



Katsunori Ueda, President

Nihon Enterprise Co., Ltd. (4829)


**NIHON
ENTERPRISE**

Corporate Information

Market	TSE 1st Section
Industry	Information, Communications
President	Katsunori Ueda
HQ Address	Shibuya 1-17-8, Shibuya-ku, Tokyo, Japan
Year-end	May
Homepage	http://www.nihon-e.co.jp/l_en/

Stock Information

Share Price	Number of shares issued (excluding treasury shares)	Total market cap	ROE Act.	Trading Unit	
¥327	40,133,000 shares	¥13,123 million	3.6%	100shares	
DPS Est.	Dividend yield Est.	EPS Est.	PER Est.	BPS Act.	PBR Act.
¥2.50	0.8%	¥4.98	65.7 x	¥124.91	2.6 x

*The share price is the closing price on July 15.

Consolidated Earnings Trends

Fiscal Year	Sales	Operating Income	Ordinary Income	Net Income	EPS	DPS
May. 2017 Act.	4,838	192	229	99	2.45	2.00
May. 2018 Act.	3,892	174	257	166	4.11	2.00
May. 2019 Act.	3,413	242	292	97	2.44	2.00
May. 2020 Act.	3,588	267	310	176	4.40	2.00
May. 2021 Est.	4,000	340	340	200	4.98	2.50

*Estimates are those of the Company.

*Unit: million-yen, yen

This Bridge Report provides details of Nihon Enterprise Co., Ltd. and information pertaining to earnings results for the fiscal year ended May 2020 and the fiscal year ending May 2021 earnings forecast.

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Key Points

- **In the fiscal year May 2020, sales and operating income grew 5.1% and 10.3%, respectively, year on year. Due to COVID-19, sales declined about 0.8% (30 million yen) and operating income dropped about 8% (20 million yen). Looking at each segment, the sales of the Solutions business dropped 1.2% and the operating income decreased 6.2% year on year. However, thanks to the good performance of the kitting service, the sales of the Creation business increased 10.4% and the operating income rose 15.9% year on year. The term-end dividend is estimated to be 2 yen/share (The payout ratio is 45.5%).**
- **In the fiscal year May 2021, sales and operating income are estimated to grow 11.5% and 27.2%, respectively, year on year. Further, the Creation business, where the kitting support is expected to expand, will continue driving sales growth. As for the Solutions business, the company will continue expanding entrusted development and business support services while launching new businesses related to the novel coronavirus, such as selling the next-generation glass coating “NE coating DX” and renting devices preloaded with SNS applications for medical care personnel. The term-end dividend is estimated to increase 0.5 yen/share to 2.5 yen/share (The estimated payout ratio is 50.2%).**
- **“The entire global economy has decelerated due to the spread of COVID-19, yet at the same time, the environment, where digital transformation (DX) can accelerate more and more for the entire society, is expected to be established” stated the company. Moreover, it plans to not only strengthen its existing services, but also create new services in order to promote digital transformation for the whole society. Throughout this process, the company released the “T-Macss Conference Call” and the web-conference system, “NEEDS” for the Creation business. As for the Solutions business, the company is concentrating on providing a comprehensive solution service, including consulting, development, maintenance, and operation, with a focus on AI, IoT, and security.**

1. Company Overview

Nihon Enterprise is a “mobile solutions company” providing services that includes development of smartphone applications for consumers, enterprise system development, mobile kitting, e-commerce, AI chatbot, and other services. Its two main business segments include the “creation segment,” where applications and systems using in-house IP (Intellectual Property) are provided, and the “solutions segment,” where institutional software and system development are conducted. Furthermore, Nihon Enterprise is working on the IoT and business solutions business to create new services.

Nihon Enterprise listed its shares on the NASDAQ Japan Market (Currently called the JASDAQ Market) of the Osaka Securities Exchange on February 16, 2001. On July 10, 2007, it moved its listing to the Second Section Market of the Tokyo Stock Exchange, and then to the First Section Market on February 28, 2014.

[Management Philosophy]

Nihon Enterprise’s employees are committed to maintaining the basic corporate philosophy by repeatedly learning from the philosophy reflected in its “Mission Statement, Doctrine, and Five Spirits” and “Nihon Enterprise Management Principles.” President Katsunori Ueda believes that it is Nihon Enterprise’s obligation to maximize “shareholder” in the long run, thus “enables to make effective use of

capital and maximize it by not wasting a single yen” below its appropriate belief and action. In the first place, president Katsunori Ueda founded Nihon Enterprise with the strong motivation of “contributing to society through its businesses” and the Company pursues the achievement of this goal. Consequently, the Company seeks to increase the satisfaction of its users by creating and providing a wide variety of useful and interesting contents through various IT devices, and to contribute to society.

Based upon the management philosophy of President Katsunori Ueda, the bulk of the ordinary income earned in the founding year of the Company was donated to the Japan Red Cross Society, the Japan National Council of Social Welfare and various children’s institutions. Also, donations were made to the Japan Red Cross Society at the time of the Great East Japan Earthquake to support the victims and the reconstruction efforts in North Eastern Japan.

1-1 Corporate Group: 8 Consolidated Subsidiaries, 1 Non-Consolidated Subsidiary

The Company has 8 domestic subsidiaries including Dive Co., Ltd., which plans, develops, and operates apps and websites, supports business, etc., ATIS CORPORATION, which provides traffic information, etc., 4QUALIA Co., Ltd., which provides applications and system development and operations and debugging, etc., and One, Inc., which provides voice communication related solutions, Promote Inc., which provides kitting support tools, etc., Aizu Laboratories, Inc., which provides applications and energy management systems, Smart Community Support Co., Ltd., which operates the business of solar power generation, and Inaseri Co., Ltd, which handles planning, development and management of electric business transaction service, “Inaseri” and “Inaseri Market”. The domestic non-consolidated subsidiary is NE Yin Run Co., Ltd., which carries out the Contents Operation Business.

1-2 Outline of the business

The businesses are divided into the Creation Segment and the Solutions Segment.

Creation Segment: Providing application systems using its own Intellectual Property (IP)

The company offers services utilizing its own rights and assets, including contents services, business support services, and solar power generation.

Contents Services

The company offers a comprehensive e-book service, entertainment contents, such as video games, and lifestyle contents, such as “ATIS Traffic Information Service (traffic information),” “Woman’s Rhythm Diary (healthcare),” “Flea-Ma.jp (flea market),” and “Inaseri Market,” a fresh seafood EC site for consumers.

Entertainment	<ul style="list-style-type: none"> • A comprehensive e-book service, which covers various genres, including popular comics, novels, business-related books, how-to books, magazines, and photo collections, and entertainment contents
Lifestyle	<ul style="list-style-type: none"> • A practical app loaded with a drive recorder function that records traffic conditions with a smartphone while the user uses all the other services, including checking information on roads, such as traffic congestion, around Japan. • Apps to support women’s “beauty” and “health” for 200 thousand users per month, as well as flea-market apps that deal in all genres of products, including brand products, fashion items, and appliances. • EC websites for general consumers selling fisheries products, fruit, and vegetables that satisfy intermediate wholesalers of the Toyosu market.

(Source: the company)

Business Support Service

The company develops and sells “Kitting-One,” a tool for supporting the reduction of workload and the improvement in productivity and accuracy in kitting, and offers “Kitting Service (provision of services),” in which the company conducts kitting with “Kitting-One” on behalf of clients, “ATIS Traffic Information Service,” which also offers “iGPS on NET,” a vehicle dynamics control cloud, “Sound Solution,” in which the company develops and sells the IP-PBX software “Primus” for providing a business phone environment that is excellent in operability and flexibility, and the operation of “Inaseri,” an online seafood shop of wholesalers belonging to Tokyo Fish Market Wholesale Cooperative. In order to develop new businesses and services, the company engages in demonstration projects for IoT, blockchain, etc.

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Kitting	<ul style="list-style-type: none"> •Development and sale of “Kitting-One,” etc., a tool for supporting kitting that could reduce workload and improve “productivity” and “accuracy”.
ATIS Traffic Information	<ul style="list-style-type: none"> •Provision of “ATIS on Cloud,” a cloud-type traffic information service, which enables users to check the latest traffic conditions, including congestions, accidents, and traffic controls of expressways and general roads around Japan with a map, to corporations that operate businesses of transportation, such as expressway buses and chartered buses, logistics, delivery and moving •Development of recurring-revenue business, including the provision of community FM, etc.
Sound Solution	<ul style="list-style-type: none"> •Development and sale of “Primus,” IP-PBX software that offers a business phone environment that is excellent in flexibility and user-friendliness. In April, the company launched sales of the phone conference system, “T-Macss Conference Call,” which promotes remote working. •In July, under the theme of “simple and easy to use,” the company launched the web conference system, “NEEDS,” which enables users to use the chat function while using the screen-share function without changing windows.
Education, procurement, and sightseeing	<ul style="list-style-type: none"> •e-learning, reverse auction, promotion of sightseeing, etc.
Inaseri	<ul style="list-style-type: none"> •Provision of seafoods, fruits and vegetables selling service based on the linkage between “Inaseri,” e-commerce of fresh fish for restaurant operators, and the wholesalers of Tokyo Fish Market Wholesale Cooperative

(Produced based on the reference material of the company)

Other

Aiming for the regional revitalization through renewable energy, the company promotes the power generation business in “Higashikiwa solar power station (about 1.3 megawatts)” (Ube City, Yamaguchi Prefecture). Additionally, it provides an environment where it is possible to teach the environment and renewable energy by utilizing solar panels set on the roofs of gymnasiums of elementary and middle schools.

Solar power generation	<ul style="list-style-type: none"> •Promoting regional vitalization through renewable energy, and establishing a learning environment to teach children about the environment and renewable energy by utilizing solar panels set on the roofs of gymnasiums of elementary and middle schools.
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(Produced based on the reference material of the company)

Solutions Segment: Undertaking the development of business software and systems for enterprises

It can be classified into system development/operation services and other services. In the system development/operation services, the company concentrates on comprehensive solution services, mainly entrusted development (from scratch) utilizing the know-how nurtured through the Creation business, and engages in the development of service of buying and selling used terminals. In the comprehensive solution services, the company undertakes the development of apps, websites, etc., and offers one-stop services, including the design and development of servers, operation monitoring, debugging, customer support, and consulting.

On the other hand, the clients of the service of buying and selling used terminals (peripheral business of terminals) are steadily increasing, as the main clients are enterprises and cell phone distributors that have adopted the kitting service (provision of services) and the support tool. The efforts for procuring terminals stably are progressing. In addition, the company is increasing new clients, as it deals with an increasing number of products.

The Telecommunications Business Act was partially amended, to separate mobile terminals and communication charges fully from October 2019. Accordingly, the discounting of prices of mobile terminals is curbed, so the demand for used terminals is expected to grow (The market of used terminals is already expanding mainly for smartphones.).

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System development and operation services	Solution services While the demand for systems related to AI, IoT, and security is growing, the company offers comprehensive solution services, including consulting, development, maintenance, and operation, according to market needs.
	Used device purchase and sales service A service that purchases used devices and sells them to buyers. The company aims to provide refurbishments in addition to rigorous grading (assessment).
	Service of offering countermeasures against COVID-19 The next-generation glass coating, "NE coat DX," which has antibacterial properties that inactivate viruses. It's made with materials that are safe on the human body to provide both convenience and safety.
Other	Ad agency business, etc.

(Produced based on the reference material of the company)

2. Fiscal Year ended May 2020 Earnings results

2-1 Consolidated Earnings

	FY May 19	Ratio to Sales	FY May 20	Ratio to Sales	YoY	Forecasts	Compared to Forecasts
Sales	3,413	100.0%	3,588	100.0%	+5.1%	3,850	-6.8%
Gross profit	1,557	45.6%	1,545	43.1%	-0.7%	-	-
SG&A	1,314	38.5%	1,278	35.6%	-2.8%	-	-
Operating Income	242	7.1%	267	7.4%	+10.3%	275	-2.8%
Ordinary Income	292	8.6%	310	8.6%	+6.0%	300	+3.4%
Net Income	97	2.9%	176	4.9%	+80.5%	160	+10.4%

*Unit: million yen

Sales and operating income grew 5.1% and 10.3%, respectively, year on year.

Sales were 3.58 billion yen, up 5.1% year on year. The sales of the Solutions business, in which system development and operation services are dominant, decreased 1.2% year on year, however, the sales of Creation business increased 10.4% year on year thanks to the performance of the kitting support service.

As for profitability, the cost to sales ratio increased 2.5 points due to the expansion of the kitting support service and the business support service, and shifting the content service to platforms not operated by telecommunication carriers, etc. As a result, gross profit decreased 0.7% year on year, while SG&A expenses decreased 2.8% year on year thanks to the reversal of provision for doubtful receivables and the decrease in R&D expenses, etc. As a result, the operating income increased 10.3% year on year to 270 million yen. With the decline in revenues from subsidies, non-operating income decreased. However, thanks to the decline in tax burden ratio, net income increased 80.5% year on year to 180 million yen.

COVID-19 was a factor for sales to decline 30 million yen and for profit to drop 20 million yen, as some projects were put off due to the stagnation of business activities.

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**Creation Segment**

	FY May 19	Ratio to Sales	FY May 20	Ratio to Sales	YoY
Content Service Segment	1,291	69.6%	1,241	60.6%	-3.9%
Business Supports	500	27.0%	746	36.4%	+49.0%
Others (Solar Power Generation)	62	3.4%	60	3.0%	-3.5%
Segment Sales	1,855	100.0%	2,047	100.0%	+10.4%
Segment Income	549	29.6%	636	31.1%	+15.9%

*Unit: million yen

The decline in sales of the contents service and Other business (solar power generation), which was caused by weather, etc., was offset by the growth of the business support service thanks to the contribution of the kitting support service. The sales of the contents service declined 3.9%. However, shifting to platforms not operated by telecommunication carriers produced results, and the sales of entertainment content, especially games, increased.

Solutions Segment

	FY May 19	Ratio to Sales	FY May 20	Ratio to Sales	YoY
System Developing, Operating	1,551	99.6%	1,538	99.9%	-0.8%
Others	6	0.4%	1	0.1%	-72.2%
Segment Sales	1,558	100.0%	1,540	100.0%	-1.2%
Segment Income	198	12.7%	186	12.1%	-6.2%

*Unit: million yen

The company has built a track record of the comprehensive solution service thanks to the entrusted development of projects such as "STOCK STREAMS," which is a high-accuracy cloud-based inventory management system powered by an AI engine. However, due to COVID-19, some projects in the 4th quarter were delayed and sales declined 1.2% year on year.

2-2 Fourth Quarter (March-May) Consolidated Earnings

	19/5-1Q	2Q	3Q	4Q	20/5-1Q	2Q	3Q	4Q
Sales	775	835	794	1,007	871	888	859	969
CGS	405	458	456	536	484	502	480	574
SG&A	337	332	337	307	304	333	321	319
Advertising	29	26	35	41	36	38	34	37
Operating Income	32	44	1	163	82	52	57	75
Ordinary Income	43	52	31	164	93	60	78	77
CGS Margin	52.3%	54.9%	57.4%	53.3%	55.6%	56.6%	55.9%	59.3%
SG&A Margin	43.6%	39.8%	42.4%	30.5%	34.9%	37.6%	37.4%	33.0%

*Unit: million yen

Sales and operating income grew 12.8% and 29.9%, respectively, from the 3rd quarter.

Sales were 960 million yen, up 12.8% from the 3rd quarter. The sales of the Creation business increased 2.8% and the sales of the Solutions business rose 26.5% from the 3rd quarter. Operating income was 70 million yen, up 29.9% from the 3rd quarter. Although the cost to sales ratio increased 3.4 points to 59.3% due to the increase in sales of services aimed at corporations, the increase in sales and the decline in R&D expenses, etc. contributed to the reduction of SG&A expenses, thanks to which operating income dramatically increased.

However, due to COVID-19, both sales and operating income decreased year on year.

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**Creation Segment**

	19/5-1Q	2Q	3Q	4Q	20/5-1Q	2Q	3Q	4Q
Content Service Segment	331	309	303	347	322	317	300	301
Business Supports	122	118	106	152	211	156	186	191
Others	19	15	10	17	19	13	9	17
Segment Sales	473	443	420	517	552	487	496	510
Segment Income	145	125	96	181	178	158	144	155

*Unit: million yen

As for the content service, whose sales have been on a declining trend, did not decline further thanks to the growing demand from people staying home. Although the business support service was indeed affected by the spread of COVID-19, sales increased 3.0% from the 3rd quarter thanks to the expansion of the kitting support service.

Solutions Segment

	19/5-1Q	2Q	3Q	4Q	20/5-1Q	2Q	3Q	4Q
System Developing, Operating	300	390	373	487	319	400	362	457
Others	1	2	1	2	0	0	0	1
Segment Sales	301	392	374	489	319	400	362	458
Segment Income	28	46	32	91	45	49	43	48

*Unit: million yen

Regarding system development and operation services, sales increased 26.5% from the 3rd quarter thanks to “the business support service” which responded to the term-end demand for “entrusted development” as well as the labor shortage problem, which has become severe. On the other hand, given the effects of COVID-19, sales decreased 6.4% year on year.

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

	May 2019	May 2020		May 2019	May 2020
Cash	4,345	4,715	Payables	130	105
Receivables	567	449	Taxes Payable	79	127
Current Assets	5,154	5,365	Net defined benefit liabilities	55	61
Tangible Assets	372	350	Liabilities	822	873
Intangible Assets	334	305	Net Assets	5,213	5,326
Investments and Others	174	178	Total Liabilities and Net Assets	6,035	6,200
Noncurrent Assets	881	834	Interest-Bearing Liabilities	277	255

*Unit: million yen

Term-end total assets were 6.2 billion yen, up 160 million yen from the end of the previous term. As for the debit side, thanks to the considerable increase in free CF, cash and deposits increased, and on the credit side, net assets increased reflecting the good financial performance. Equity ratio was 80.9% (81.4% at the end of the previous term).

Cash Flow (CF)

	FY May 19	FY May 20	YoY	
Operating cash flow (A)	289	632	+342	+118.5%
Investing cash flow (B)	-46	-85	-38	-
Free Cash Flow (A+B)	242	546	+304	+125.6%
Financing cash flow	-119	-116	+2	-
Cash and Equivalents at the end of term	4,255	4,685	+430	+10.1%

*Unit: million yen

An operating CF of 630 million yen was secured as pretax profit was 290 million yen (260 million yen in the same period of the previous year), depreciation was 170 million yen (190 million yen in the same period of the previous year), corporate income tax was 70 million yen (100 million yen in the same period of the previous year) and working capital decreased. The investing CF mainly came from deposits into and withdrawals from time deposits, the acquisition of intangible fixed assets, etc., while financing CF came from dividend payments, changes in loans payable, etc.

Reference: Trends in ROE

	FY5/16	FY5/17	FY5/18	FY5/19	FY5/20
ROE	6.44%	1.99%	3.36%	1.99%	3.56%
Net income margin	5.91%	2.06%	4.27%	2.87%	4.92%
Total asset turnover[times]	0.90	0.79	0.64	0.57	0.58
Leverage[times]	1.21	1.22	1.23	1.22	1.23

* ROE = Net income margin × Total asset turnover × Leverage

3. Overview of Each Segment

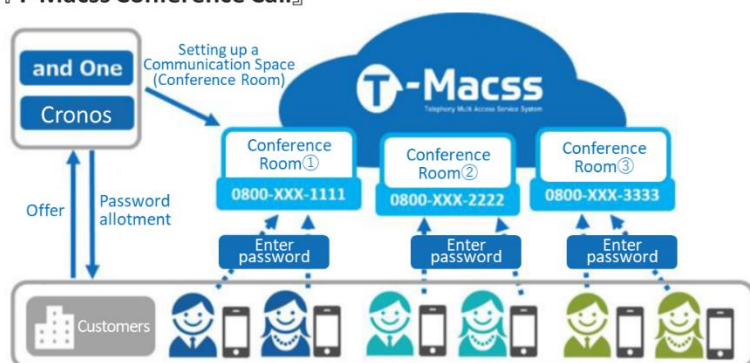
3-1. Creation Segment

The subsidiary, Promote Inc., provides major telecommunication carriers with the kitting support service and the number of devices, on which the service is used, has exceeded 250 thousand units (on devices' default settings). Currently, as the corporations' demand increases along with the adoption of devices, the company is conducting business activities to respond to the Ministry of Education, Culture, Sports, Science, and Technology's "GIGA School Concept," which created a demand for approx. 8 million units in FY 2020.

Moreover, the consolidated subsidiary Inaseri Co., Ltd., which operates "Inaseri" and the "Inaseri market," is working towards expanding the business by developing services based on social conditions. In concrete terms, for "Inaseri (BtoB)," it launched a "no-delivery-fee campaign" to support food and beverage businesses whose sales declined due to self-isolation, and the intermediate wholesaler's union, in order to grow the number of users and subscribers. In contrast, as the general consumers' use of EC sites and home cooking increased due to the COVID-19 pandemic, for "Inaseri market (BtoC)," it launched a special site in May 2020 to explain in an easy-to-understand way with photos and videos how to choose good quality fish, how to cook fish, etc.

Additionally, in April 2020, the consolidated subsidiary "and One Inc." launched "T-Macss Conference Call", which can initiate conferences with a high-quality phone environment. "T-Macss Conference Call" is an improved version of the cloud-based call center system, "T-Macss," which was jointly developed with Cronos Inc. in October 2019. It can be adopted with no initial configuration or expenses. The users can utilize it through the common phone number just by making calls from the phone at hand. As the demand for remote work, etc. increased, a conference call can be smoothly made even with limited bandwidth.

『T-Macss Conference Call』



(Source: the company)

In addition to the above, in July 2020 (first quarter of FY 5/21), Nihon Enterprise Co., Ltd. launched the user-friendly web conference system, “NEEDS,” which put together the chat function and the screen-share function in one screen. Under the theme of “simple and easy to use,” the company launched the web conference system “NEEDS,” which enables users to use the chat function while using the screen-share function without changing windows. Participants can make simultaneous screen shares and can embed different sites. The company is running a free campaign until the end of August 2020. It plans to release the app in September 2020, and gain more customers by adding multi-device support.



*Images are for reference only.

< Characteristics of “NEEDS” >

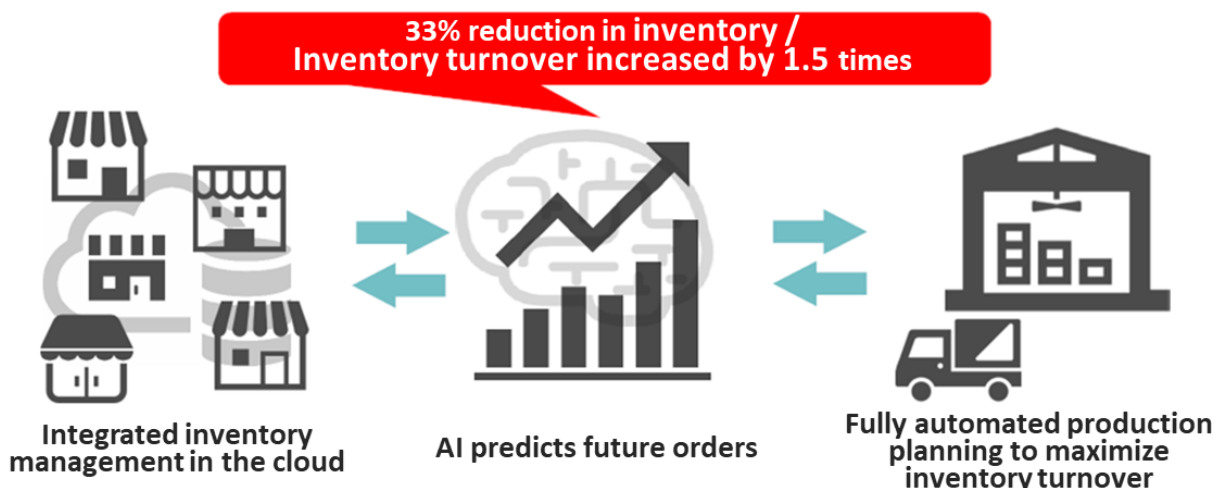
- Chat and screen sharing on one screen
- Color-coded chat function
- Manual screen magnification
- Up to 80 people can participate.
- Can be built in on your own (extra charge)
- Multi-device support (*app launched in September)

(Source: the company)

3-2 Solutions Segment

The company provides a comprehensive solution service, including consulting, development, maintenance, and operation, with a focus on AI, IoT, and security, as well as an on-site business support service. Furthermore, it started providing services according to the market needs in addition to allying with other companies to provide services for the medical field. Additionally, by 2025, the market is expected to reach an order of 2.65 million units (forecasted by an investigating company), thus, the company will continue the service for buying and selling used terminals (the peripheral business of terminals).

As part of the AI-related comprehensive solution service, the subsidiary 4QUALIA Co., Ltd. undertook the development of “STOCK STREAMS,” which is a high-accuracy cloud-based inventory management system based on the AI engine owned by TRYETING Inc. TRYETING Inc. will increase the inventory turnover ratio 1.5 times through the operation of “STOCK STREAMS” and plan to realize an aggressive “inventory and production control.”



(Source: the company)

In the medical field, the company collaborates with Embrace Co., Ltd., which runs the medical care coordination SNS, “Medical Care Station (hereinafter, MCS),” as well as MICIN Inc., which runs the online diagnosis service, “CURON,” and started providing tablet devices for online medical examination by a family physician, etc. The company will work on contributing to society by providing a service to reduce burdens on medical care personnel and people close to them as well as reducing infection risk.



*MCS is a private medical-care social networking site that is used in more than 200 medical-care settings nationwide.

*CURON is an online medical service. It has been introduced to more than 3,500 medical institutions in all prefectures. (As of May 2020)

(Source: the company)

In addition to the above, as the awareness for preventing infection with COVID-19 increased, the company launched the next generation glass coating, “NE coat DX”. “NE coat DX” is a next-generation glass coating that has antibacterial properties, which inactivate viruses. While it is made from materials that are safe-to-use for humans (silicon compounds), it has antibacterial properties that can inactivate viruses. It provides safety while being convenient and can be applied to smartphones within 5-10 minutes. The company plans to take advantage of the product design that makes it easy to adapt to various products and expand sales channels to entertainment facilities, medical care-related organizations, etc.



< Characteristics >

- Antibacterial and viral inactivating effect
- Use of human-friendly materials (silicon compounds)
- Harder than iron and as hard as titanium (*depends on the material used)
- Shock absorbing
- Anti-fingerprint effect

Can be used for a variety of products



(Source: the company)

4. Fiscal Year ending May 2021 Earnings Forecast

4-1 Consolidated Earnings

	FY May 20 Act.	Ratio to Sales	FY May 21 Est.	Ratio to Sales	YoY
Sales	3,588	100.0%	4,000	100.0%	+11.5%
Operating Income	267	7.4%	340	8.5%	+27.2%
Ordinary Income	310	8.6%	340	8.5%	+9.6%
Net Income	176	4.9%	200	5.0%	+13.3%

*Unit: million yen

Sales and operating income are estimated to grow 11.5% and 27.2%, respectively, year on year.

The Creation business, where the kitting support is expected to expand, will drive sales growth. As for the contents service in the Creation business, the company will concentrate on platforms of non-communications carriers. As for the Solutions business, the company will continue expanding entrusted development and business support services while launching new businesses related to the novel coronavirus.

Sales are estimated to increase for both the Creation business and the Solutions business; thanks to the sales increase, profit ratio is expected to improve.

The term-end dividend is estimated to increase 0.5 yen/share to 2.5 yen/share (The estimated payout ratio is 50.2%).

5. Conclusions

In FY 5/20, the business aimed at corporations, “the business support service (Creation business)”, as well as “the Solutions business” were affected by the spread of COVID-19. However, the company received many orders before the situation became severe, thus even after the novel coronavirus started to spread, there were few projects that were canceled or scaled down. On the contrary, “the Contents service (Creation business),” which is aimed at the general consumers and yields a high profit ratio, has benefited from the increase in demand from people staying home. Thus, the effects of COVID-19 were minor overall.

Thanks to the favorable performance of the kitting support service, the Creation business is expected to be the main contributor to the financial results in FY 5/21 as well. The industry leader, NTT Docomo, has already adopted the service; however, there seems to be more room to expand its businesses within NTT Docomo. Furthermore, it is strengthening the sales activities so that its service can be adopted by au and Softbank. We would like to pay attention to whether it can build new revenue pillars while the kitting support service maintains favorable performance.

<Reference: CSR and ESG activities>

The company recognizes that its group's social mission is to contribute to the physical and mental happiness of all stakeholders, including customers, business partners, shareholders, investors, local communities, and employees, through its business under its corporate ethos: "Our true purpose is to pursue professionalism as a merchant and contribute to society and cultural development through our activities," which has been upheld since the start-up of business, and engages in the following activities as part of its CSR and ESG activities.

In the environmental (E) aspect, the company makes efforts to actualize a sustainable society through power generation with solar panels (Ube-shi, Yamaguchi Prefecture) for environmental conservation.

In the social (S) aspect, the company concentrates on the support for creation of new technologies, and sponsors "INNO-vation Program," which was organized by the Ministry of Internal Affairs and Communications and is operated by KADOKAWA ASCII Research Laboratories, Inc. as an institution for conducting tasks for supporting innovators (pioneers) who will develop a future Japan. In addition, since it donated almost all of the ordinary income in the initial year of business to the Japanese Red Cross Society, social welfare councils, orphanages, etc., it has been donating 1% of net income every year. At the time of the Great East Japan Earthquake, the company gave donations via the Japanese Red Cross Society, while hoping that the conditions of victims will get better as soon as possible. In addition, the company puts energy into sound information transmission, by obtaining the DCA qualification approved by Internet-Rating observation Institute (I-ROI), etc.



(Source: the company)

In the aspect of governance (G), upholds "To stick to the customer-first policy" as one of the management principles for satisfying customers, and makes sincere efforts to meet the needs of customers regarding quality, prices, and services. As a commitment to quality, the company strives to offer value exceeding customers' expectations under the slogan: "Unrivaled Quality," and operates a "Customer Support Center" by itself, to meet customers' requests accurately and swiftly and reflect them in services and products. Like this, the company makes efforts to improve business and quality.

For stakeholders, the company makes efforts to disclose the situations of management and business activities timely and appropriately, to deepen their understanding of the company.

Especially for shareholders, the company holds a general meeting of shareholders at a hotel in Tokyo in August every year so that many shareholders can attend, while considering it is a valuable opportunity to directly communicate with shareholders. In addition, in order to deepen their understanding of the company, the company sets a space for experiencing the company's services and introduces its products and services with videos at the venues of general meetings of shareholders. For employees, the company strives to develop a working environment caring for their work-life balance, including "Childcare support," etc. so that employees can exert their respective abilities to a sufficient degree, and supports in-house club activities, to help nurture friendships among employees and enhance their health.

In addition, as measures for protecting information, the company set the "basic policy for information security" and the "policy for protecting personal information," to appropriately protect and manage information assets handled by the company. Furthermore, the company acquired "ISO27001 Certification," which is an international standard of the information security management system (ISMS).



(Source: the company)

Training of human resources

Based on the company's philosophy of "the growth of each employee defines our future," the company supports the growth of its employees through "Ueda Juku," which is organized by the company president, the hierarchy-specific training, correspondence education, incentives for acquisition of qualifications, etc.

<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 2 outside ones
Auditors	3 auditors, including 2 outside ones

◎Corporate Governance Report

Updated on August 23, 2019

Basic Policy

The corporate group believes that, with respect to decision-making by the board of directors to attain its management goals, corporate governance means maximization of shareholder interests by monitoring legality by the audit and supervisory board, deterring unlawful business execution of the directors, and establishing an organizational system that realizes more expeditious company decision-making and clarifies management responsibility, while seeking to avoid or mitigate business risks.

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

Supplementary Principle 4-1-3 Plan for developing successors to the CEO and others. Our company runs “Ueda-juku (workshop)” for executives, with the aim of fostering qualities required for managers, such as “strategic thinking” and “leadership,” but we have not produced a plan for successors to the CEO and others. From now on, we will think of producing a plan for developing candidate successors and supervising them. When producing plans, we will take a sufficient amount of time and resources to realize the development of candidate successors.

<Principle 4-11: Preconditions for securing the effectiveness of the board of directors and the board of auditors>

The board of directors of our company is composed of up to 7 directors and up to 4 auditors. Our basic policy is to have about 2 outside directors and have outside auditors make up a majority auditor. At present, there are no female or non-Japanese directors or auditors in the board of directors of our company, but we think that diversity and an appropriate scale have been secured so that the board of directors could fulfill its roles and duties effectively. From now on, we will make efforts to secure diversity in the aspects of gender and internationality. Our company also appoints a certified public accountant as an auditor who possesses appropriate knowledge of financial accounting.

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

Principle 5-1 Policy on constructive dialogue with shareholders

The company has established the IR basic policy which is composed of “Basic attitude to IR activities and disclosure criteria,” “Methods for disclosing information and information fairness,” “Future outlook,” and “IR quiet period” and publishes the policy through its website.

●Basic IR policy: URL: <http://www.nihon-e.co.jp/ir/management/line.html>

Currently, the company proactively takes the following action based on the above-mentioned IR basic policy from the perspective of constructive dialogue with its shareholders:

- 1) The company encourages day-to-day cooperation among departments by designating the Executive Managing Director and general manager of the Administration Department as a person in charge of internal information management and having him govern departments involved in IR activities, including the Accounting Department, the General Affairs Department, the Human Resources and Public Relations Department.
- 2) In the company, the person in charge of internal information management responsibly grasps and manages information on each department of the company and, based on accurate management decision, efforts are exerted to make organic cooperation and information are frequently shared with other departments related to IR activities, so that cooperation among departments can be enhanced.
- 3) The division engaged in public relations and IR activities not only proactively responds to inquiries made from its shareholders and investors on the phone and through IR events such as small meetings, but also hosts financial results briefings for analysts where explanations are given by the president or the executive managing directors.

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4) The company reports to the board of directors on IR activities and feedback on such activities as well as situations of shareholder transfer at all times in order to share information with the directors and the auditors.

5) The company pays attention to management of insider information, and therefore, in communicating with investors, it brings up topics concerning improvement of corporate value as the subject of discussion, using previously published information of the company.

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