



Kazuya Nishimoto, President

INTERTRADE Co., Ltd. (3747)



## Company Information

Exchange	TSE, Second Section
Industry	Information, Communications
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Year End	September
HOME PAGE	<a href="https://www.itrade.co.jp/">https://www.itrade.co.jp/</a>

## Stock Information

Share Price	Number of shares issued (excluding treasury shares)		Total market cap	ROE (Actual)	Trading Unit
¥600	7,185,600 shares		¥4,311 million	-	100 shares
DPS (Est.)	Dividend Yield (Est.)	EPS (Est.)	PER (Est.)	BPS (Actual)	PBR (Actual)
-	-	-	-	¥101.54	5.9x

\*The share price is the closing price on December 25. Shares Outstanding, ROE and BPS are the values at the end of the previous term.

## Consolidated Earnings Trends

Fiscal Year	Sales	Operating Income	Ordinary Income	Net Income	EPS	DPS
September 2016	2,358	11	14	7	0.98	0.00
September 2017	2,017	-458	-459	-334	-	0.00
September 2018	1,892	-335	-334	-338	-	0.00
September 2019	1,791	-413	-411	-408	-	0.00
September 2020 Est	2,450	17	-60	-24	-	-

\* Estimates are those of the Company.

\* Unit: Million yen, yen.

This Bridge Report reports earnings results of INTERTRADE Co., Ltd. for the fiscal year ended September 2019 and the outlook for earnings estimates for the fiscal year ending September 2020.

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## Key Points

- For the FY September 2019, sales dropped 5.3% year on year, and there was an operating loss of 413 million yen (335 million yen in the previous term). The sales in the healthcare business increased due to the steady performance of “IT - Sparassis Crispa”-related products, OEM and raw materials, but sales in both of the financial solutions business and the business solutions business declined. As for profit and loss, upfront investment in the new business became a burden while sales continued to drop.
- The sales for the FY September 2020 are estimated to rise 36.8% year on year, with an operating profit of 17 million yen. Sales growth is expected in all the three businesses, and sales will increase on a consolidated basis for the first time in 11 terms. The financial solutions and business solutions businesses have received business inquiries, which are currently being negotiated, and the business related to “IT-Sparassis Crispa” will be expanded in the healthcare business. Although upfront investment will be continued in the financial solutions business with the development of high added value products that incorporate new technology, and in the healthcare business with industry-academia collaborative research, costs will be absorbed by increases in sales and the company expects its operating income to turn positive for the first time in four terms.
- By curtailing the drop in sales and realizing profitable performance, the company will enter the second stage of development. In the financing solutions business, it will develop a new growth domain in the FinTech area through “Spider” that utilizes the blockchain technology, and offer support to business firms in dealing with the problems of their core systems becoming legacy systems by providing “G-MAN e<sup>2</sup>.” Furthermore, the company will expand its field of business from healthcare to life science in the healthcare business, with “IT-Sparassis Crispa” as the starting point. As the company is enhancing the operational structure in each business, the nature of business will most likely be transformed in just few years. We would like to pay attention to the company’s future development.

## 1. Company Overview

INTERTRADE mainly operates the financial solutions business with a focus on development and maintenance services for securities dealing systems. It also operates the business solution business including development of group management packaged software and health care business including manufacturing and sales of supplements and cosmetic products using sparassis crispa.

Apart from INTERTRADE, the INTERTRADE Group consists of the Company, the following 3 consolidated subsidiaries: 1) BSJ Co., Ltd. (66.7% ownership) which develops and maintains the integrated business management platform called “GroupMAN@IT e<sup>2</sup>” (the business solutions business); 2) INTERTRADE HEALTHCARE Co., Ltd.(100% ownership), which manufactures and processes sparassi crispa, and sells sparassis crispa-related products via the Internet and catalog mail orders; and 3) Digital Asset Markets, Inc., which deals with crypto asset-related business and 4) Iter Corporation (21% ownership), which is a joint company with JIA Co., Ltd. (7172) and develops and sells solutions, products, and services using the Fintech-related technology.

### 【Management Philosophy】

- Behavior of the customer point of view
- Curiosity and courage
- Rapid judgment and sincerity
- "Human" and "ties with the people" cherishment

The company believes that “it is essential to challenge with courage and passion for the improvement in the value of products and services. In order to do so, the company must think from the customers’ perspective, take high quality actions, and ensure fast and sincere response.” By doing so, the company will be able to establish true trusting relationships and realize true services in both hardware and software markets. “Customers from all over the world are looking into the monitors we have created. By Using these monitors, the customers can deal with various products of all the countries, such as checking out international news and information in real time, and carry out analysis, simulation and asset management for investment.” The company dreams that, one day, they can talk with their customers across the globe about the history the company has been through.

## 1-1 Business Contents

The Company’s businesses are composed of the following: the financial solutions business which designs, develops, and sells packaged front systems for securities businesses with securities companies as clients; the business solutions business that designs, develops, and sells corporation-oriented packaged systems with general business firms as their client; as well as the healthcare business including developing and selling healthcare products such as supplements and cosmetics, as well as procuring and selling health-related products to consumers.

The sales composition ratio of each business segment for the FY September 2019 was as follows: 69.9% for the financial solutions business (72.2% in the previous term), 13.8% for the business solutions business (14.0% in the previous term); and 16.4% for the healthcare business (13.6% in the previous term).

### Financial Solutions Business

In addition to the securities dealing system “Prospect,” the retail foreign exchange trading system “fortissimo,” and the off-exchange transaction system “ITMonster,” which have been introduced to the general trading participants of Tokyo Stock Exchange, the Company designs, develops, and sells “J1” that is a system for connection with systems used in various stock exchanges, including arrowhead, ToSTNeT, and J-GATE, “MEX&MSR III” which can perform purchase and selling simulations and tuning, such as algorithm programs, and “DPSS” which provides various kinds of information necessary for intelligence trading on trading systems in real-time, chart, and historical-analysis formats. The Company also engages in design, development, and sale of middleware and communications software.

Recently, by utilizing the know-how gained from the products mentioned above, the company has also been developing a solution called “Spider,” which uses the blockchain technology. It is possible to establish a system suited for users’ tasks, by componentizing the functions of the multiple package systems for business operations of financial instruments, which the company has been offering for 20 years since its establishment, storing them in a library, and selecting or integrating the needed functions (components).

“Spider” has been installed as a comprehensive solution for financial instruments trading on “LINE Securities,” an investment service provided by LINE Securities Corporation (Shinagawa-ku, Tokyo. Representative Director and Co-CEO: Noritaka Ochiai and Yoshikazu Yonenaga) for smartphones that allows users to trade on social media application, “LINE”. In the future, the company will strive to contribute to the business expansion of financial institutions and business firms through the library-type solution “Spider,” which can deal with all financial business-related operations.

### Business Solutions Business

The Company aims to secure stable sales and profit based on the following 3 pillars: 1) the packaged services with a focus on internally developed integrated business management platforms “GroupMAN@IT e<sup>2</sup>” (or “e<sup>2</sup>”) and “Gadics MAN@IT”; 2) the system engineering services (SES) which mainly provides maintenance and operation; and 3) the support center services that offer system design, development, and establishment, and to provide comprehensive multi-vendor, multi-product, and multi-business system support services. BSJ Co., Ltd, one of the Company’s consolidated subsidiaries, engages in development and maintenance of “e<sup>2</sup>.”

Companies often use multiple operational systems for accounting, human resources, payroll, facilities, and materials, and, in many instances, each system is sold by different vendors for each task, or a parent company and its subsidiaries use different systems sold by different vendors for similar tasks, which is making it difficult to control management information, or in other words, business analysis of the entire corporate group through data sharing of each system, in an integrated manner within a company or a corporate group. This is why many companies invest a great amount in constructing a separate system for coordination (major system companies are extremely negative about connecting their own systems with other companies’ systems). In contrast, as “GroupMAN@IT e<sup>2</sup>” is equipped with a highly flexible interface called “FLEX I/O,” it is possible to connect various data of different vendors or systems. On the other hand,

“Gadics MAN@IT” is not offered as a function, but, as a “virtual engineer,” it supports operation and management of personal computers at low cost on a cloud basis from 4 aspects, including “collection,” “decision making,” “implementation,” and “confirmation.”

### Healthcare Business

In the healthcare business, the Company engages in various activities, ranging from cultivation of *sparassis crispa* to sale of *sparassis crispa*-related products (i.e., supplements, health food products, and cosmetic products) under its own brand name, OEM supply, and sale of raw materials for use in cosmetic products that are manufactured using ingredients derived from *sparassis crispa*, both in and outside of Japan. With INTERTRADE taking charge of managing the overall healthcare business, including marketing, INTERTRADE HEALTHCARE Co., Ltd. manufactures and processes *sparassis crispa*, and sells *sparassis crispa*-related products via the Internet and catalog mail orders. Furthermore, the Company is currently endeavoring to obtain scientific evidence concerning immune-stimulating functions of the components derived from *sparassis crispa* through the research. The human clinical trials carried out in 2013 have confirmed not only that the *sparassis crispa* “LB-Scr” is effective against type-II diabetes, Type-I allergic diseases, and liver function indicators ( $\gamma$ -GTP, GOT, and GPT), and changes in skin type, but also that, through studies of adverse events, it is safe and causes no side effect.

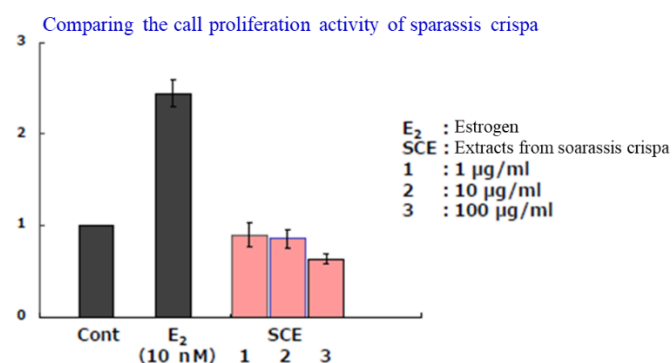
Furthermore, in the healthcare business, the company aims to secure revenues in the other industries in order to diversify the risk, by making a clear distinction from the core systems field that is easily affected by the economic conditions. Also, the company guarantees safety by carrying out integrated production, processing, sales, and research in the Group.

### Sparassis Crispa

*Sparassis crispa* thrives naturally in Japan, Europe and America in coniferous forests at an altitude of 1,000 meters in which edible mushrooms typically does not grow under ordinary circumstances, which makes it very rare to find naturally grown *sparassis crispa*; therefore, it is called “rare mushroom.” In addition, although typical mushrooms are in brown, *sparassis crispa* is in beautiful white to pale yellow, as if fluffy white flowers are blooming. *Sparassis crispa* has over 35% of the  $\beta$ -glucan content, which plays a particularly important role in maintaining good health (compared to *agaricus* mushrooms which has 12.5% of the  $\beta$ -glucan content), and besides, it is rich in myriad effective components, such as amino acids and trehalose. Moreover, *sparassis crispa* is edible.

### Research into Silent Estrogen

In industry-government-academia collaborative research, the company discovered “Silent estrogen” (an estrogen-like chemical compound which is recognized to function in a similar manner to estrogen), which displays estrogenic activity (to be described later in this report) but does not proliferate cells, has been discovered in the extract from the type strain of *sparassis crispa*. “Silent estrogen” does not exhibit any weaknesses of estrogen (a female hormone) while having advantages of estrogen. Estrogen pharmaceuticals that contain the components of estrogen are used in medical treatment of menopausal disorders and arteriosclerosis in women, which are allegedly caused by hormonal imbalance attributed to a decline in estrogen; however, as estrogen also serves to facilitate cell proliferation, there is a risk that it may activate tumor cells, causing breast, endometrial, and other cancers. In contrast, while “silent estrogen” has estrogen-like physiologically active functions, it does not facilitate the proliferation of cancer cells. Placenta (roughly equivalent to estradiol) is also known to promote estrogenic activity, but the placenta is an extremely strong facilitator of cell proliferation.



(Source: INTERTRADE)

The placenta's domestic market size is about 25 billion yen, and is growing at a rate of roughly 20% per year. The global market scale is around 300 billion yen. Even with a 5 to 10% share, the scale of sales is extremely large. Moreover, it would have a large impact on profit due to the high profitability of the market.

## 2. Fiscal Year September 2019 Earnings Results

### 2-1 Consolidated Earnings

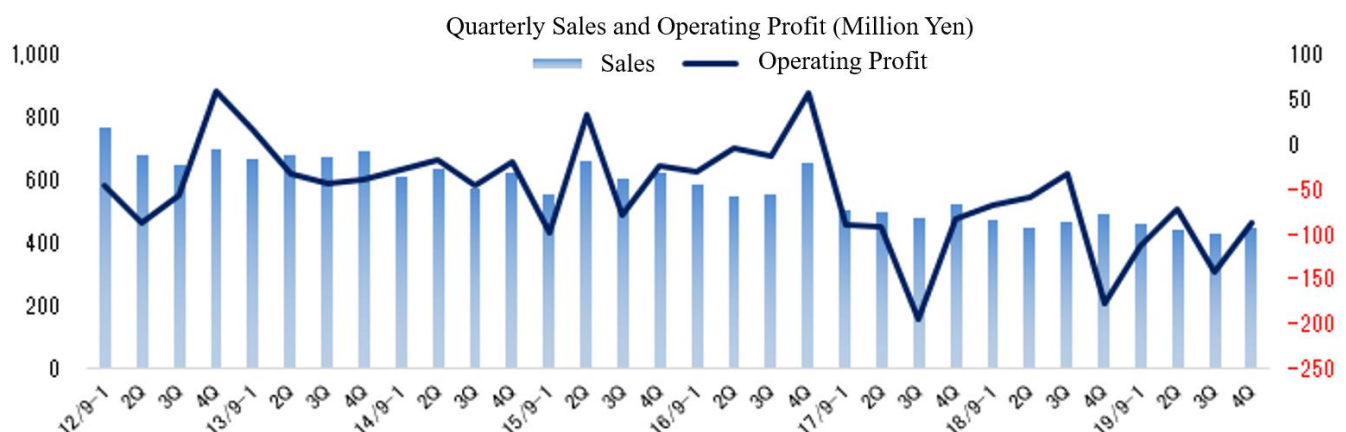
	FY9/18	Share	FY9/19	Share	YY Change	Revised Est. in 3Q	Divergence
Sales	1,892	100.0%	1,791	100.0%	-5.3%	1,831	-2.2%
Gross Profit	462	24.4%	647	36.2%	+40.0%	-	-
SG&A	797	42.2%	1,060	59.2%	+33.0%	-	-
Operating Profit	-335	-	-413	-	-	-383	-
Current Profit	-334	-	-411	-	-	-382	-
Net Profit	-338	-	-408	-	-	-379	-

\* Units: Million Yen

### Sales decreased 5.3% year on year, with an operating loss of 413 million yen (335 million yen in the previous term)

Sales were 1,791 million yen, down 5.3% year on year. The sales in the healthcare business increased 14.0% year on year with the steady performance of “IT Sparassis Crispa”-related products, OEM and raw materials. However, the sales in the financial solutions business declined 8.4% year on year as resources were spared for R&D. In addition, while the company successfully acquired orders and additional transactions of “GroupMAN@IT e<sup>2</sup> (referred to as G-MAN e<sup>2</sup> hereinafter),” the sales in the business solutions business declined 7.0% as a result of the sluggish support center business, which provides comprehensive system support services.

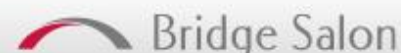
The company incurred an operating loss of 413 million yen. Cost rate improved thanks to an advance in the sales composition of the healthcare and business solutions businesses and gross profit rose 40.0% year on year to 647 million yen, but operating loss augmented due to the increase in SG&A resulting from upfront investments such as “Spider” and “IT Sparassis Crispa”-related R&D expenses.



### 2-2 Segment Sales, Profits Trends

	FY9/18	Share	FY9/19	Share	YY Change
Financial Solutions	1,366	72.2%	1,251	69.9%	-8.4%
Business Solutions	264	14.0%	246	13.8%	-7.0%
Healthcare	257	13.6%	293	16.4%	+14.0%
Investment Education	3	0.2%	-	-	-
Total Sales	1,892	100.0%	1,791	100.0%	-5.3%

## BRIDGE REPORT



Financial Solutions	136	10.0%	20	1.6%	-85.2%
Business Solutions	11	4.2%	18	7.7%	+70.6%
Healthcare	-176	-	-167	-	-
Investment Education	-27	-	-	-	-
Adjustments	-278	-	-284	-	-
Total Operating Profit	-335	-	-413	-	-

\* Units: Million Yen

### Financial Solutions Business

The sales in the financial solutions business in which the company and Digital Asset Markets, Inc. operate were 1,251 million yen (down 8.4% year on year), and profit was 20 million yen (down 85.2% year on year). The company is making efforts to commercialize financial services in the FinTech field based on “Spider,” which utilizes the blockchain technology, and invested in its R&D preferentially. As a result, the company ran short of the orders for the existing core products and was not able to make up for the reduced number of licenses. As for profit and loss, operating expenses grew due to the increase in not only R&D expenses for improvement in added value and function extension of “Spider,” but also personnel expenses for security enhancement (After the incident of illegal outflow of virtual currency, a higher level of security and strengthening of organization structure are required.)

### Business Solutions Business

The sales in the business solutions business in which the company and BSJ Co., Ltd. operate were 246 million yen (down 7.0% year on year), and profit was 18 million yen (up 70.6% year on year). While the company successfully acquired new orders and additional development projects for “G-MAN e<sup>2</sup>,” the company’s integrated management platform facilitating decision about the business strategies, it could not make up for the reduced sales in the support center business that provides comprehensive system support services, etc. However, profitability improved due to the increased sales of the company’s internally-developed product “G-MAN e<sup>2</sup>.”

### Healthcare Business

The sales in the healthcare business generated by the company and INTERTRADE HEALTHCARE Co., Ltd. were 293 million yen (up 14.0% year on year), and the loss for the segment was 167 million yen (a loss of 176 million yen in the previous term). Sales improved thanks to the increased sales of the supplement “Estro Rich,” which is sold exclusively by the major pharmaceutical wholesaler OHKI CO., LTD. etc., and products, OEM and raw materials related to “IT Sparassis Crispa,” which has silent estrogen activity that the company produces.

Gross profit margin rose as a result of sales growth of “IT Sparassis Crispa”-related products, but segment loss improved only slightly due to the inventory write-off (the value of assets was revised in view of the possibility of future collection).

## 2-3 Financial Conditions and Cash Flow(CF)

### Summarized Balance Sheet

	9/18	9/19		9/18	9/19
Cash, Equivalents	831	693	Payables	152	72
Receivables	234	203	Short-term interest-bearing liabilities	151	319
Current Assets	1,208	1,032	Liabilities	405	473
Investments, Others	208	154	Net Assets	1,062	754
Noncurrent Assets	259	195	Total Liabilities, Net Assets	1,468	1,228

\*Units: Million Yen

Total assets at the end of the term were 1,228 million yen, down 240 million yen from the end of the previous term. The company invested in R&D while accumulating short-term borrowings and selling investment securities. Recording of a net loss decreased capital-to-asset ratio, but its level was as high as 59.4%, on a term-end basis, and the levels of liquidity and safety were also maintained stably with current ratio being 219.9% and fixed ratio being 25.9%.

## BRIDGE REPORT

**Summarized Cash Flow Statement(CF)**

	FY9/18	FY9/19	YY Change	
Operating Cash Flow (A)	-245	-433	-187	-
Investing Cash Flow (B)	-40	47	+87	-
Free Cash Flow (A+B)	-286	-386	-100	-
Financing Cash Flow	-60	248	+308	-
Cash and Equivalents at Term End	831	693	-138	-16.6%

\* Units: Million Yen

The deterioration in earnings and the increase in working capital caused the deficit of operating CF to expand to 433 million yen, exceeding its record in the previous term. Investing CF is mainly composed of the sale of investment securities and financial CF is largely composed of the accumulation of short-term borrowings. As a result, cash and cash equivalents at the end of the term were 693 million yen, down 16.6% from the end of the previous term. However, earnings and CF are expected to improve in the FY March 2020.

**3. Fiscal Year September 2020 Earnings Estimates****3-1 Consolidated Earnings**

	FY9/19	Share	FY9/20 Est.	Share	YY Change
Sales	1,791	100.0%	2,450	100.0%	+36.8%
Operating Profit	-413	-	17	0.7%	-
Current Profit	-411	-	-60	-	-
Comprehensive Income Attributable to Owners of Parent	-408	-	-24	-	-

\* Units: Million Yen

**Increased sales will absorb upfront investment. Operating profit is expected for the first time in four terms.**

Sales are estimated to increase for the first time in 11 terms by 36.8% year on year to 2,450 million yen. The sales in the financial solutions and business solutions businesses will increase if the company succeeds in receiving orders after dealing with business inquiries. The healthcare business will also see a rise in its sales through expansion of "IT-Sparassis Crispa"-related business. Therefore, the company expects sales growth in all the three businesses.

While upfront investment will be continued through the development of value-added products based on the new technology in the financial solutions business and industry-government-academia collaborative research in the healthcare business, operating loss will be balanced by increased sales and operating profit is anticipated to turn positive for the first time in four terms.

**3-2 Policy on Each Segment****Financial Solutions Business**

The company thinks that this business is in the phase of establishing a revenue base by Spider. It has been working on getting new large-scale orders and the repeated orders from existing clients. At the same time, it will keep on the R&D to expand the functions of Spider and add its value.

There is a room for the existing clients of Spider to order the additional development for functions (repeated orders). Therefore, the company intends to make the clients realize the underlying demands through consulting sales. As for getting the new big clients, the negotiation is on the final stage.

**Business Solutions Business**

The company will make efforts in building infrastructure for its integrated management platform "G-MAN e<sup>2</sup>" thoroughly. A large-scale order from COSMO ENERGY GROUP for "G-MAN e<sup>2</sup>" is expected to be included in sales in the FY September 2020. The company strives to make more transactions and also receive repeat orders from the companies that already have "G-MAN e<sup>2</sup>" installed. In the support center business and SES, the company aims for business expansion by not only providing solutions, but also providing upstream and downstream approaches by integrating business and system analyses. It will further increase orders of "G-MAN e<sup>2</sup>" and expand customer network based on the footholds provided by the efforts put in the support center business and SES.

COSMO ENERGY GROUP plans to expand its business on the basis of G-MAN e<sup>2</sup> that they already have installed in order to “bring efficiency in management of order reception/placement operation and inventory of service stations (referred to as SS hereinafter) nationwide,” “ensure inventory visualization across the companies/head office,” and “make strategies and increase added value based on the visualized inventory information,” and newly establish a business model for inventory management in the companies and SS located nationwide.

### Healthcare Business

One of the policies is to increase sales of “IT-Sparassis Crispa.” The company will enhance the sale in ongoing projects as a manufacturer, and find new business partners. The company is also thinking of utilizing the Women’s Clinic Network as one of its alliances. As silent estrogen-like activity can be expected from “IT-Sparassis Crispa,” it will be able to deal with various problems caused by the decrease of estrogen (a female hormone). The company thinks that the utilization of the Women’s Clinic Network will be effective in actively appealing such kinds of special features of “IT-Sparassis Crispa.”

Another policy is to continue with the research. The company will accelerate the identification of silent estrogen-like activity component and aim to display product functionality after carrying out a human clinical test. It will also make its best efforts to obtain a patent to protect the rights related to silent estrogen, which possesses a high level of safety and price advantage.

### 3-3 Future Activities

#### Business Environment

Digital transformation (referred to as DX hereinafter) is essential for enhancing growth and competitiveness in the future. DX refers to the creation of a new business model or flexible transformation of existing models by using new digital technology, and the reform of the core system is required as well. If the system is not reformed, it will not only result in the failure to realize DX, but also increase the possibility of incurring maximum economic loss. 12 trillion yen from 2025 onward (the cliff of 2025 = legacy systems), as warned by the Ministry of Economy, Trade and Industry. Through the spread of high-speed data transmission by 5G in 2025, the company will be able to collect data using IoT and process them on a real-time basis on cloud, which will be used for monetization (or used to increase revenue) after being analyzed by AI at a high speed. Digital technology was used for data management until now, but the era to use it for monetization is approaching. However, legacy systems cannot deal with it.

As the old front system “TIGER” cannot handle FinTech, a new digital business using the blockchain technology, the company has been accelerating the development of the new system “Spider” under a consideration that “while the world changes drastically, there would be a higher risk of not doing so despite high costs of investment” (President Nishimoto). The peak of this investment was in the FY September 2019.

There is another problem anticipated in 2025; Japan is expected to face various issues (medical, social security, pension, nursing care, etc.) as a result of the baby-boomers becoming the late-stage elderly in 2025. The company is making efforts in its healthcare business to tackle these problems.

#### Approach for 2025

The company will provide a platform that can offer the FinTech function applying the new technology such as 5G, cloud, IoT, and AI to monetization in the financial solutions business, and support business firms in dealing with the problem of their core systems becoming legacy systems in the business solutions business. On the other hand, it intends to pursue scientific grounds for “IT-Sparassis Crispa” to make proposals for new lifestyle and expand the healthcare business in the life science field.

#### Financial Solutions Business

The company strives to build a new growth domain with “Spider” in the FinTech area. The company has developed and sold systems so far, and now it will focus on the development and provision of digital financial services (by possessing “Spider” and supporting clients in DX). Services will be provided by the company’s consolidated subsidiary, Digital Asset Markets, Inc. The company plans to enhance the sales structure through coordination with system partner companies and service partner companies, and acquire new customers.

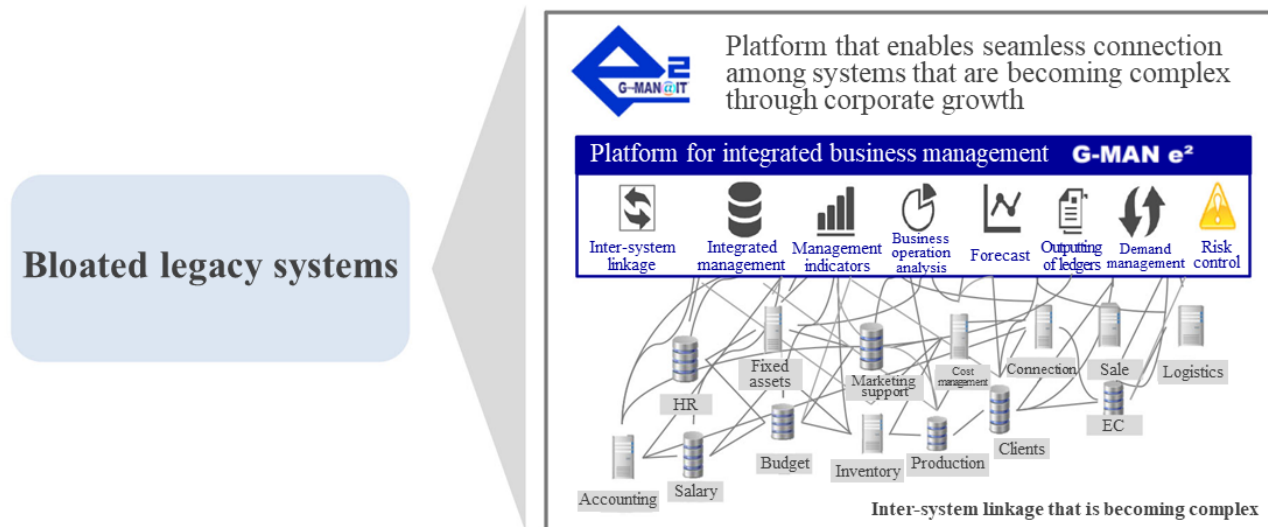
#### Business Solutions Business

As the existing systems were built for each department (resulting in increased complexity and formation of black boxes), many business firms are unable to utilize data across the firm. The company’s integrated management platform “G-MAN e<sup>2</sup>” is a solution that prevents



the existing systems from becoming black boxes and creates a new way of utilization, bridging the gap between legacy systems and new systems.

“G-MAN e<sup>2</sup>” is equipped with a highly-flexible interface “FLEX I/O.” Therefore, it allows data linkage between systems with different vendors or data linkage between a parent company and subsidiaries with different systems (“FLEX I/O” technology utilizes the idea to exchange information of securities trading). Companies have multiple business systems installed, such as accounting, HR/salary, and sales management, but the vendors for each differ in many cases, and parent companies and subsidiaries have different business systems for same operations, due to which they are unable to practice integrated management of business information within the company or group. “G-MAN e<sup>2</sup>” solves these issues.



(Source: INTERTRADE)

#### Healthcare Business

The company aims to contribute to the healthy life expectancy industry with “IT-Sparassis Crispa”-related products. With aging society becoming a growing trend worldwide, markets related to healthy life expectancy have expanded significantly. The company will make proposals to make the society a place where people can have a healthy life expectancy and live happily through excellent functionality of “IT-Sparassis Crispa,” i.e., the component of silent estrogen (it is aiming to indicate product functionality after completing the research and clinical test.) Firstly, it is essential to establish a position as a manufacturer of “Sparassis Crispa,” but the company will simultaneously carry out activities to increase awareness about “IT-Sparassis Crispa” and make efforts in establishing a market for silent estrogen.

Estrogen is a kind of female hormone that has physiological functions (estrogen activity), such as facilitating proliferation of breast cells and feminization of the central nervous system and controlling ovulation and arteriosclerosis. It declines rapidly prior to menopause, which causes menopausal disorders, arteriosclerosis, Alzheimer dementia, etc. Estrogen pharmaceuticals that contain the components of estrogen are used in treatment of such diseases caused by hormonal imbalance attributed to a decline in estrogen, but, as estrogen facilitates proliferation of cells, there is a risk that it may activate tumor cells, causing breast, endometrial, and other cancers. In contrast, while silent estrogen (an estrogen-like chemical compound which is recognized as functioning in a similar manner as estrogen) has estrogen-like activity, but it does not facilitate the proliferation of cells.

#### 4. Remarkable points of the future

The business of “Spider” will be divided into two businesses that the company plan to start newly, i.e., the crypto asset-related business and the system development business. The crypto asset-related business will be operated through the company’s consolidated subsidiary Digital Asset Markets, Inc., while the system development business will be provided by the company itself. In the system development business, LINE Securities Corporation installed “Spider” in August. “Spider” comprehensively covers sales and management tasks of a proprietary position in LINE Securities Corporation. On the other hand, while the crypto asset-related business

aims to provide a platform for a new financial field, details are not yet revealed as development of “Spider” is still in progress. However, the sales structure of Digital Asset Markets, Inc. is being strengthened by receiving investment from Mitsui & Co. through three-party allotment, etc.

Furthermore, in the business solutions business, the installation of “G-MAN e<sup>2</sup>” by COSMO ENERGY GROUP has been determined, which will bring momentum to further business expansion. Also, the company strives to expand the healthcare business from the field of healthcare to life science with “IT-Sparassis Crips” being the starting point. As explained in this report, the nature of business will most likely be transformed in just few years since the company is upgrading the operational structure in each business. We would like to pay attention to their future development.

## <Reference: Regarding Corporate Governance>

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

Organization type	Company with an audit and supervisory board
Directors	5 directors, including 1 outside one
Auditors	3 auditors, including 2 outside ones

### ◎Corporate Governance Report (Updated on Dec. 24, 2019)

#### Basic concept

The basic goal of the Company’s corporate governance is to maximize the Company Group’s corporate value. The Company will achieve the basic goal from the perspectives of “Management transparency”, “Legal compliance”, and “Efficient management”.

The management team, led by the President, plays a role to maintain good relationships with the Company Group’s stakeholders (e.g. shareholders, customers, business partners, employees). To fulfil this role, it is important to establish and operate a system to understand management situation and disclose information in a timely and appropriate manner in compliance with laws, ordinances, and regulations.

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

### 【Principle 3-1】 Enrichment of information disclosure

(3) The policies and procedure that are adopted by the board of directors for determining the remuneration paid to the senior management and directors

(4) The policies and procedure that are adopted by the board of directors for appointing and dismissing the senior management and nominating candidates for directors and auditors

(5) Explanation given, based on the above (4), by the board of directors about individual appointments and dismissals of the senior management and nominations of candidates for directors and auditors

With regard to (3), (4), and (5), although our Company has not released any specific contents at this moment, we have carried out the following internal proceedings or procedure:

(3) Regarding the policies and procedure adopted by the board of directors for determining the remuneration paid to the senior management and directors, while the company does not adopt productivity-linked remuneration for our directors and executive officers, their remuneration will be determined based on the comprehensive evaluation of individuals as well as the company’s performance and so within the specified range.

(4) Candidates for directors are selected by the board of directors under the policy of selecting qualified persons capable for fulfilling the assigned duty based on their personality, insight, experience, achievements, etc. Although clear procedures have not been established for dismissal, the board of directors will review each situation, and decisions not to re-appoint will be made based on the company’s performance, how well the targets for the fiscal year were achieved, and advice from outside directors and outside corporate auditors. The matter may also be discussed at the general shareholders’ meeting. Candidates for auditors will be requested to take the position including personnel who possess knowledge about management tasks, shows a high level of expertise, and has a strong sense of ethics. After consent is given by the board of auditors, the board of directors will make a final decision.

(5) Regarding explanations given, based on the above (4), by the board of directors about individual appointments and dismissals of the senior management and nominations of candidates for directors and auditors, our Company describes appointments and nominations in the management meeting and the whole company meeting held, in principle, once every month.

**<Disclosure Based on the Principles of the Corporate Governance Code (Excerpts)>****【Principle 3-1】 Enrichment of information disclosure**

- (1) Our Company discloses our business principles, business plans, and other matters on our website and material of financial results.
- (2) Our basic views and guidelines regarding corporate governance are stated in **【Basic concept on corporate governance, capital composition, corporate attribute, and other basic information】** of this report.
- (5) Appointment of directors and auditors is as stated in the reference document of a notice on convocation of a general shareholders' meeting. In addition, matters as to outside directors are included in **【 II-1 (2), c. Relationship with the company (1) and b. Relationship with the company (2)】** of this report.

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