions using the service

As of the end of August 2019, Shiharai-Hisho has been adopted by 6 electric power companies, over 110 routes of bus companies, 2 railway companies, 2 airline companies, etc. The company is steadily establishing cooperation with such infrastructure enterprises that are closely related to daily life.

In order to increase the convenience for users of local electric power, it is important to create accounts at local banks, which can enable automatic payment from the accounts immediately. As of now, the company is linked with 30 banks.

Increasing homepage traffic could be an issue for the company from now on.

②Progress of the bus IT project

◎Functions and current status

As of the end of August 2019, it is used in 300 bus routes. The number of downloads of Bus Mori! is about 280,000, and the number of active users who use the app once or more per month exceeded 37,000.

Each service has been adopted as follows:

The smart ticket has been adopted by 47 administrative agents for 207 routes.

Smartphone Commuter Pass has been adopted by 13 companies for 54 routes.

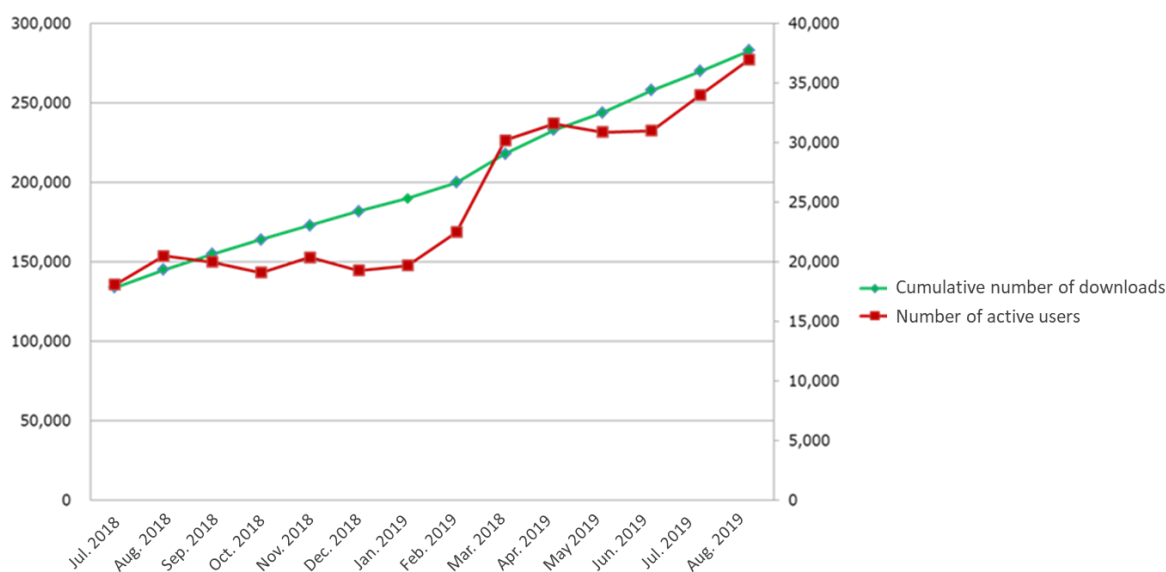
Smartphone Bus Ticket has been adopted by 8 companies for 9 routes.

Shiharai-Hisho has been adopted by 19 companies for 110 routes.

MONTA, which is an in-vehicle terminal, has been adopted by 5 companies for 16 routes.

Alipay (QR/barcode-based payment service offered by the Alibaba Group in China) app can be used by foreign visitors to Japan in 27 routes of 6 companies.

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(Source: the company)

(Case example)

As for Smartphone Commuter Pass, the student commuter passes of some routes of JR East are being monitored during a period from September 1, 2019 to the end of March 2020.

JR East offers a service with which customers can purchase a commuter pass without going to a station wicket, by using Mobile Suica in the Tokyo Metropolitan Area, Sendai, and Niigata, but in the sections where transportation IC cards have not been installed, it is necessary to go to a station wicket for purchasing a commuter pass.

Based on the cooperation with WELLNET, JR East aims to improve customer services, by tentatively installing a system for enabling customers to purchase a commuter pass without going to a station wicket.

It is possible to place an order for a commuter pass with a smartphone, and the smartphone will serve as a commuter pass. Accordingly, it is unnecessary to purchase a commuter pass at a station. Fares can be paid in various ways, including credit cards and ATMs of convenience stores and financial institutions, and if Shiharai-Hisho is used, it is possible to conduct all processes from ordering to payment with a smartphone.

The company expects that the cooperation with JR East, which has many users, will contribute significantly to the distribution and diffusion of Smartphone Commuter Pass.

(Activities from now on)

The strengths of WELLNET include the capability of issuing paper tickets and electronic ones for smartphones on a one-stop basis, the compatibility with almost all bus booking systems inside Japan, and the fact that it has been making transactions with bus companies around Japan for about 20 years. In addition, it is possible to settle payment (immediate, accurate allocation of fares) among bus companies that jointly provide bus services. This is also a significant advantage.

By utilizing these strengths, the company aims to offer the services of Bus Mori! as de facto standards.

In addition, the company is developing ALTAIR, a system for booking, selling, and managing seats.

ALTAIR, which utilizes cloud services, provides bus companies with a system for booking, selling, and managing seats at variable fees instead of fixed fees.

In the aviation industry, leading airline companies used to develop systems by themselves, but they are currently using cloud services for reducing costs and managerial risks. The company expects that the bus industry will follow this transition.

The company plans to release ALTAIR in the next term at the latest, with the aim of occupying the standard position in the field of systems for booking, selling, and managing seats.

③ Regarding the managerial policy and return to shareholders

The business environment is estimated to change significantly, but the company plans to take a risk and make an investment actively, in order to seize business chances amid the change in the business environment.

In addition, a majority of directors are outside ones, in order to increase the transparency of its business administration.

On the other hand, the shareholder return policy has been “to keep payout ratio 50% or higher and the dividend amount 50 yen/share or larger,” but in order to prioritize the investment for monetizing next-generation products/services, constructing a new office building in Sapporo for securing excellent IT personnel, etc., the company decided to end the minimum dividend amount: 50 yen/share in the fiscal year June 2019.

As for payout ratio, the company will keep it 50% or higher from the 38th term onward as well.

3. Interview with President Miyazawa

We interviewed President Miyazawa about the overview of the financial results for the fiscal year June 2019, future activities, his message toward shareholders and investors, etc.

Q: “Please outline the financial results for the fiscal year June 2019.”

A: “The growth rate of sales was as low as 2.5%, but sales are recovering. Profit declined due to active investment, but we aim to monetize the invested businesses early in the 38th term or later.”

The growth rate of sales was as low as 2.5%, but the number of settlement transactions, which is an important indicator of our company’s business, is recovering from the third quarter (Jan. to Mar.).

As cashless payment was popularized, the sales from payment settlement based on paper sheets, such as invoices, declined. Meanwhile, the sales from E-Billing, which charges and settles payment on a real-time basis, increased. This indicates that our company has been satisfying the demand for cashless payment settlement.

Over the past two terms, sales have declined due to the drop in sales of prepaid cards caused by the integration of convenience stores, the revision to conditions for transactions with major clients, the shrinkage of OEM sales, etc., but we consider that these negative factors have subsided in that term.

As for profit, profit declined due to the start of posting of depreciation of Bus Mori! and Shiharai-Hisho, which will serve as growth drivers, but this is a result of active investment. Our company aims to make them profitable early this term or later.

For the fiscal year June 2019, sales were almost the same as the annual estimate released when the financial results for the third quarter were announced in April 2019, but profit did not reach the estimate.

This was the first time for our company, but we will deeply reflect on the results, and make efforts to prevent it from recurring and will not cause inconvenience to investors.

Q: “Please tell us about the business environment surrounding your company, its changes, and your activities for coping with them.”

A: “Electronic money and cashless payment are spreading rapidly, and we think that it is indispensable to respond to this trend for our sustainable growth. The basic investment in Shiharai-Hisho, which is a server-based electronic money service, has been finished, and we have developed a system for offering a FinTech service for daily life. For Bus Mori!, too, the number of active users and the number of bus routes where this service is available have increased steadily.

We aim to establish the de-facto standard in the bus industry, with ALTAIR, a system for booking, selling, and managing seats, which is to be released in the next term at the latest.”

Our company has grown while developing non-face-to-face payment settlement systems for convenience stores, such as the “convenience store bill payment service,” with which customers can make payment anytime 24 hours a day, 365 days a year, as its mainstay.

At present, cash settlement is still mainstream, but electronic money and cashless payment are spreading rapidly as you know, and we consider that it is indispensable to cope with this trend for our sustainable growth. Our concrete measure is Shiharai-Hisho.

Our investment in Shiharai-Hisho, which is a server-based electronic money service that enables users to make payment without going to a convenience store or a bank ATM, is about to be finished. We have completed a system for offering a FinTech service for daily life. We have already signed contracts with enterprises in the fields of electric power, gas, buses, railways, airlines, vessels, etc. and 30 local banks that deal with automatic payment from bank accounts. From now on, we need to stir demand and increase traffic (the number of transactions).

Shiharai-Hisho would considerably reduce the cost of settlement with Homepage payment slips for electric power companies, etc., so its merit is significant. Accordingly, we are striving to increase users of Shiharai-Hisho by requesting electric power companies, etc. to advertise Shiharai-Hisho on the reverse sides of payment slips, etc.

Another major project of our company is Bus Mori! The number of active users exceeded 37,000, and the number of bus routes where Smart Tickets, Smartphone Commuter Pass, Smartphone Bus Ticket, etc. are available is steadily increasing.

In addition, enterprises that have adopted Bus Mori! are increasing in not only the bus industry, but also the railway industry. We can expect that this business will grow.

By utilizing our long-term transactions with bus companies, our advanced capabilities of development and operation, and other strengths, we have a quite advantageous market share. We aim to achieve the de-facto standard in the bus field by brushing up our business.

At the same time, we are developing ALTAIR, a system for booking, selling, and managing seats.

ALTAIR, which utilizes cloud services, provides bus companies with a system for booking, selling, and managing seats at variable fees instead of fixed fees. The needs from bus companies are considered significant from the viewpoints of the streamlining of business administration and risk control.

We plan to release ALTAIR in this term or the next term at the latest, and establish a standard position in the field of systems for booking, selling, and managing seats.

Q: “What do you plan to focus on in your mid-term management plan?”

A: “For sustainable growth, it is essential to recruit and train excellent engineers and accumulate know-how. We will recruit excellent engineers in Hokkaido, by constructing a new office building in Sapporo.”

For sustainable growth, it is indispensable to accumulate know-how by recruiting and training excellent engineers, so this is our major theme.

One of our measures is the construction of a new office building in Sapporo, which is scheduled to be completed in the summer of 2021. We will prepare a comfortable working environment for engineers and recruit excellent engineers in Hokkaido.

Furthermore, the cooperation which we have engaged with vocational schools since before is going well, and we secure promising personnel every year.

Q: “Lastly, please give a message to shareholders and investors.”

A: “All of us will join hands and make efforts so that all stakeholders will say ‘Wellnet is a good company or a grown-up company.’ I would appreciate your support from the mid/long-term viewpoint.”

The government has implemented various measures with the aim of increasing the ratio of cashless payment to 40%. This trend will continue, but this also means that the ratio of cash settlement will remain over 50%.

By launching Shiharai-Hisho, which is a service for coping with cashless payment, our company became able to deal with both cash settlement and cashless payment. I think that our company has established a more stable business foundation.

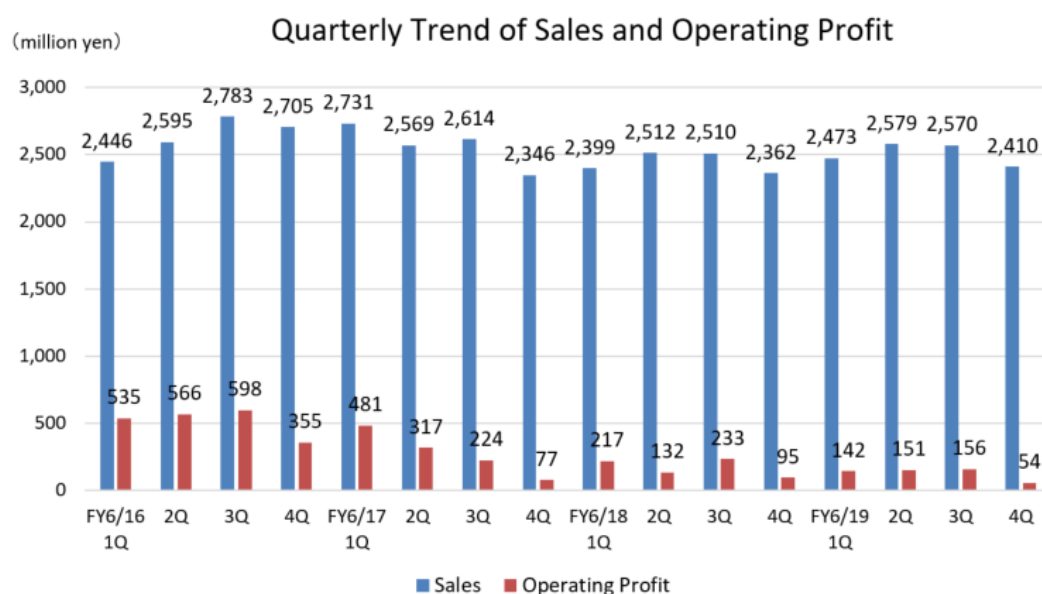
When it comes to FinTech, many enterprises seem to present themselves as they will make a swift, bold endeavor, but our company hope to offer FinTech services for daily life while aiming to realize a society where everyone can enjoy convenience, based on our stable, down-to-earth business foundation.

I hope shareholders and investors could evaluate this viewpoint.

Needless to say, sales and profit are essential, but in the present age, investors see not only them when evaluating companies, as ESG investment is attracting attention. All of us will join hands and make efforts so that all stakeholders, including investors, customers, business partners, and employees, will say “Wellnet is a good company, a grown-up company.” I would appreciate your support from the mid/long-term viewpoint.

4. Conclusions

The quarterly variations in sales and operating profit indicate that sales have increased for the 5th consecutive terms. While the market of non-face-to-face payment settlement is expanding continuously, the effects of the integration of convenience store chains, the revision to prices for large-scale clients, the shrinkage of OEM, and so on. have apparently subsided. We would like to see how rapidly the company will recover its performance. Especially, we would like to pay attention to the moment when Shiharai-Hisho starts generating revenue.



<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

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

◎Corporate Governance Report

Last update date: September 26, 2019

<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
<p>【Principle 1-4 So-called strategically held shares】</p>	<p>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.</p>
<p>【Principle 4-8 Utilize independent external directors.】</p>	<p>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.</p> <p>The 3 outside directors (members of the committee for audit, etc.) have been registered as independent outside directors.</p>
<p>【Principle 5-1 Policy for constructive dialogue with shareholders】</p>	<p>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.</p> <p>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.</p> <p>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> <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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