

## BRIDGE REPORT



Kenichiro Ishida, President

## SHOEI Co., Ltd. (7839)



## Company Information

Exchange	First Section, TSE
Industry	Other Products (Manufacturing)
President	Kenichiro Ishida
Address	Taito 1-31-7, Taito-ku, Tokyo
Year-end	September
URL	<a href="https://www.shoei.com/">https://www.shoei.com/</a>

## Stock Information

Share price	Shares Outstanding		Market Cap.	ROE (Act.)	Trading Unit
¥5,080	13,771,529 shares		¥69,959million	20.4%	100 shares
DPS(Est.)	Dividend yield (Est.)	EPS (Est.)	PER (Est.)	BPS (Act.)	PBR (Act.)
¥96.00	1.9%	¥193.88	26.2x	¥1,093.99	4.6x

\*Stock price as of the close on December 4, 2019. The number of shares issued is obtained by deducting the number of treasury stocks from the number of shares issued at the end of the latest quarter.

\* Figures have been rounded off.

## Consolidated Earnings Trend

Fiscal Year	Sales	Operating Income	Ordinary Income	Net Income	EPS (¥)	DPS (¥)
September 2015	14,244	3,210	3,092	1,996	145.00	72.00
September 2016	14,138	3,145	3,244	2,192	159.22	79.00
September 2017	15,641	3,461	3,497	2,358	171.29	85.00
September 2018	17,148	3,734	3,772	2,578	187.21	93.00
September 2019	18,616	4,203	4,179	2,935	213.15	106.00
September 2020 Est.	19,400	3,870	3,880	2,670	193.88	96.00

\*Unit: million yen, yen

\*The forecasted values were provided by the company. From fiscal year September 2016, net income means the profit attributable to owners of parent. Hereinafter the same applies.

This Bridge Report analyzes the earnings results for the fiscal year September 2019 and full year estimates for fiscal year September 2020 for SHOEI Co., Ltd.

## Table of Contents

### [Key Points](#)

#### [1. Company Overview](#)

#### [2. Fiscal Year September 2019 Earnings Results](#)

#### [3. Fiscal Year September 2020 Earnings Estimates](#)

#### [4. Conclusions](#)

#### [<Reference: Regarding Corporate Governance>](#)

## Key Points

- For the fiscal year September 2019, sales and operating income grew 8.6% and 12.6%, respectively, year on year. Sales volume increased 37,000 to 559,000, mainly thanks to the good performance in Europe and North America. New products sold well, and unit prices of products increased. Sales increased by double digits in Europe and other regions, and the sales in North America, too, were healthy. As for profit, gross profit rate improved despite the augmentation of manufacturing costs, and operating income rate rose from 21.8% to 22.6%, despite the increase in SG&A. The global economy seems to be on a plateau, but the environment surrounding the company was relatively favorable.
- For the fiscal year September 2020, it is estimated that sales will grow 4.2% and operating income will decline 7.9%. It was assumed that the European market will be healthy, and the U.S. market cannot allow optimism. In addition, its market share is expected to expand further, through the ongoing development and sale of new models for meeting customer needs and the strengthening of services for supporting the safety of customers. In these circumstances, sales are estimated to grow, but considering the augmentation of SG&A, etc., the current earnings forecast was produced. As for dividends, the term-end dividend is to be 96.0 yen/share under the assumption that payout ratio will be 50%.
- The earnings forecast for the fiscal year September 2019 was revised upwardly when the results for 3Q were announced, and a double-digit growth of profit was secured. In the fiscal year September 2020, too, the production amount will not keep up with the number of orders received. The company's forecast is obviously conservative, as "sales were underestimated while expenses were overestimated." Since the second half of the fiscal year September 2019, the sales in China has been recovering, so the business performance of the company will improve significantly in the first half of the fiscal year September 2020. This term, the company will establish a subsidiary for distributing products in Thailand. In the long term, it can be expected that the business will grow in emerging countries, where citizens' incomes will rise. Considering these circumstances, it seems that they still have problems with manufacturing.

## 1. Company Overview

SHOEI is the world's largest helmet manufacturer in the premium helmet market. As for motorcycle helmets, which account for about 90% of total sales, the company specializes in "premium helmets," which have high quality and high added value, and manufactures them in two domestic factories: Ibaraki Factory in Inashiki City, Ibaraki Prefecture and Iwate Factory in Ichinoseki City, Iwate Prefecture. By clinging to domestic manufacturing, the company maintains high quality and prevents its technologies from being leaked. Meanwhile, its sales network covers not only Japan, but also over 70 countries, including European countries and the U.S. The safety, functionality, and beautiful shapes of SHOEI's helmets are highly evaluated around the world, and the SHOEI brand is now synonymous with "premium helmets." The SHOEI group is composed of SHOEI and 5 consolidated subsidiaries in the U.S., Germany (two subsidiaries), France, and Italy.

### Management Policy

Under the business concept "Quality & Value," SHOEI specializes in the manufacturing and sale of premium helmets with high added value that are excellent in safety, comfort, and fashion, and so high-quality as to meet customers' needs. The company keeps distributing competitive products in the market through the cycle of (1) meticulous market research, (2) innovative helmet designed by in-company designers, (3) development of "industrial products" while incorporating "fashion" based on plenty of experience, and (4) manufacturing

## BRIDGE REPORT



with stable quality at affordable prices. In order to achieve (4) without fail, the company manufactures products in Japan, while improving the manufacturing processes based on the just-in-time system on a daily basis and utilizing highly functional materials produced in Japan.

### Basic Policy for Medium and Long Term Stable Growth and Stable Profit

1. To put top priority to compliance with laws and regulations, as a listed company manufacturing products that protect human life
2. We will develop and manufacture ultra first-class helmets that meet customers' needs.

A company moving contrary to customer needs would be pushed out of the market.

3. Maintain "Made in Japan," focusing on higher value-added products and production rationalization.
4. Brand maintenance
5. To put importance on the utilization rate of factories. The drop in factory utilization rate would discourage not only employees, but also many other stakeholders, including suppliers of raw materials, affiliated factories, and distributors.
6. Continuation of Investment
7. It takes 10 years to build a castle, but just one day for it to fall. We will not assign an irrational quota that could cause injustice. Move forward steadily in a simple, honest manner, but without sidestepping the challenges in front of us.
8. Fair distribution of retained earnings
  - 50% dividend of profit after tax
  - Distribution to employees
  - Distribution to company (proper retained earnings kept)
9. We will study new businesses

As of the end of the fiscal year September 2019, current ratio, which indicates the capability of short-term payment, was 655.3%, fixed ratio, which indicates long-term financial safety, was 23.7%, and capital-to-asset ratio was 82.5% thanks to debt-free business administration. Like this, it can be understood, from the balance sheet, that the company has been steadily preparing for contingencies, such as disasters.

In addition, by manufacturing all products at two factories in Ibaraki and Iwate, the company (2) develops and manufactures ultra first-class helmets that meet customers' needs, (3) manufactures products in Japan focusing on higher value-added products and production rationalization, and (4) maintains the brand. While (6) continuing investment, the company (9) started studying new businesses.

## 2. Fiscal Year September 2019 Earnings Results

### 1) Consolidated Earnings

	FY 9/18	Ratio to sales	FY 9/19	Ratio to sales	YoY	Forecast	Difference from the forecast
Sales	17,148	100.0%	18,616	100.0%	+8.6%	18,500	+0.6%
Gross Income	6,846	39.9%	7,512	40.4%	+9.7%	-	-
SG&A	3,111	18.1%	3,308	17.8%	+6.3%	-	-
Operating Income	3,734	21.8%	4,203	22.6%	+12.6%	3,900	+7.8%
Ordinary Income	3,772	22.0%	4,179	22.5%	+10.8%	3,900	+7.2%
Net Income	2,578	15.0%	2,935	15.8%	+13.9%	2,700	+8.7%

\*Unit: million yen

\* Some data is calculated by Investment Bridge, and some data contained within this report may vary from actual results. (Applies to all data in this report)

### Sales and operating income grew 8.6% and 12.6%, respectively, year on year.

Sales were 18,616 million yen, up 8.6% year on year. Sales volume increased 37,000 to 559,000, mainly thanks to the good performance in Europe and North America. New products sold well, and unit prices of products increased. The sales in Europe remained healthy and increased 13.7%. The sales in North America, where the company is improving its sales channels, grew 4.4%. As the sales in Chinese started recovering, the sales in other regions rose 15.5% year on year.

Operating income was 4,203 million yen, up 12.6% year on year. Gross profit rate rose from 39.9% in the previous term to 40.4%,

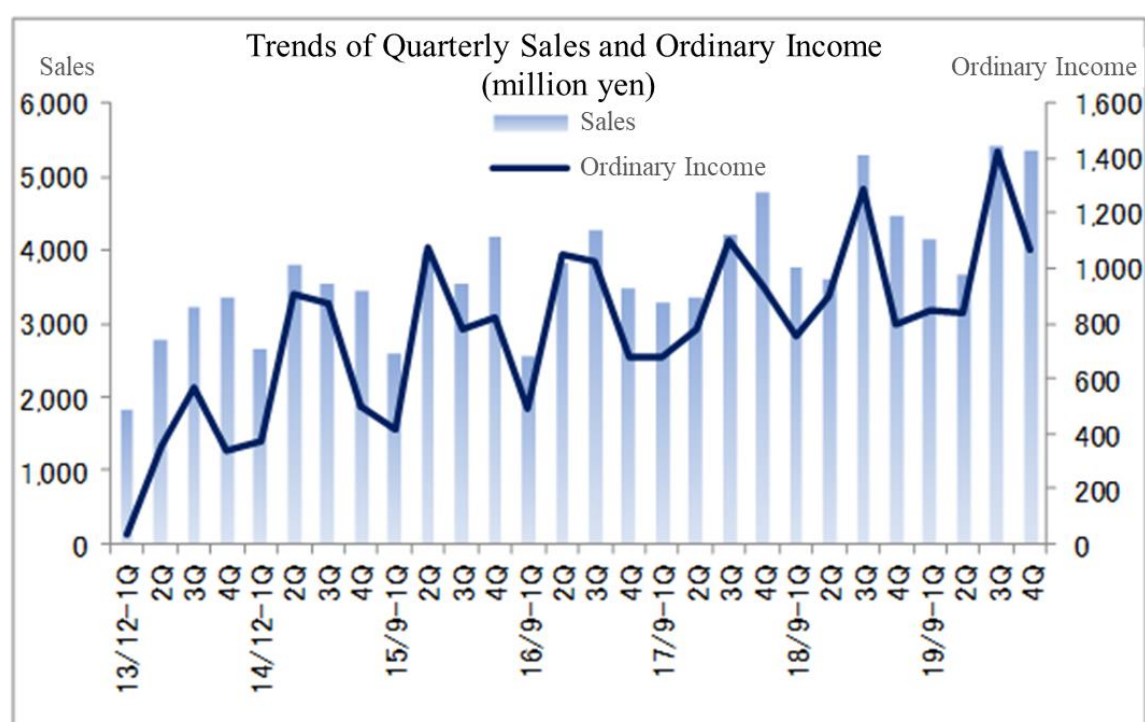
## BRIDGE REPORT



despite the augmentation of manufacturing costs, and operating income rate increased from 21.8% to 22.6%, despite the increase in SG&A. As for non-operating results, the company incurred an exchange loss. Ordinary income grew 10.8% to 4,179 million yen, and profit attributable to owners of parent rose 13.9% to 2,935 million yen.

As for exchange rates, the rates used for sales of the company were 1 dollar = 110.49 yen (a 0.71-yen depreciation of the yen from the previous term) and 1 euro = 123.47 yen (a 8.56-yen appreciation of the yen from the previous term), and the rates used for overseas subsidiaries (as of the end June 2019) were 1 dollar = 107.79 yen (a 2.75-yen appreciation of the yen from the previous term) and 1 euro = 122.49 yen (a 5.42-yen appreciation of the yen from the previous term).

The environment surrounding the company was relatively healthy, although the global economy is on a plateau because there are uncertainties over the Brexit, the trade friction between the U.S. and China, etc. The Japanese economy was healthy thanks to robust corporate business performances and the demand from foreign customers, although there are uncertainties due to unstable stock prices and exchange rates as there are the U.S.-China issues.

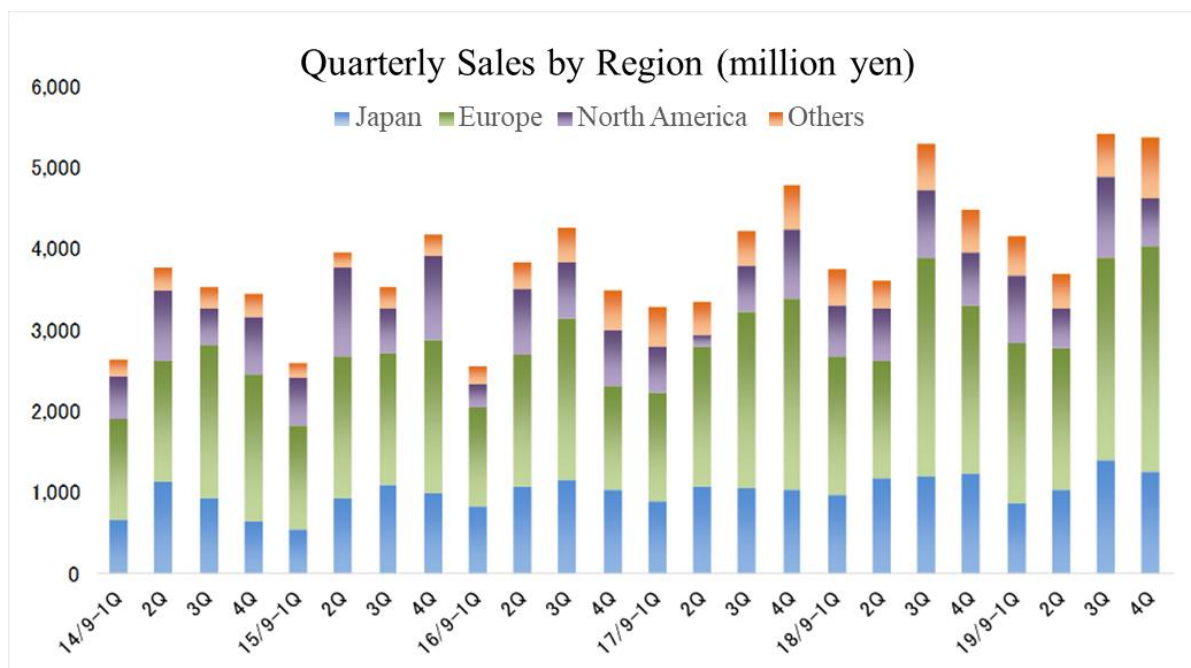


## 2) Trends by Regions

	FY 9/18	Share	FY 9/19	Share	YOY
Japan	4,586	26.7%	4,557	24.5%	-0.6%
Overseas	12,562	73.3%	14,058	75.5%	+11.9%
Europe	7,910	46.1%	8,991	48.3%	+13.7%
North America	2,767	16.1%	2,889	15.5%	+4.4%
Other Regions	1,884	11.0%	2,176	11.7%	+15.5%
<b>Total</b>	<b>17,148</b>	<b>100.0%</b>	<b>18,616</b>	<b>100.0%</b>	<b>+8.6%</b>

\*Unit: million yen, yen

## BRIDGE REPORT



As for the premium helmet market in Europe, business performance was healthy and did not shrink in all areas, including Germany, France, and Italy, thanks to steady consumer spending. In North America, the number of young people who own motorcycles declined, so the sales of new motorcycles remained sluggish and the helmet market was on a plateau. The Japanese market was supported by healthy consumer spending, the sales of new motorcycles of 251 cc or over increased slightly, and in the helmet market, seniors tended to own multiple luxury products. The scale of the Asian market was temporarily stagnant, due to the revision to the helmet specifications in China in August last year but started recovering in 3Q. The markets in other Asian countries are still small but growing steadily.

In addition to such market situations, the development and production of new models for meeting customer needs and the establishment of sales and service provision systems for supporting the safety of customers were successful. As a result, the global sales volume in the fiscal year September 2019 grew 7% year on year, as the production output did not keep up with the number of orders received.

In the European market, sales volume grew 12%, thanks to the good performance of NEOTEC 2, which is the flagship model, and GT-Air 2, which was released this term. In the North American market, performance remained sluggish, due to the drop in consumer sentiment caused by the forest fire in California last year and unfavorable weather. However, sales volume increased 7%, because NEOTEC 2 and GT-Air 2 sold well. In the Japanese market, the sales volume from distributors to the market rose 10% year on year, but the sales volume from the company to distributors declined 4% year on year, due to the tight manufacturing situation. The total sales volume in Asia increased 13% year on year. The performance in the Chinese market was temporarily stagnant due to the turmoil caused by the revision to the helmet specifications, but started recovering in 3Q, and sales volume increased 6%.

## BRIDGE REPORT



## New products released in the fiscal year September 2019

**EX-ZERO****Vintage style full-face model**

Sales area: Japan

Release date: November 2018

Retail price suggested by the manufacturer: 38,000 to 46,000 yen (tax excluded)

**GT-Air II****Full Face Helmet equipped with Sun Visor**

Sales area: Europe

Release date: March 2019

Retail price suggested by the manufacturer:

Germany and France: EUR499.00 to 629.00 (tax included)

GT-Air: EUR479.00 to 579.00 (tax included)

Sales area: North America

Release date: April 2019

Retail price suggested by the manufacturer: US\$599.00 to 699.00 (tax excluded)

GT-Air: US\$549.99 to 670.99 (tax excluded)

Sales area: Japan

Release date: May 2019

Retail price suggested by the manufacturer: 51,000 to 59,000 yen (tax excluded)

The amount of orders received was firm. The amount of orders as of the end of the first half increased 11.1% year on year, and the backlog of orders rose 23.0% year on year.

**Orders and Backlogs**

	FY 9/18				FY 9/19			
	Orders	YOY	Orders	YOY	Orders	YOY	Orders	YOY
Premium Helmets	16,088	+14.4%	3,492	+10.0%	17,729	+10.2%	4,270	+22.3%
Helmets supplied to the Government, Others	1,426	+25.7%	196	+34.1%	1,733	+21.5%	266	+35.4%
<b>Total</b>	<b>17,515</b>	<b>+15.2%</b>	<b>3,689</b>	<b>+11.0%</b>	<b>19,463</b>	<b>+11.1%</b>	<b>4,536</b>	<b>+23.0%</b>

\*Unit: million yen

**3) Balance Sheet Summary**

	9/18	9/19		9/18	9/19
Cash and deposits	8,115	9,018	Payables	655	495
Receivables	2,179	2,233	Outstanding payments	249	307
Inventories	2,508	2,592	Outstanding taxes	671	650
<b>Current Assets</b>	<b>13,516</b>	<b>14,679</b>	Retirement reserves	773	904
Tangible assets	2,690	2,883	Interest-bearing debt	-	-
Intangible assets	68	65	<b>Total Liabilities</b>	<b>3,096</b>	<b>3,186</b>
Investments, others	479	623	<b>Net Assets</b>	<b>13,659</b>	<b>15,065</b>
<b>Noncurrent Assets</b>	<b>3,238</b>	<b>3,572</b>	<b>Total Liabilities, Net Assets</b>	<b>16,755</b>	<b>18,252</b>

\*Unit: million yen



## BRIDGE REPORT



The balance of assets as of the end of the fiscal year September 2019 was 18,252 million yen, up 1,496 million yen from the end of the previous term, primarily because cash and deposits increased 903 million yen and noncurrent assets rose 333 million yen. The balance of liabilities was 3,186 million yen, up 90 million yen from the end of the previous term, primarily because accounts payable decreased 159 million yen, advances received increased 95 million yen, net defined benefit liability rose 95 million yen, and directors' retirement benefits grew 36 million yen. The balance of net assets was 15,065 million yen, up 1,406 million yen from the end of the previous term, primarily because retained earnings grew 1,654 million yen and foreign currency translation adjustment declined 233 million yen. Capital-to-asset ratio was 82.5% (81.5% as of the end of the previous term).

For the fiscal year September 2020, it is forecasted that total assets will decrease 1,958 million yen from the end of the previous term to 16,293 million yen, liabilities will augment 1,726 million yen to 4,912 million yen, and net assets will decline 3,684 million yen to 11,381 million yen.

**Cash Flow**

	FY 9/18	FY 9/19	YY Change	
Operating CF	3,304	3,382	+78	+2.4%
Investing CF	-1,214	-1,050	+164	-
Free CF	2,089	2,332	+243	+11.6%
Financing CF	-1,172	-1,284	-111	-
Cash and equivalents	8,114	9,018	+903	+11.1%

\*Unit: million yen

The balance of cash and cash equivalents as of the end of the fiscal year September 2019 was 9,018 million yen, up 903 million yen from the end of the previous term.

Operating CF was an inflow of 3,382 million yen (an inflow of 3,304 million yen in the previous term). As major operating inflows, funds from net income before taxes and other adjustments grew 4,180 million yen and funds from depreciation rose 868 million yen. Major operating outflows were 96 million yen due to the augmentation of accounts receivable, 149 million yen due to the increase of inventory assets, 141 million yen due to the decline in accounts payable, and 1,275 million yen due to the payment of income tax, etc. Investing CF was an outflow of 1,050 million yen (an outflow of 1,214 million yen in the previous term). Major outflows were 990 million yen for acquiring tangible assets for maintaining and upgrading production facilities, and 19 million yen for acquiring intangible assets for installing systems.

Free CF was an inflow of 233 million yen (an inflow of 208 million yen in the previous term).

Financing CF was an outflow of 1,284 million yen (an outflow of 1,172 million yen in the previous term), mainly because 1,282 million yen was paid as dividends.

### 3. Fiscal Year September 2020 Earnings Estimates

#### 1) Consolidated Earnings

	FY 9/19	Ratio to sales	FY 9/20 Est.	Ratio to sales	YOY
Sales	18,616	100.0%	19,400	100.0%	+4.2%
Operating Income	4,203	22.6%	3,870	19.9%	-7.9%
Ordinary Income	4,179	22.5%	3,880	20.0%	-7.2%
Net Income	2,935	15.8%	2,670	13.8%	-9.0%

\*Unit: million yen

**For the fiscal year September 2020, it is estimated that sales will grow 4.2% year on year and operating income will decline 7.9% year on year.**

For the fiscal year September 2020, sales are projected to increase 4.2% year on year to 19.4 billion yen, while operating income is forecasted to drop 7.9% year on year to 3,870 million yen.

As for the market of premium helmets for motorcycles, the European market is steady thanks to healthy consumer spending, and the sales of helmet in Europe are estimated to be healthy unless there is extremely unfavorable weather. In the U.S. market, the sales of new motorcycles are stagnant, so the helmet market cannot allow optimism. In this situation, the company will promote the sales of mainly RF-1200, which is the flagship model that sells well. Through the overhaul of business administration of the major distributor in the U.S., the company will shift from the double-distributor system to the single-distributor system in October. The Asian market is expected to remain healthy as a whole. The scale of the Chinese market was temporarily stagnant, partially due to the revision to the helmet specifications in August last year, but the company obtained the certification for the Chinese CCC standards, and resumed transactions. As for now, the company has not implemented full-scale measures, but it is responding at a rapid pitch, and recovery is expected. In the Japanese market, the share of SHOEI is expected to grow especially for senior customers, as the touring market is growing steadily although there are concerns over the aging of riders. In addition, the market share is expected to grow further, through the development and sale of new models for meeting customer needs and the strengthening of services for supporting the safety of customers.

In these circumstances, sales are projected to increase, but taking into account the augmentation of SG&A and the slight yen appreciation, the current earnings forecast was produced. The assumed exchange rates for the full year are 1 dollar = 108 yen and 1 euro = 120 yen. The company will open an EC site, but has no plans to sell helmets there. The company will also establish a subsidiary for distributing its products in Thailand. In the spring of the next year, the company plans to open a showroom in Tokyo.

As for dividends, the company plans to pay a term-end dividend of 96.0 yen/share under the assumption that payout ratio is 50%.

#### Trends by Regions

	FY 9/19	Share	FY 9/20 Est.	Share	YOY
Japan	4,557	24.5%	4,479	23.1%	-1.7%
Overseas	14,058	75.5%	14,921	76.9%	+6.1%
Europe	8,991	48.3%	9,622	49.6%	+7.0%
North America	2,889	15.5%	2,654	13.7%	-8.2%
Other Regions	2,176	11.7%	2,645	13.6%	+21.5%
Total	18,616	100.0%	19,400	100.0%	+4.2%

\*Unit: million yen



## BRIDGE REPORT



### New products to be released in the fiscal year September 2020

#### J-CruiseII

##### Open Face Helmet equipped with Sun Visor



Sales area: Europe

Release date: December 2019

Retail price suggested by the manufacturer

Germany and France: EUR479.00 to 579.00 (tax included)

Sales area: North America

Release date: December 2019

Retail price suggested by the manufacturer: US\$549.99 (tax excluded)

Sales area: Japan

Release date: July 2019

Retail price suggested by the manufacturer: 49,000 to 56,000 yen (tax excluded)

#### Glamster

##### New Classic style Full Face Helmet



Sales area: Europe

Release date: March 2020

Retail price suggested by the manufacturer

Germany and France: EUR449.00 to 549.00 (tax included)

Sales area: Japan

Release date: 2020 (the exact date to be determined)

Retail price suggested by the manufacturer: to be determined

## 4. Conclusions

The earnings forecast for the fiscal year September 2019 was revised upwardly when the results for 3Q were announced, and a double-digits growth of profit was secured. In the fiscal year September 2020, too, the production amount will not keep up with the number of orders received. The company's forecast is obviously conservative, as "sales were underestimated while expenses were overestimated." Since the second half of the fiscal year September 2019, the sales in China has been recovering, so the business performance of the company will improve significantly in the first half of the fiscal year September 2020. This term, the company will establish a subsidiary for distributing products in Thailand. In the long term, it can be expected that the business will grow in emerging countries, where citizens' incomes will rise. Considering these circumstances, it seems that they still have problems with manufacturing.

## <Reference: Regarding Corporate Governance>

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

Organization type	Company with an audit and supervisory board
Directors	6 directors, including 2 outside ones
Auditors	3 auditors, including 2 outside ones

### ◎ Corporate Governance Report Updated on December 25, 2018

#### Basic Views

Our company considers it as the most important issue in corporate management to seek steady growth and profit in mid-long term, improving the company value. To realize this, we think it is important to build good relationships between us and our shareholders, client companies, employees, and each stakeholder and supply good products that can make our clients satisfied. This view is written on “World’s Top Levels in Three Realms (World’s Top Product Quality, World’s Top Cost Competitiveness, World’s Most Delightful Company)” and “Basic Policy” to let all of us know. We are going to carry out various measures to enhancing our corporate governance.

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

##### 【Principle 4-2】 Roles and duties of the Board of Directors (2)

At SHOEL, the positions of executives and staff are always fair, and the company environment does not impede proposals. The executives (called “advisors” or “directors” at the company) in the management team recognize issues in the workplace for which he or she was responsible, and present those issues and their possible solutions during discussion venues such as management meetings. At these venues, honest and open-minded discussions are held between the proposer, director, and executives. Remuneration for senior executives is a fixed annual salary based on ability, contribution to the previous year's performance, etc., while taking lifestyle factors into consideration.

##### 【Supplementary principle 4-2-1】 Roles and responsibilities of the Board of Directors

Remunerations for Directors are based on a system that preferentially pays fixed salaries within the range approved at the general meeting of stockholders, where the remuneration amounts depend on their positions as defined in the "Regulations for Directors' Remunerations" while taking in consideration the factors related to living expenses, as well as the retirement benefit system (excluding Outside Directors). The Board of Directors plans to examine the remuneration system, reflect the risks, and make voluntary deliberations with mainly outside directors to redesign the system so that it incorporates incentives that would contribute to drawing out the directors' entrepreneurial spirit. Furthermore, when carrying out the deliberations related to the important matters of the directors' remunerations, etc., we will provide an environment where the voluntary deliberation by outside directors is incorporated as the most important process, including forming a voluntary advisory committee of mainly independent outside officers and outside directors with fair and highly transparent procedures.

##### 【Principle 4-11】 Prerequisites for ensuring the effectiveness of the Board of Directors and the Board of Auditors

Our company tries to assign executive directors mainly from the management, who are aware of all the company's businesses, while the outside directors who function as auditory members are selected from outside personnel who can make a judgment from an independent and unbiased standpoint, and proactively express their opinion. Moreover, we strive to make this structure for position assignment balanced in terms of individuals and quality. While we don't currently have any women or foreign directors, each director has the qualities and diversity required to achieve the company's management policies of "The world's best quality," "The best cost competitiveness," and "The most fun company," and independent outside directors constitute one - third of the Board of Directors, thus we think that our structure has captured independence and objectivity. Furthermore, we put importance on diversity in the Board of Directors' structure and consider strengthening the Board of Directors' auditory function and increasing its effectiveness as issues that need to be addressed in the future. Additionally, we are developing a system for selecting the candidates of auditory directors, which ensures that we can select persons who have relevant experience, skills, and adequate knowledge of finance, accounting, and law. Our standards for nominations are as follows: (1) a person who has engaged with our company's management as a director or an auditor, (2) a person who has engaged in accounting, general affairs, managerial planning, or internal auditing for 3 years or longer as a department manager, (3) a person who has engaged in corporate management as a director or an auditor in other companies, and (4) a person who has qualifications of being a lawyer, certified accountant, or the like and can demonstrate this knowledge and experience when appointed as an auditor.

## BRIDGE REPORT


**【Supplementary Principle 4-11-1】Prerequisites for ensuring the effectiveness of the Board of Directors and the Board of Auditors**

Our company's basic approach is to assign executive directors mainly from the management-level, who are aware of all the company's businesses, while the outside directors who function as auditory members are selected from outside personnel who can make a judgment from an independent and unbiased standpoint, and proactively express their opinions. As for our stance regarding diversity and scale, we will continue to have dialogue (meetings) with stockholders, etc., earnestly listen, and make considerations based on their input.

**Disclosure Based on the Principles of the Corporate Governance Code (Excerpts)**
**【Principle 1-4】 Strategically held shares**

As per our basic policy, we do not hold the shares of other companies in a strategic manner or conduct any risky securities investment, and the Board of Directors examines this basic policy at least once a year. Moreover, by adhering to the policy and not owning strategically held shares, we disclose that there were no records of strategically held shares in the Annual Securities Report, etc.

**【Principle 1-7】 Transactions among parties concerned**

Our company has no plans to make transactions with related parties other than the transactions for distributorship, outsourcing of distribution and marketing with subsidiaries and related transactions, and has not made such transactions so far. In addition, the "action guidelines" in the compliance regulations stipulate that personal matters shall be distinguished from business matters in the transactions with the company that is handled by executives, employees, or related personnel. We will not make any transactions among related parties other than the transactions with subsidiaries.

**【Principle 2-6】 To demonstrate functionality as the asset owner of company pension**

To cover the employees' retirement benefits, we have adopted the defined benefit corporate pension plan. Regarding the management and operation of defined benefit corporate pension deposit, we outsource all operations in general account as we have a contract with a life insurance company, which is a specialized institution. The specialized life insurance company gives us monthly, quarterly, half-term, and annual reports regarding the operation of pension assets, financial situation, etc. The reported pension assets operations, financial situation, etc. are reviewed by our General Affairs Department and we exchange opinions mainly regarding the financial situation of pension assets with the life insurance company on a regular basis or when necessary.

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

Our company always tries to communicate with shareholders and investors in a fair manner, and promote active dialogues with them through one-on-one meetings, including the briefing sessions for individual investors and the financial results briefing sessions for institutional investors, the mass media and financial institutions, which are held by executives and the section in charge of IR (the business administration division).

In addition, the shareholding ratio of foreign investors is 32.3% (the term ended Sep. 2015). We continue highly transparent, sincere dialogues with foreign investors, and IR activities. In addition, the ratio of foreign shareholders is around 33%, and the company continues to conduct IR activities and open sincere, transparent dialogue with foreign investors.

Tokyo Stock Exchange: Search for corporate governance information:

<https://www2.tse.or.jp/tseHpFront/CGK020010Action.do?Show=Show>

This report is intended solely for information purposes, and is not intended as a solicitation to invest in the shares of this company. The information and opinions contained within this report are based on data made publicly available by the Company, and comes from sources that we judge to be reliable. However, we cannot guarantee the accuracy or completeness of the data. This report is not a guarantee of the accuracy, completeness or validity of said information and or opinions, nor do we bear any responsibility for the same. All rights pertaining to this report belong to Investment Bridge Co., Ltd., which may change the contents thereof at any time without prior notice. All investment decisions are the responsibility of the individual and should be made only after proper consideration.

Copyright(C) 2019 Investment Bridge Co.,Ltd. All Rights Reserved.

For back numbers of Bridge Reports on SHOEI Co., Ltd.(7839) and Bridge Salon (IR seminar), please go to our website at the following URL. [www.bridge-salon.jp/](http://www.bridge-salon.jp/)