



President Masanori Nakajima

## Forval Corporation (8275)



## Company Information

Exchange	TSE 1st Section
Industry	Wholesale (Commerce)
President	Masanori Nakajima
Address	14F AOYAMA Oval Bldg. 5-52-2 Jingu-mae, Shibuya-ku, Tokyo
Year-end	March
URL	<a href="https://www.forval.co.jp/english/">https://www.forval.co.jp/english/</a>

## Stock Information

Share Price	Shares Outstanding		Total Market Cap	ROE (Actual)	Trading Unit
¥887	25,517,827 shares		¥22,634 million	10.0%	100 shares
DPS (Estimate)	Dividend Yield (Estimate)	EPS (Estimate)	PER (Estimate)	BPS (Actual)	PBR (Actual)
¥26.00	2.9%	-	-	¥430.48	2.1 times

\* The share price is the closing price on December 1. The number of shares issued was obtained by subtracting the number of treasury shares from the number of outstanding shares as of the end of the latest quarter. ROE and BPS are the actual values for FY3/2020.

\* DPS is an estimate for FY3/2021. An estimate of EPS for FY3/2021 is undetermined.

## Earnings Trend

Fiscal Year	Net Sales	Operating Income	Ordinary Income	Net Income	EPS	DPS
March 2017 (Actual)	50,262	2,545	2,615	1,588	62.32	19.00
March 2018 (Actual)	51,351	2,854	2,960	1,743	68.67	21.00
March 2019 (Actual)	57,520	3,221	3,308	2,064	82.30	25.00
March 2020 (Actual)	49,731	3,229	3,324	1,067	42.48	26.00
March 2021 (Estimate)	-	-	-	-	-	26.00

\* The estimated values were provided by the company.

\* Unit: million yen.

\* The earnings forecast for FY3/2021 is still to be determined, because the impact of the spread of COVID-19 is unpredictable and it is difficult to reasonably estimate business performance at present.

We will report on the results of Forval in the second quarter of the term ending March 2021 through this Bridge Report.

## Table of Contents

### [Key Points](#)

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

#### [2. Growth Strategy](#)

#### [3. 2Q of Fiscal Year Ending March 2021 Earnings Results](#)

#### [4. Fiscal Year Ending March 2021 Earnings Forecasts](#)

#### [5. Future Growth Strategy](#)

#### [6. Conclusions](#)

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

## Key Points

- For the second quarter of the term ending March 2021, sales and ordinary income dropped 5.4% and 43.3%, respectively, year on year. As for sales, the Forval Group and the General Environment Consulting Business Group saw the drop in sales, due to the voluntary restraint of business operations and the temporary absence of some employees from work in the wake of the spread of COVID-19. As for profit, the company strived to reduce SG&A, mainly expenses, in response to the decline in sales, but profits decreased.
- As for the corporate plan in the term ending March 2021, the earnings forecast was still to be disclosed at the time of announcement of the results for the second quarter, because the impact of the spread of COVID-19 remains uncertain inside and outside Japan and it is difficult to reasonably estimate the business performance. As soon as it becomes possible to reasonably estimate business results, the company will announce the earnings forecast. The annual dividend is to be 26 yen/share, unchanged from the previous term, as estimated at the beginning of the term.
- New services for supporting the workstyle reform in small and medium-sized enterprises have been actively launched. It is noteworthy how the company's performance will benefit from the release of "IEYASU Powered by FORVAL," which is a cloud-based attendance management system, "PPLS," a consulting service for streamlining business operations by reforming workflow and producing manuals, and "Business Sales Management," which supports the design of marketing strategies. Especially, we would like to pay attention to the effects on the sales of the icon services, which are expected to become the growth driver.

## 1. Company Overview

Forval Corporation aims to become a next-generation management consulting company specializing in 5 fields: "information and telecommunication," "overseas market," "environmental protection," "personnel and education," and "start-up and succession of business." For advancing and streamlining business administration based on IT, the company offers telecommunication/Internet-related services, including IP phone services, which are compatible with optical fibers for offices, FMC services (that fused fixed-line telecommunication and mobile one), and IP integration solutions, which combined them with network security; and other services, including the sale and installation of office automation/network devices, the production of websites, the sale and installation of solar power systems and all-electric products. The corporate name "FORVAL" is derived from "For Social Value," and infused with the management ethos: "We aim to become an enterprise that can create social value."

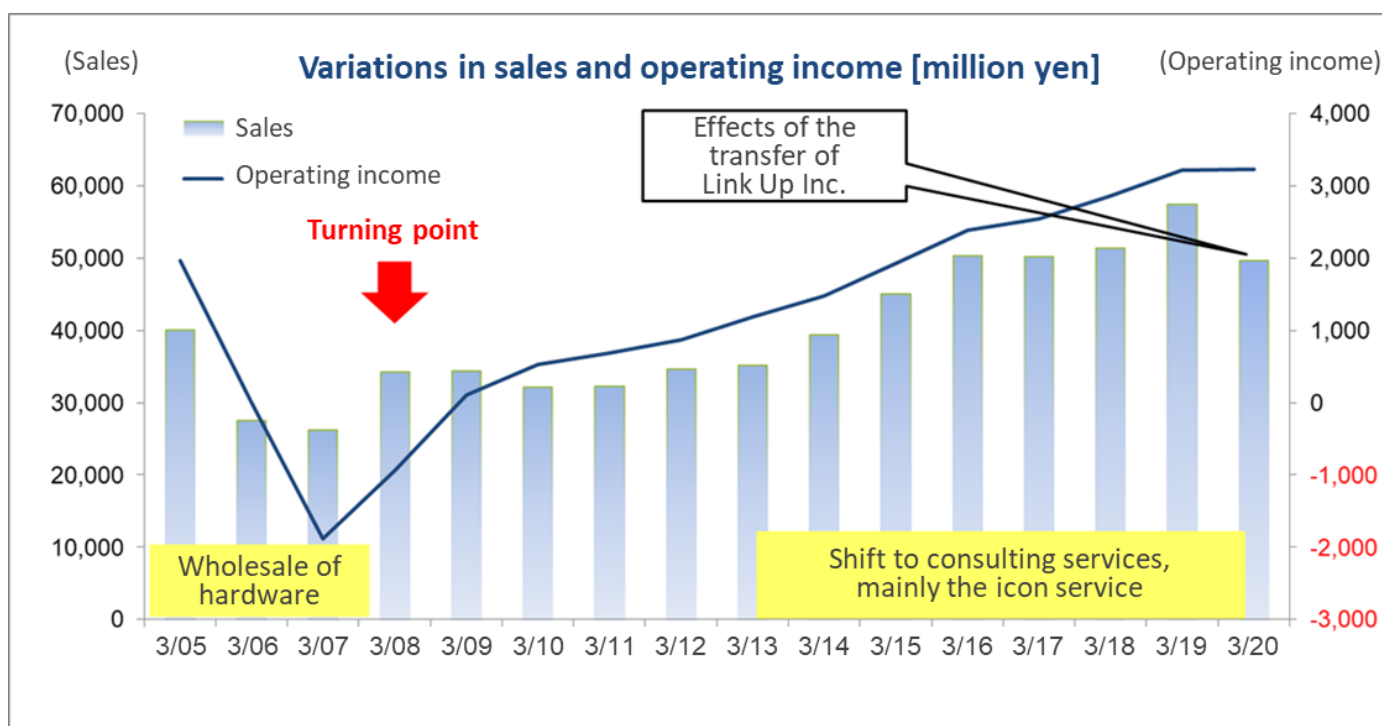
The business of Forval is classified into 4 segments: (1) the Forval Business Group, which sells office automation and network devices for small and medium-sized enterprises, undertakes services, offers consulting services, and so on mainly via Forval Corporation, (2) the Forval Telecom Business Group, which operates telecommunication services for VoIP, mobile devices, etc., Internet-related services, ordinary printing, insurance services, etc. mainly via FORVAL TELECOM, Inc., (3) the Mobile Device Shop Business Group, in which Link Up Inc. handles mobile terminals, etc. at mobile device shops, and (4) the General Environment Consulting Business Group, in which APPLE TREE Co Ltd., which was acquired as a subsidiary in the term ended March 2014, wholesales and installs all-electric

and eco-friendly housing equipment. In addition, the other business segment, which is not to be reported, includes IT education services, the development of IT engineers and administrators, and ITEC Inc., which introduces would-be executives and international students in Southeast Asia. Through share transfer, Link Up Inc. was excluded from the scope of consolidation, so from the term ended March 2020, the 4 segments were changed to the 3 segments: “the Forval Business Group,” “the Forval Telecom Business Group,” and “the General Environment Consulting Business Group.”

As the added value of hardware sale has recently declined, the company is shifting to consulting services, which can be differentiated from competitors and have high added value. The mainstay is icon, an IT consulting service launched in April 2008. In addition, as part of consulting services, the company assists small and medium-sized enterprises in installing information systems and business operations in ASEAN countries. For information systems, the company offers IP integration solutions. For business operations in ASEAN countries, the company established FORVAL (CAMBODIA) CO., LTD. in May 2010, PT FORVAL INDONESIA (Jakarta, Indonesia) in July 2011, FORVAL VIETNAM CO., LTD. (Ho Chi Minh, Vietnam) in August 2011, and opened a representative office in Yangon, Myanmar in March 2012 and then incorporated the office naming it FORVAL MYANMAR CO., LTD. in February 2013, to expand the network in ASEAN countries.

The stock exchange for the company was changed from JASDAQ (standard) of Tokyo Stock Exchange (TSE) to the second section of TSE on Jan. 24, 2014, and then to the first section of TSE on October 2, 2014.

### Variation in business performance of the Forval Group



We can see the outcomes of their efforts to improve the skills of employees by educating them about the IT field and encouraging them to obtain qualifications and the shift from wholesale of hardware to consultancy offering icon services.

## 2. Growth Strategy

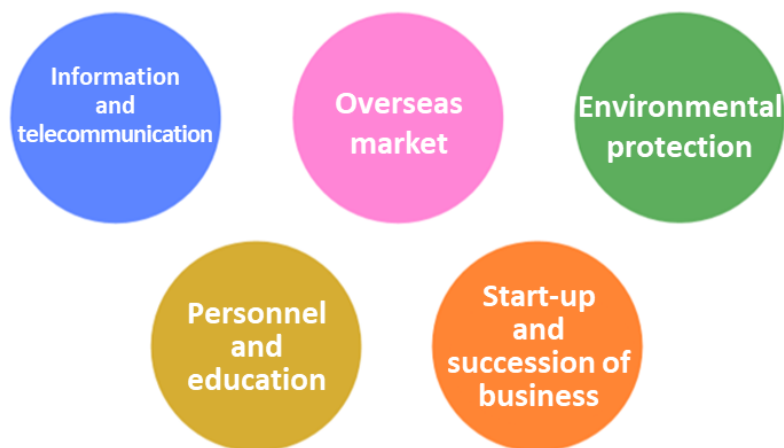
The mid-term vision of the Forval Group is to realize “next-generation management consultancy” for supporting the permanent growth and business succession of small and medium-sized enterprises, which underpin the Japanese economy. By utilizing APPLE TREE Co Ltd., which was acquired in 2013, in addition to the knowledge and technology about information and telecommunication, which are the existing business domains, and the knowhow to make inroads into overseas markets, it becomes possible to offer management consulting services considering how to address environmental issues, whose importance is growing, operate business, and contribute to the environment. Furthermore, the company developed a system for educating employees of client enterprises about the fields of information and telecommunication, overseas markets, and the environmental protection in a one-stop manner. ITEC Inc., which was

**BRIDGE REPORT**

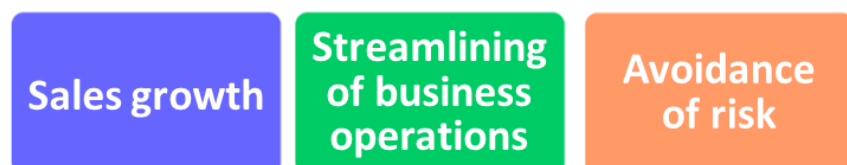
acquired in 2013, joined the Forval Group, enriching the lineup of services regarding human resources and education for client enterprises. In addition, the company will strive to strengthen the domains of start-up and succession of business. In these five domains, the company will offer consulting services for expanding sales, streamlining business operations, and avoiding risks, and contribute to the profits of small and medium-sized enterprises.

### Characteristics of the next-generation management consultancy of the Forval Group

#### Focused on 5 fields!



#### Three approaches!



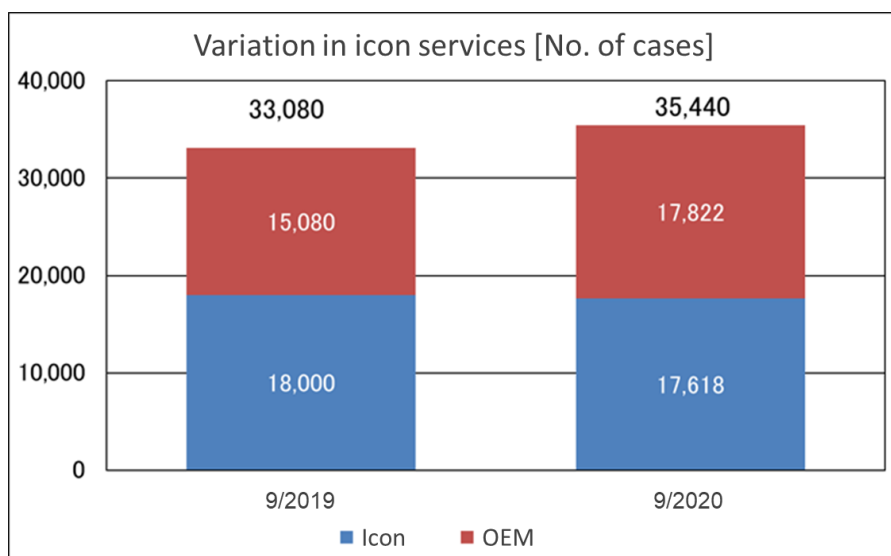
(Taken from the reference material for the financial results of Forval Corporation for the second quarter of the term ending March 2021)

#### **(1) Expansion of the domain of information & telecommunication—Expansion of icon services**

##### **Developments of icon services**

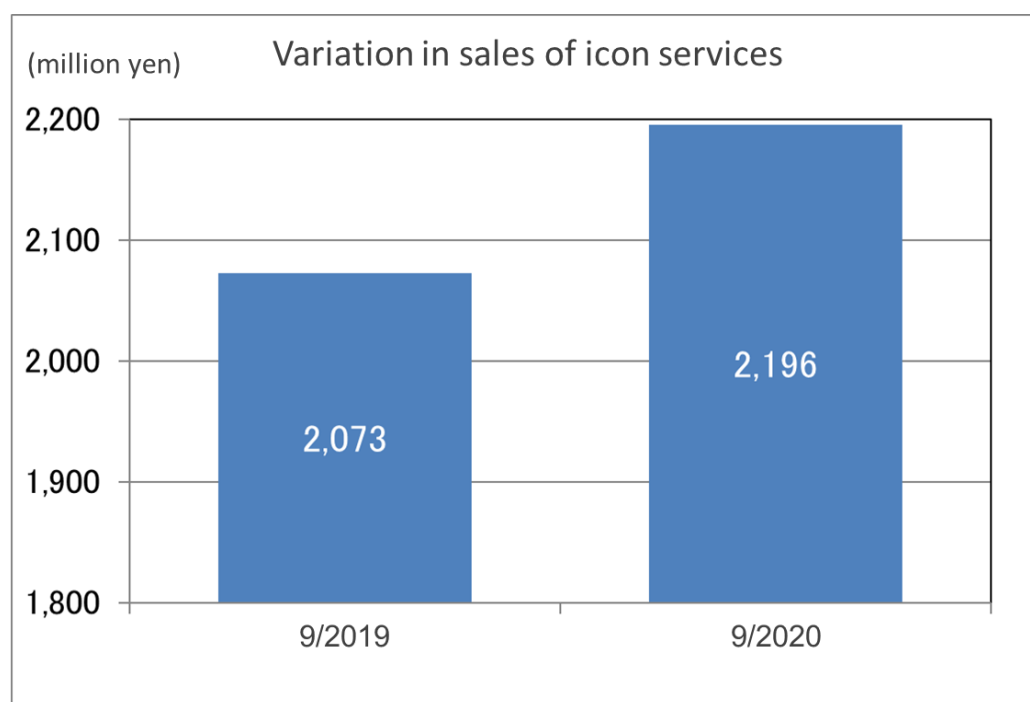
##### **Variation in the number of cases in which icon services were adopted based on OEM**

The company focuses on the development of networks based on the OEM of icon services for further expanding and strengthening the icon business. By offering the know-how of new business models that have been differentiated, the company aims to increase the number of business partners and the number of icon users. In the first half of the term ending March 2021, the number of cases in which icon services were adopted was 35,440, up 7.1% year on year. Especially, the number of cases in which icon services were adopted based on OEM in the first half of the term ending March 2021 was 17,822, up 18.2% year on year. This is the growth driver in the number of cases of adoption of icon services. The reason why the number of cases in which icon services were adopted through the company's own efforts is sluggish is that the company prioritizes orders for services that require consulting services to deliver higher added value.



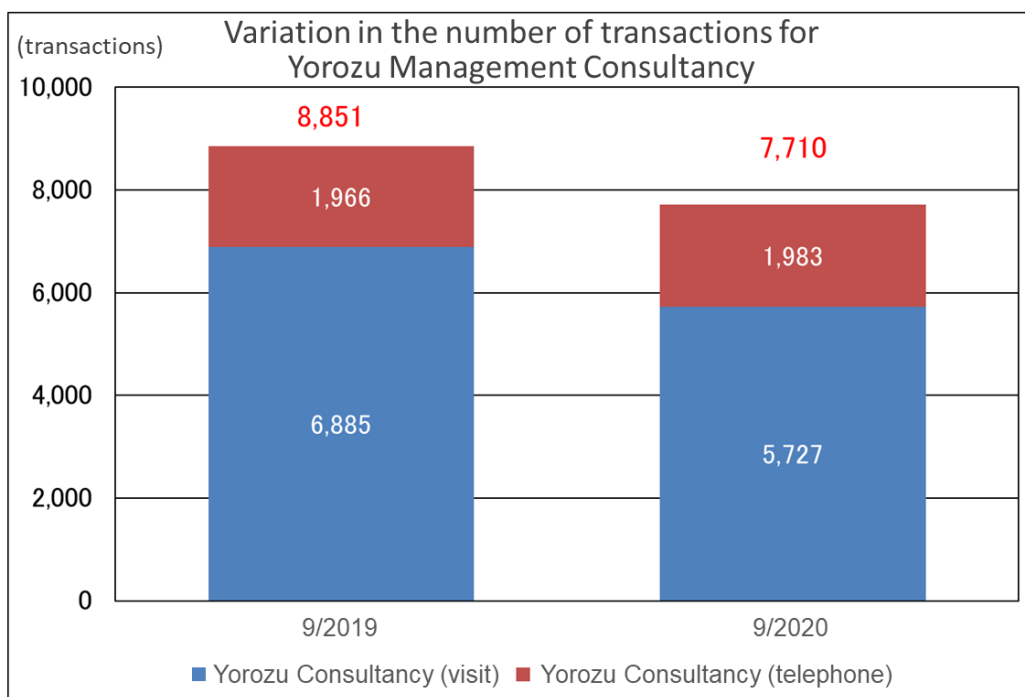
**Variation in sales of icon services**

For the first half of the term ending March 2021, the sales of icon services grew 6.0% year on year, indicating steady performance. Since the launch of “icon services,” the sales related to icon have been growing steadily, thanks to the rise in average spending per customers through the increases of clients and additional consulting transactions. The company aims to expand the sales of icon services, which are profitable, by releasing new services and promoting OEM actively.

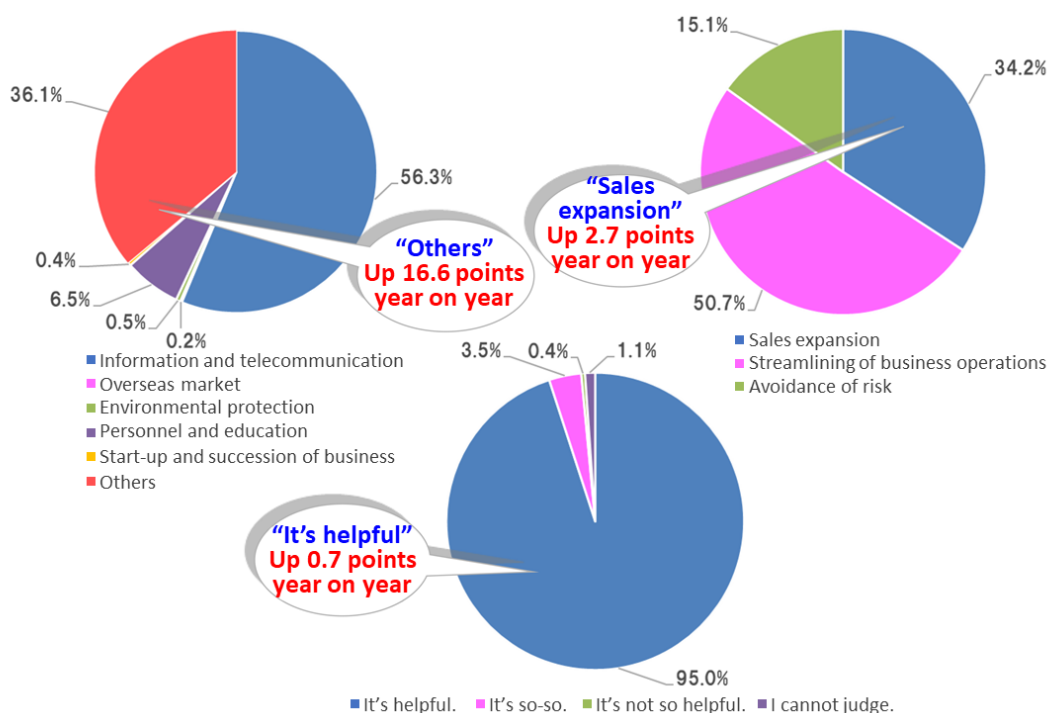


**Variation in the number of transactions for Yorozu Management Consultancy**

In Yorozu Management Consultancy, consultants visit clients regularly and give support for solving troubles in business administration. This business supports a broad range of fields, including sales growth, the increase of sales channels, the increase of new clients, business matchmaking, recruitment, cash management, and business succession. The consultants give advice about solutions, while enlisting cooperation from not only the company, but also the entire corporate group and business partners. For the first half of the term ending March 2021, the number of transactions for Yorozu Management Consultancy decreased 12.9% year on year from 8,851 to 7,710. The company started pursuing the quality of consulting services in the term ended March 2017, as the number of transactions increased. From now on, the number of transactions that would lead to profit is expected to grow.



**Details and customer satisfaction level of Yorozu Management Consultancy (first half of FY 3/21)**



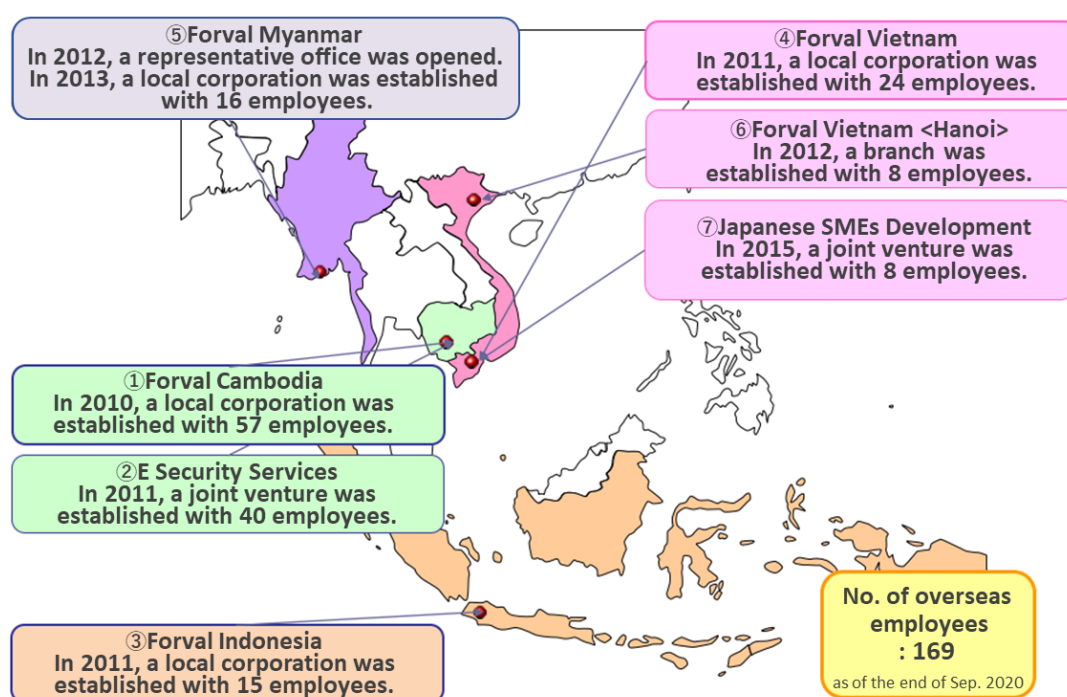
(Taken from the reference material for the financial results of Forval Corporation for the second quarter of the term ending March 2021)

According to the interview survey targeted at clients (the first half of FY 3/21), 95% of clients answered that Yorozu Management Consultancy was helpful. The number of transactions of high-quality Yorozu Management Consultancy is expected to keep growing. The company has offered consulting services mainly for sales expansion and information & telecommunication, but in the first half of this term, the number of transactions regarding sales expansion and other items increased. It seems that an increasing number of clients are pondering over how to change their strategies for expanding sales amid the coronavirus crisis. From now on, the excellence of consultancy of the company is expected to generate various business chances.

## (2) Expansion of the overseas domain—Growth of the business of supporting overseas business expansion

The chairperson Okubo of the company has engaged in a broad range of supportive activities, ranging from the development of educational infrastructure to the education of personnel, in Cambodia, where there are no sufficient opportunities of education, through CIESF, a public interest incorporated foundation established and directed by himself.

In the business of supporting the entry to the ASEAN market, the experience and personnel connections nurtured in such CIESF activities are useful. Under the recognition that “it is important to take advantage of the growth of Asian regions, in order to realize the growth of the Forval Group and its clients, that is, small and medium-sized enterprises,” the company has already established overseas corporations in Cambodia (May 2010), Indonesia (July 2011), and Vietnam (August 2011), and the representative office in Myanmar in March 2012. Furthermore, in order to enrich and strengthen local supportive systems, the company started full-scale business activities in April 2014, in Myanmar, where the company obtained the approval for establishment of a corporation in February 2013 and went ahead with preparation. As of the end of September 2020, the number of employees at 7 overseas footholds (overseas subsidiaries and affiliates) was 169.



(Taken from the reference material for the financial results of Forval Corporation for the second quarter of the term ending March 2021)

The “global icon service,” which is the business of supporting business expansion in ASEAN countries, is a business model for assisting enterprises in solving various problems and removing obstacles before and after entering an overseas market in a one-stop manner. At present, the company offers this service in 4 countries: Cambodia, Vietnam, Indonesia, and Myanmar. By offering information, supporting FS, establishing a local corporation on behalf of each client, supporting the recruitment and education of personnel, the development of back-office systems, the establishment of a network environment, the search for local business partners, etc. comprehensively, the company provides clients with comfortable office spaces comparable to those in Japan, based on the information and telecommunication technologies at which the company excels the most. The company offers comprehensive support in Japan and foreign countries.

In addition, the company finds and increases prospective clients of “global icon services” by actively forming alliances with Japanese administrative organs, local financial institutions, overseas central governments, administrative organs, industrial parks, etc.

### Details of global icon services

#### G-icon B (Before)

1	<b>Type S</b>	Comprehensive support for preparation for the entry to an overseas market To support the preparation in a one-stop manner
2	<b>Type OS</b>	To support the design of business plans, negotiations with counterparts, and conclusion of contracts
3	<b>Type R</b>	Comprehensive support for surveys Dedicated staff support surveys in accordance with survey plans

#### G-icon O (Outsource)

1	<b>Type M</b>	To find outsourcers of production To assist clients in choosing business partners with the enriched local network
2	<b>Type D</b>	To find sales partners To assist clients in choosing the best partner for promoting the sales of products
3	<b>Type RP</b>	To investigate the feasibility of business for applying for the support for overseas business operation by public institutions, such as JICA

(Taken from the reference material for the financial results of Forval Corporation for the second quarter of the term ending March 2021)

In global icon, the company can support clients in 6 ways: (1) comprehensive support for preparation for the entry to an overseas market, (2) support for the design of business plans and negotiations with counterparts, (3) comprehensive support for surveys, (4) finding outsourcers of production, (5) finding sales partners, and (6) investigating the feasibility of business for applying for the support for overseas business operation by public institutions, such as JICA.

### Collaboration with municipalities and governmental agencies (undertaking tasks continuously)

Local government	Fiscal year	Project title
Miyagi Pref.	2020	Vietnam Business Advisory Desk Task
Ibaraki Pref.	2020	Global Business Promotion Project
Ibaraki Pref.	2020	Cultivation of sales channels for local alcoholic beverages (Singapore)
Ibaraki Pref.	2020	Cultivation of sales channels for local alcoholic beverages (Taiwan)
Fukui Pref.	2020	Overseas marketing for food products on behalf of clients (China)
Tochigi Pref.	2020	Project for cultivating sales channels for food products
Ehime Pref.	2020	Overseas business talks and matchmaking

(Taken from the reference material for the financial results of Forval Corporation for the second quarter of the term ending March 2021)

Through the collaboration with municipalities and governmental agencies, the company continuously undertook multiple projects of 5 local governments for supporting the entry to markets in Southeast Asia this term.



**Collaboration with municipalities and governmental agencies (undertaking new tasks)**

Local government	Fiscal year	Project title
Fukui Pref.	2020	Project for inviting buyers
Fukui Pref.	2020	Remote business talk with overseas staff (Singapore)
Tokushima Pref.	2020	Project for supporting manufacturers in overseas business
Sapporo City	2020	Overseas coordination of food products (ASEAN region)

(Taken from the reference material for the financial results of Forval Corporation for the second quarter of the term ending March 2021)

This term, too, the company undertook new projects from several local governments. The projects for supporting the entry to Asian countries other than Vietnam are increasing.

**Example of characteristic projects for supporting overseas business expansion: Rental factory in Vietnam**

Forval Corporation engages in the operation of rental factories in Vietnam as part of supportive business that is more advanced than the conventional consultancy for supporting overseas business expansion. In this business, the company constructs rental factories exclusively for Japanese small and medium-sized enterprises (SMEs) in the Nhon Trạch III Industrial Park in southern Vietnam. In the premises with an area of 18 ha, the company developed a space for housing about 100 enterprises, and this is expected to become a leading hub of Japanese SMEs. Since development requires a lot of money, the company utilizes the overseas investment/financing system of Japan International Cooperation Agency (JICA), and conducts continuous monitoring surveys for checking what kinds of support and services are needed for Japanese enterprises entering overseas markets. The company is expected to obtain the competitive know-how to make inroads into markets in other countries and regions.

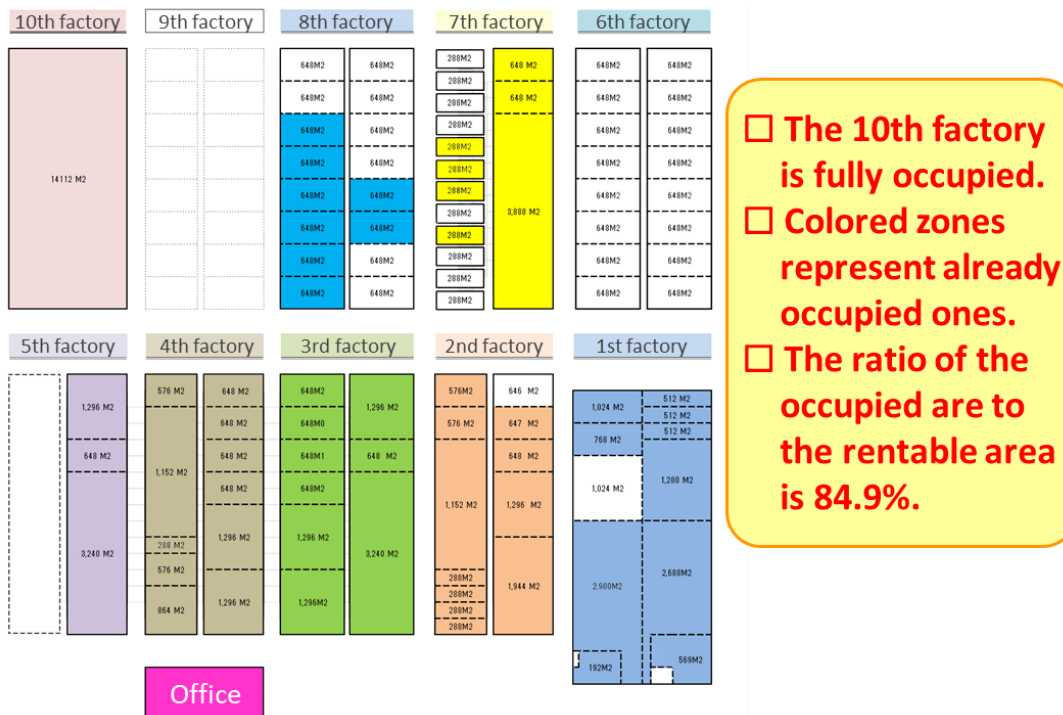
In addition, more clients introduced by alliance partners, including 42 Japanese financial institutions and 4 leading tax accountant corporations, plan to enter overseas markets. They have strong interests in the rental factories in Vietnam, and 100 districts are already to be reserved for alliance partners.

Among 10 factories of the construction plan, 8.5 factories have been completed, and 1.5 factories are to be built. The 10<sup>th</sup> factory is to be occupied fully. The ratio of the occupied area to the rentable area is 84.9%, indicating the steady increase of users.



(Taken from the reference material for the financial results of Forval Corporation for the second quarter of the term ending March 2021)

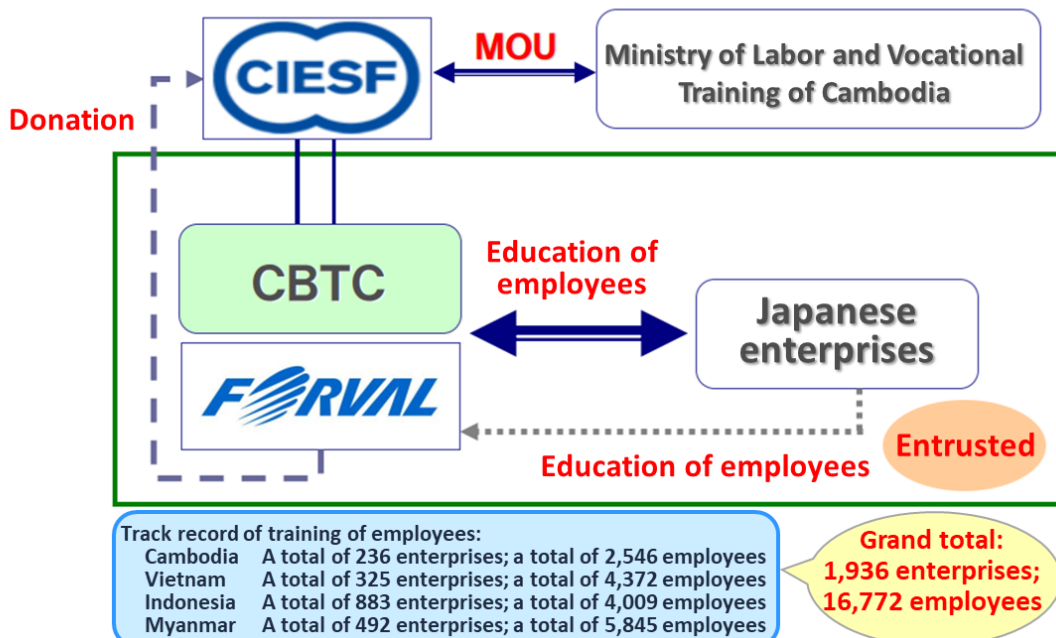
# BRIDGE REPORT



(Taken from the reference material for the financial results of Forval Corporation for the second quarter of the term ending March 2021)

## Support for personnel development in cooperation with CIESF

『To get entrusted with the training of employees of Japanese enterprises』

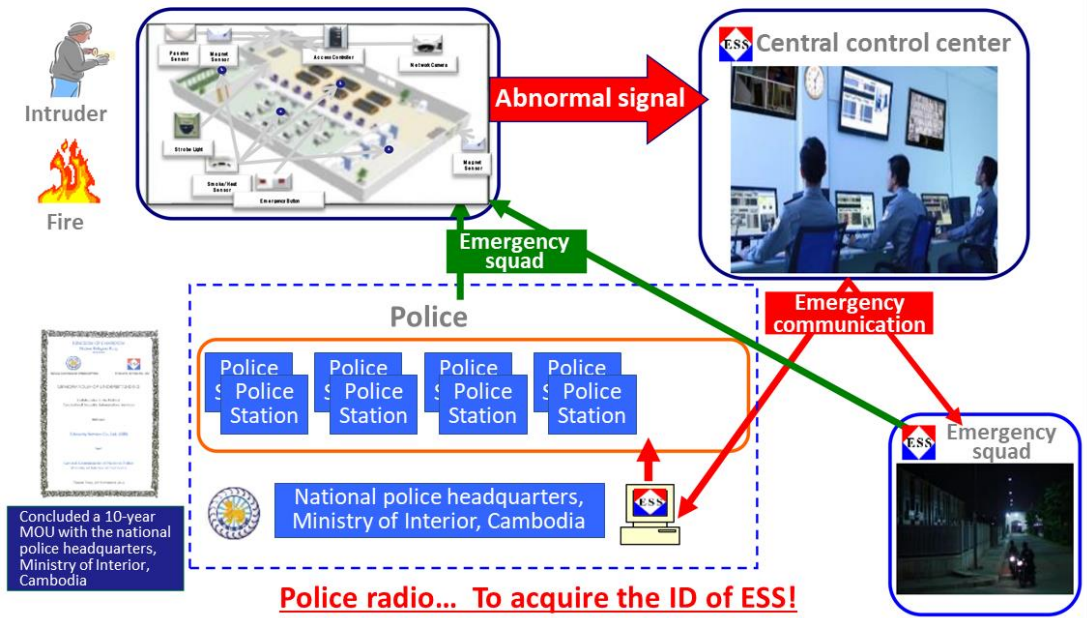


(Taken from the reference material for the financial results of Forval Corporation for the second quarter of the term ending March 2021)

Forval Corporation has been entrusted by a total of 1,936 enterprises with the training of a total of 16,772 employees in 4 countries: Cambodia, Vietnam, Indonesia, and Myanmar. In addition, the company introduces foreign skilled workers to Japanese enterprises, but the number of workers who received a job offer dropped from 19 to 10 between the first half of the term ended March 2020 and the first half of the term ending March 2021. This is due to the spread of COVID-19.

Situation of security services

**FORVAL** Outline of the security system for Forval E Security Services

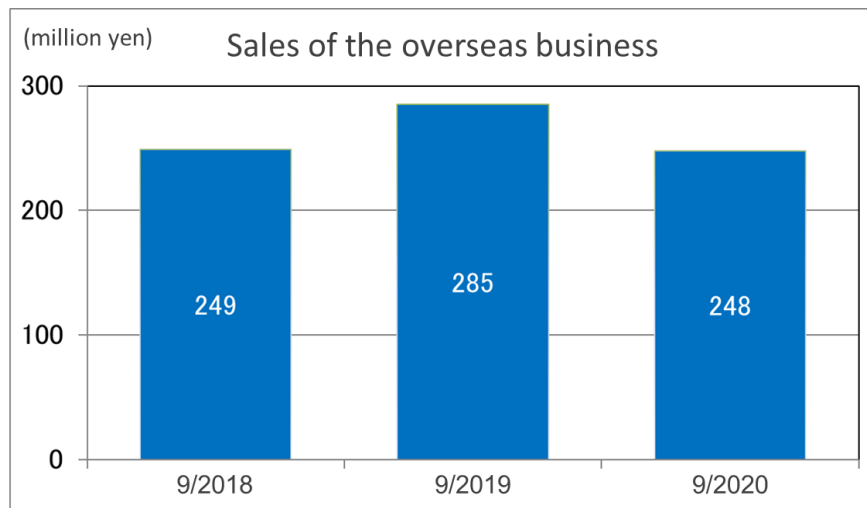


(Taken from the reference material for the financial results of Forval Corporation for the second quarter of the term ending March 2021)

The company signed a 10-year MOU (memorandum of understanding) with the national police headquarters, Ministry of Interior, Cambodia, and offers security services in Cambodia. The number of contracts in a charging basis in the first half of the term ending March 2021 was 595, up 5.1% year on year.

**Variation in the sales of the overseas business**

The sales of the overseas business are subject to the equity method, and not included in consolidated sales, but they are expanding as a result of the expansion of overseas bases. However, the sales of the overseas business in the first half of the term ending March 2021 were 248 million yen, down 13.2% year on year (285 million yen in the first half of the term ended March 2020), due to the spread of COVID-19.



\*Including the overseas business-related sales not included in consolidated sales

### 3. 2Q of Fiscal Year Ending March 2021 Earnings Results

#### (1) Consolidated Business Result for 2Q of FY3/21

	2Q of FY3/20	Ratio to sales	2Q of FY3/21	Ratio to sales	YoY
Net sales	24,802	100.0%	23,455	100.0%	-5.4%
Gross profit	9,496	38.3%	8,583	36.6%	-9.6%
SG&A expenses	7,956	32.1%	7,559	32.2%	-5.0%
Operating income	1,540	6.2%	1,024	4.4%	-33.5%
Ordinary income	1,610	6.5%	913	3.9%	-43.3%
Profit attributable to owners of parent	1,235	5.0%	460	2.0%	-62.7%

\*Unit: million yen.

#### Sales and ordinary income dropped 5.4% and 43.3%, respectively, year on year.

In the information and telecommunication field, which is a business domain of the Forval Group, services utilizing the cloud, big data, IoT, and AI are growing. In this environment, the Forval Group tries to differentiate its services in 5 fields: “management consulting services utilizing the knowledge and technology of information and telecommunication (Information and Telecommunication),” “management consulting services for entering overseas markets with original know-how (Overseas Market),” “cutting-edge management consulting services caring for the environment (Environmental Protection),” “management consulting services for developing personnel required for next-generation management (Personnel and Education),” and “management consulting services tailored to the lifecycle of each enterprise (Start-up and Succession of Business)” and strives to expand business while conducting M&A for offering high-quality services, with the aim of becoming a group that can support business administration as a “next-generation management consultant” and contributing to the profits of SMEs.

Sales were 23,455 million yen, down 5.4% year on year. This is because, although the company implemented measures for preventing the spread of COVID-19 in the system for supporting the business administration of clients, the company made some employees take days off, as it refrained from business operations due to COVID-19 and considered the health and safety of employees and the situation of business operations. The sales of the Forval Telecom Business Group increased 3.7% year on year, as the sales from optical line services and ISP decreased, but the sales from new electric power and insurance services grew. The sales of the Other Business Group rose 4.6% year on year, as KAELUNETWORKS Inc., which became a subsidiary, contributed. On the other hand, the sales of the Forval Business Group declined 7.8% year on year, as the sales of devices, such as servers, decreased although icon services grew steadily. The sales of the Comprehensive Environment Consulting Business Group dropped 29.2% year on year, as the sales from industrial solar power generation systems, etc. decreased although the sales of storage batteries were healthy.

Operating income was 1,024 million yen, down 33.5% year on year. In response to the decline in sales, the company strived to curtail expenses, etc., reducing SG&A by 5.0% year on year, but the profit of every business group decreased year on year. The Forval Business Group saw a 45.9% decrease in profit, the Forval Telecom Business Group witnessed a 0.3% decline in profit, the Comprehensive Environment Consulting Business Group posted a loss of 16 million yen (a profit of 77 million yen in the same period of the previous year), and the Other Business Group saw a 51.9% decline in profit. Gross profit margin declined 1.7 points to 36.6%, and operating income margin decreased 1.8 points to 4.4%, as the company reduced expenses, including sales promotion costs and the write-off of prepaid expenses, but the ratio of SG&A to sales rose 0.1 points. In non-operating expenses, provision of allowance for doubtful accounts amounted to 152 million yen (21 million yen in the same period of the previous year), so ordinary income dropped 43.3% year on year, showing a higher drop rate than that of operating income. In the same period of the previous year, extraordinary income included a gain on sale of shares of affiliated companies of 349 million yen due to the transfer of shares of Link Up Inc., but in the first half of this year, extraordinary income was not significant, so profit attributable to owners of parent nosedived 62.7%.

\*The amounts were rounded down, and the ratios were rounded off.

# BRIDGE REPORT

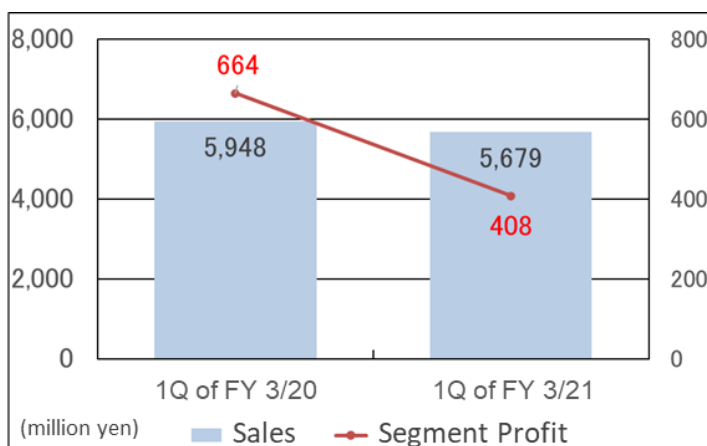
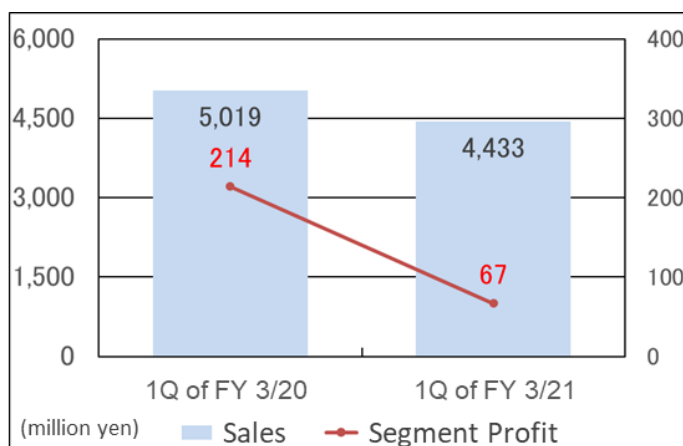


## Sales and profit of each segment

	2Q of FY 3/20	Composition ratio	2Q of FY 3/21	Composition ratio	YoY
Forval Business Group	10,968	44.2%	10,112	43.1%	-7.8%
Forval Telecom Business Group	10,052	40.5%	10,428	44.5%	+3.7%
General Environment Consulting Business Group	3,077	12.4%	2,177	9.3%	-29.2%
Other Business Group	704	2.8%	736	3.1%	+4.6%
<b>Consolidated sales</b>	<b>24,802</b>	<b>100.0%</b>	<b>23,455</b>	<b>100.0%</b>	<b>-5.4%</b>
Forval Business Group	879	56.8%	475	47.1%	-45.9%
Forval Telecom Business Group	515	33.3%	514	50.9%	-0.3%
General Environment Consulting Business Group	77	5.0%	-16	-	-
Other Business Group	75	4.8%	36	3.6%	-51.9%
<b>Consolidated adjustment, etc.</b>	<b>-7</b>	<b>-</b>	<b>14</b>	<b>-</b>	<b>-</b>
<b>Consolidated operating income</b>	<b>1,540</b>	<b>-</b>	<b>1,024</b>	<b>-</b>	<b>-33.5%</b>

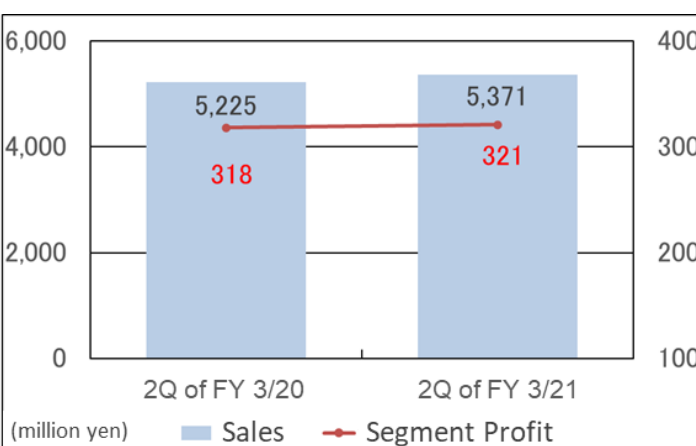
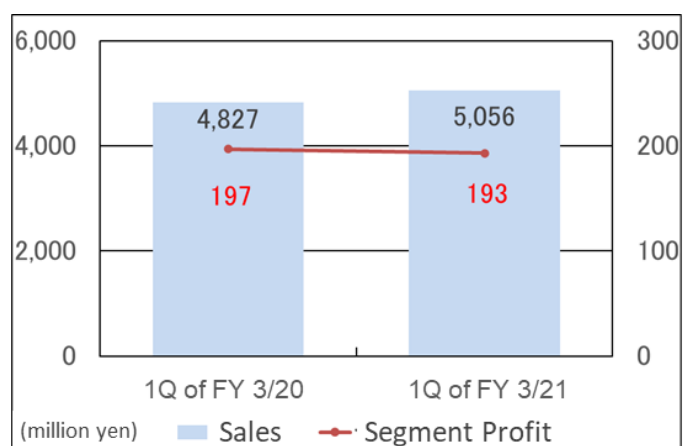
\*Unit: million yen.

### Forval Business Group (unit: million yen)



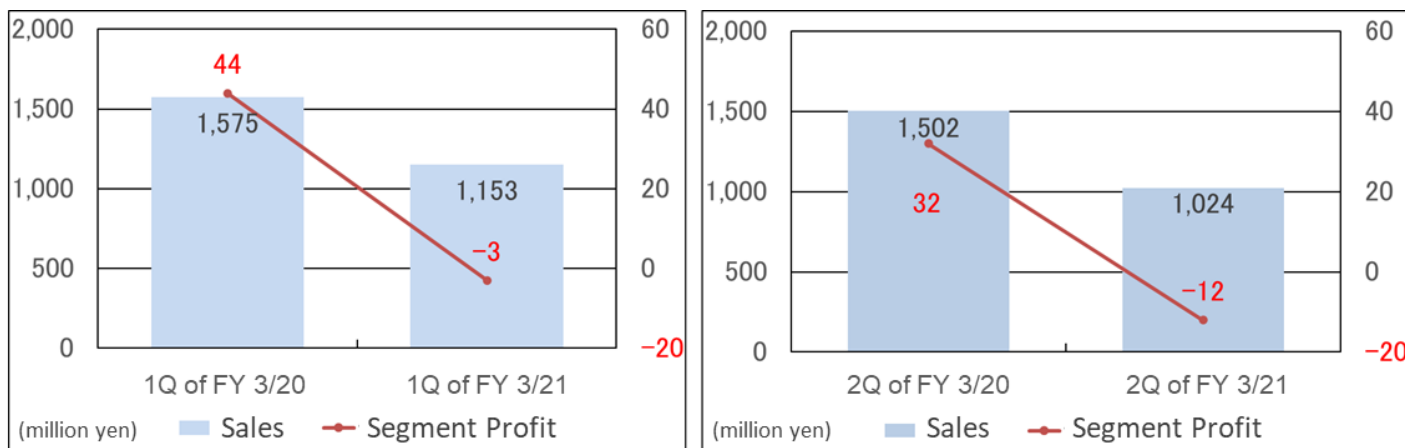
For the second quarter (Jul. to Sep.) of the term ending March 2021, the sales and profit of the Forval Business Group declined year on year, because the icon service grew steadily, but the sales of devices, such as servers, decreased. On the other hand, they increased from the previous quarter (Apr. to Jun.).

### Forval Telecom Business Group (unit: million yen)



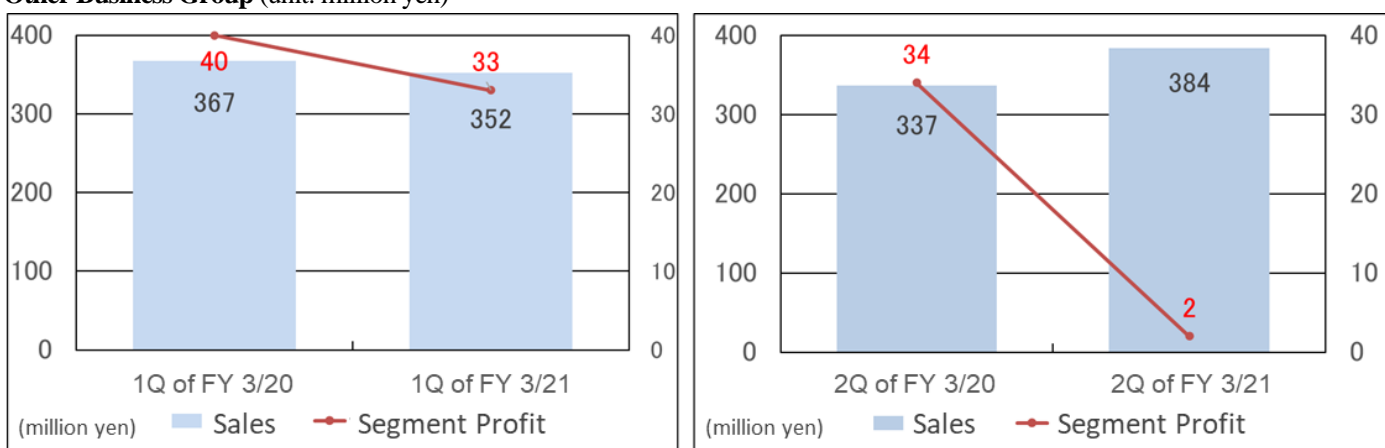
For the second quarter (Jul. to Sep.) of the term ending March 2021, the sales and profit of the Forval Telecom Business Group increased year on year, as the sales of optical line services and ISP decreased, but new electric power and insurance services increased. They also increased from the previous quarter (Apr. to Jun.).

**Comprehensive Environment Consulting Business Group** (unit: million yen)



For the second quarter (Jul. to Sep.) of the term ending March 2021, the sales and profit of the Comprehensive Environment Consulting Business Group decreased year on year, as the sale of storage batteries was healthy, but the sales of solar power systems, etc. decreased. They also declined from the previous quarter (Apr. to Jun.).

**Other Business Group** (unit: million yen)

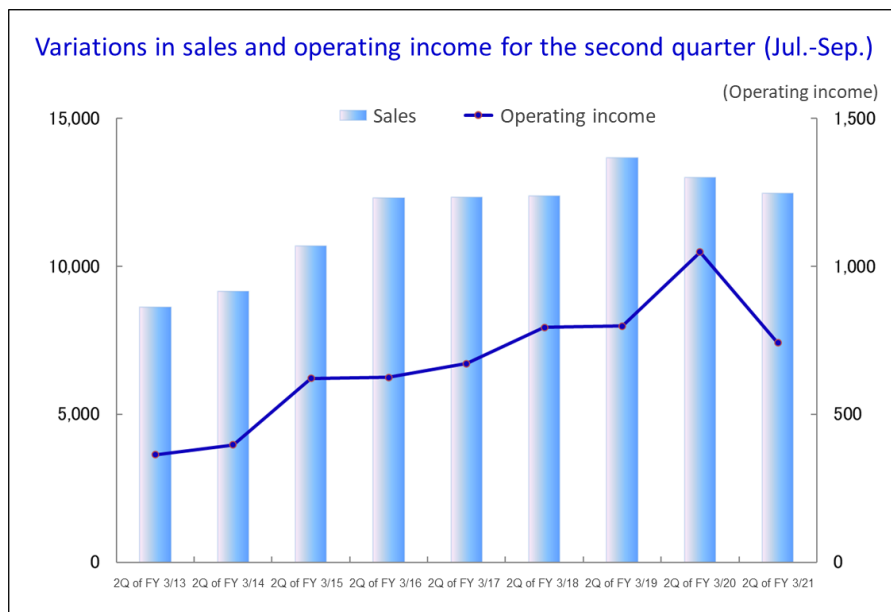


For the second quarter (Jul. to Sep.) of the term ending March 2021, the sales of the Other Business Group increased year on year, thanks to the contribution of KAELUNETWORKS Inc., which became a subsidiary, but its profit decreased year on year, due to the posting of temporary expenses for the acquisition of the subsidiary. In addition, the sales grew and the profit dropped from the previous quarter (Apr. to Jun.).

## BRIDGE REPORT



## Variations in results for the second quarter (Jul.-Sep.)



In the second quarter (Jul. to Sep.) of the term ending March 2021, although sales and operating income are on the increase, they were sluggish compared with the results in the past few years, as some employees were instructed to take days off, as the company considered the voluntary restraint of business operations and the situations of health, safety, and work of employees amid the COVID-19 pandemic.

## (2) Financial Conditions and Cash Flows (CF)

## Financial Conditions

	March 2020	September 2020		March 2020	September 2020
Cash and deposits	9,742	8,998	Trade payables	5,215	4,594
Trade receivables	6,529	6,008	Short-term loans payable	3,956	4,394
Inventories	646	858	Other payables	2,683	2,526
<b>Current assets</b>	<b>20,842</b>	<b>19,808</b>	Long-term loans payable	90	179
Property, plant, and equipment	785	938	<b>Liabilities</b>	<b>17,703</b>	<b>17,072</b>
Intangible assets	1,117	1,848	<b>Net assets</b>	<b>11,400</b>	<b>11,877</b>
Investments and others	6,358	6,354	<b>Total liabilities and net assets</b>	<b>29,103</b>	<b>28,950</b>
<b>Noncurrent assets</b>	<b>8,261</b>	<b>9,141</b>	<b>Total interest-bearing liabilities</b>	<b>4,046</b>	<b>4,689</b>

\*Unit: million yen.

The total assets as of the end of September 2020 were 28,950 million yen, down 153 million yen from the end of the previous term. The main reason for the change in assets is that cash and deposits, trade receivables, etc. decreased although goodwill increased. The major reason for the change in liabilities and net assets is that retained earnings, etc. decreased due to the payment of trade payables, income taxes payable, and dividends although short-term loans payable and profit attributable to owners of parent augmented. Capital-to-asset ratio was 39.0%, up 1.8 points from the end of the previous term. In addition, interest-bearing liabilities stood at 4,689 million yen, up 643 million yen from the end of the previous term.

## BRIDGE REPORT

**Cash Flow**

	2Q of FY 3/20	2Q of FY 3/21	Increase/decrease	YoY
Operating Cash Flow (A)	-559	-62	496	-
Investing Cash Flow (B)	706	-556	-1,263	-
Free Cash Flow (A + B)	147	-619	-767	-
Financing Cash Flow	-369	-179	190	-
Cash and Equivalents at Term End	8,607	8,939	332	+3.9%

\*Unit: million yen.

Compared with the same period of the previous year, the deficit of operating CF shrank due to the decreases in trade receivables, prepaid expenses, etc. On the other hand, investing CF and free CF turned negative, due to the decline in proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation and the augmentation of purchase of shares of subsidiaries resulting in change in scope of consolidation. Due to the increase in proceeds from long-term loans payable, etc., the deficit of financing CF shrank and the cash position as of the end of September 2020 was higher than that in the previous term.

**(3) Recent topics****Release of the new icon service “Business Sales Management”**

The company released the new icon service “Business Sales Management,” which supports SMEs in the design of marketing strategies, including the design of marketing plans, the measurement of their effects after execution, and the suggestion of improvement measures. In the new icon service “Business Sales Management,” the company grasps the current situation, discusses what kinds of measures would be effective for expanding sales, finds prospective clients accurately from the Internet using AI, and approaches them. Furthermore, the company designs marketing plans, including progress management methods, measures effects after execution, and proposes improvement measures based on the measurement results, to support SMEs in expanding sales.

**Release of the consulting service “PPLS,” which improves efficiency by reviewing workflow and producing manuals**

PROCESS MANAGEMENT Corporation, which is a consolidated subsidiary of the company, released the consulting service “PPLS,” which reviews workflow, produces manuals, and streamlines business operations by reducing paper and conducting standardization. In response to the spread of COVID-19, an increasing number of SMEs adopt telework. In telework, it is difficult to handle paper documents, and to reduce paper, it is necessary to change workflow. In addition, in order to do rationalization, including the downsizing of offices, it is effective to utilize the spaces for storing documents, etc. By adopting the consulting service “PPLS,” clients can eradicate waste by redeveloping workflow and reducing paper documents, and by producing manuals for standardization, they can improve productivity and unify quality. In addition, by classifying, organizing, digitalizing, storing, and sharing piles of paper documents that are stored in each office and requiring a large storage space, it is possible to retrieve necessary documents swiftly and produce an environment where any storage space is not required.

**Business alliance with Dynamic Pricing Technology Co., Ltd.**

The company formed a business alliance with Dynamic Pricing Technology Co., Ltd. on October 1, in order to sell electronic shelf tags equipped with dynamic pricing in the fields of distribution and retail. Based on this business alliance, the company will actualize dynamic pricing at real shops, which could not be achieved with manpower, by using the existing service of electronic shelf tags, and OMO (Online Merges with Offline) in a real sense, removing the border between the online and the offline, and create new normal in the fields of distribution and retail. From now on, the company will strive to introduce the new service to shops in cooperation with POS and RFID, in order to realize environmentally friendly AI-based dynamic pricing for reducing food waste while considering the inventory of real shops and the best-before dates of products. The company will promote electronic shelf tags not only for groceries but for retailers, including apparel shops, drugstores, and home appliance retailers, facilitating DX in each shop.



### Business alliance with NAL Net Communications Inc.

The company formed a business alliance with NAL Net Communications Inc., which is a leading player of entrusted management of automobile maintenance, on November 24, in order to solve problems, including the business succession of automobile maintenance shops around Japan. NAL Net Communications manages leased vehicles, and has a network with about 9,400 affiliated maintenance shops around Japan. Based on this business alliance, the company plans to promote the business succession of maintenance shops around Japan and cement the alliance for solving various problems with maintenance shops. The company will first sort out maintenance shops suffering the problem with business succession from maintenance shops affiliated with NAL Net Communications, and support them. In the future, the company plans to develop a system for providing all affiliated maintenance shops with not only business succession methods, but also the know-how to support the business administration of SMEs, which the company is good at.

## 4. Fiscal Year Ending March 2021 Earnings Forecasts

### Full-year Consolidated Earnings Forecast

	FY 3/20 Results	Ratio to sales	FY 3/21 Estimates	Ratio to sales	YoY
Net sales	49,731	100.0%	-	-	-
Operating income	3,229	6.5%	-	-	-
Ordinary income	3,324	6.7%	-	-	-
Profit attributable to owners of parent	1,067	2.1%	-	-	-

\*Unit: million yen.

### The earnings forecast for the term ending March 2021 is still to be disclosed.

Forval Corporation strives to become a group that can support business administration as a next-generation management consultant, cement the relations with clients by contributing to the profits of SMEs, establish a firm position as a business partner, and shift its business model to a recurring-revenue structure. Especially, the company aims to differentiate its services from competitors' in the five fields: "management consulting services utilizing the knowledge and technology of information and telecommunication (Information and Telecommunication)," "management consulting services for entering overseas markets with original know-how (Overseas Market)," "cutting-edge management consulting services caring for the environment (Environmental Protection)," "management consulting services for developing personnel required for next-generation management (Personnel and Education)," and "management consulting services tailored to the lifecycle of each enterprise (Start-up and Succession of Business)" and contribute to the profits of SMEs mainly from the viewpoints of "sales expansion," "streamlining of business operations," and "avoidance of risks."

The forecast for the term ending March 2021 was still to be disclosed as of the announcement of financial results for the second quarter, because the impact of spread of COVID-19 remains uncertain inside and outside Japan and it was judged that it's difficult to estimate earnings reasonably at present. As soon as reasonable estimation becomes possible, the company plans to announce its forecast.

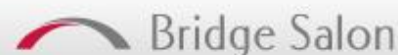
As for dividends, the initially estimated annual dividend of 26 yen/share is unchanged.

## 5. Future Growth Strategy

### Strengthening of services according to the new workstyles of SMEs

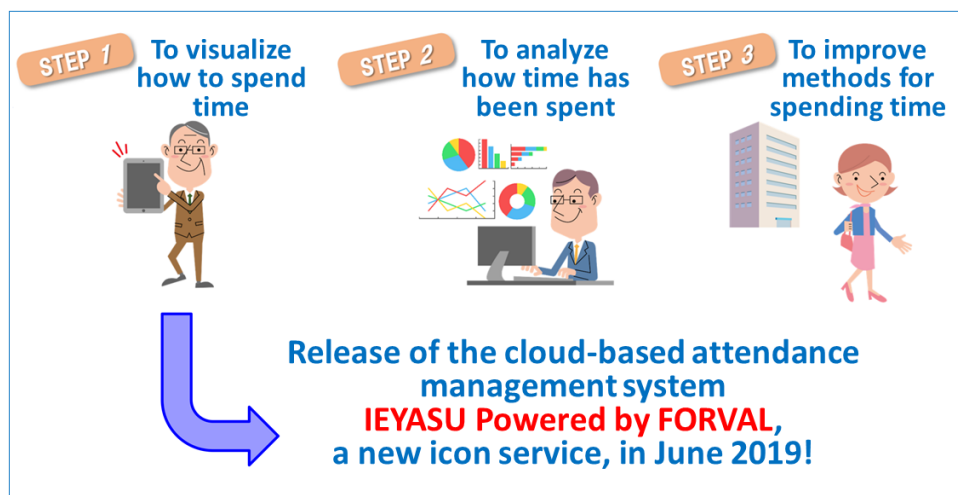
Due to the Act on Workstyle Reform enforced in April 2019, enterprises need to secure the effectiveness of systems for having employees take paid holidays and grasping working hours, adopt the flextime system, make efforts to secure a sufficient interval between work on a day and work on the following day, adopt the advanced professional system, and follow the upper limit of overtime work hours. From now on, they will need to use time more efficiently, as the regulations on working hours will be tightened. To do so, it is necessary to accurately measure the working hours of employees, analyze and improve their methods for using their working hours, but SMEs tend to get behind in dealing with it. In this situation, the company released "IEYASU Powered by FORVAL," a cloud-based attendance management system, which is a new icon service for responding to the workstyle reform of SMEs, in June 2019. By adopting "IEYASU Powered by FORVAL" and reforming workstyles appropriately, it is possible to reduce excessive work of employees, increase their

## BRIDGE REPORT



private time, and improve their physical and mental health. In addition, productivity will be improved as employees will work efficiently within limited working hours, and the turnover rate of employees will decrease and new personnel will be attracted, as a comfortable working environment will be developed.

### Basic functions of “IEYASU Powered by FORVAL”



(Taken from the reference material for the financial results of Forval Corporation for the term ended March 2020)

In October 2020, the company released PPLS, a consulting service for streamlining business operations by reviewing workflow and producing manuals. By adopting PPLS, clients can review workflow, produce manuals, reduce paper documents, conduct standardization, and streamline business operations. Furthermore, the company released “Business Sales Management,” a new icon service for supporting SMEs in designing marketing strategies, in November 2020. The company plans to keep upgrading its services tailored to the new ways of working of SMEs.

### Growth cycle through the strengthening of icon services

The sales of icon services are highly correlated with the operating income of the company. The growth rate of consolidated operating income is about 1.5 times that of sales of icon services. It can be said that it is indispensable to expand the sales of icon services, in order to achieve profit growth.

The company plans to actively allocate the profits earned through the expansion of icon services to the increase of employees, the development of new services, and M&A. New investments are expected to increase the icon services and average spending per customer, inducing the growth cycle of the sales of icon services and the overall operating income of the company.

## 6. Conclusions

The Act on Workstyle Reform was enforced, but Japanese small and medium-sized enterprises (SMEs) are lagging behind in shifting to new workstyles. Under these circumstances, Forval Corporation actively invests in new services for strongly supporting the workstyle reform of SMEs. In June 2019, the company released the cloud-based attendance management system “IEYASU Powered by FORVAL,” a new icon service. By adopting “IEYASU Powered by FORVAL,” clients can reduce excessive work of employees to improve their physical and mental health, enable efficient work within limited working hours to boost productivity, and develop a comfortable working environment to reduce the turnover ratio of employees. In October 2020, the company released “PPLS,” a consulting service for enhancing efficiency by reviewing workflow and producing manuals. In the wake of spread of COVID-19, an increasing number of SMEs adopt telework. In telework, it is difficult to handle paper documents, and to reduce paper, it is necessary to change workflow. “PPLS” is expected to reduce waste by redeveloping workflow and achieving paperless business operations, facilitate standardization by producing manuals, and reduce storage space by digitalizing paper documents. Furthermore, the company released “Business Sales Management,” which supports SMEs in designing marketing strategies, in November 2020. “Business Sales Management” is expected to increase sales, by proposing effective measures for growing sales, designing marketing plans, including the extraction of prospective clients and progress management using AI, and proposing improvement measures after execution. Due to the spread of COVID-19, the

business environment surrounding SMEs is severe, but it is noteworthy how the active release of services tailored to new workstyles of SMEs will produce effects on the performance of the company. Especially, the effect on the sales of icon services, which are expected to drive the growth of its business, attracts attention. From the second half onward, the company is expected to release new services to contribute to the new workstyles of SMEs. We would like to pay attention to the future release of new attractive services with expectation.

## <Reference: Regarding Corporate Governance>

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

Organization type	Company with audit and supervisory committee
Directors (excluding audit and supervisory committee)	5 directors, including 0 outside ones
Audit and supervisory committee	3 members, including 2 outside ones

### ◎ Corporate Governance Report

The submission date of the corporate governance report after the application of the corporate governance code: August 6, 2020

#### <Basic Policy>

Our company recognizes that it is important to tighten corporate governance, in order to achieve growth with profit amid the rapidly changing business environment, set the following as the basic policies, and is making efforts to actualize them:

1. To secure the transparency and soundness of business administration,
2. To realize swift decision making and business execution,
3. To clarify accountability
4. To disclose information swiftly, properly, and fairly.

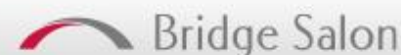
We will discuss systems suited for our company in response to changes in the social environment, legal systems, etc. and conduct necessary reform for tightening corporate governance.

#### <Regarding the observance of the principles of the corporate governance code>

Codes we do not follow: Major principles we do not follow, and reasons for not following them

Principles	Reason for not following the principle
<b>【Principle 1-2 Exercise of rights at general meetings of shareholders】</b> <b>【Supplementary Principle 1-2-4】</b>	Our company recognizes the importance of the development of an environment where overseas investors can exercise their voting rights easily, for example, by providing them with information in English, and will have comprehensive discussions about English translation, etc. while considering appropriate costs, timing, etc.
<b>【Principle 3-1 Improvement in information disclosure】</b>	(1) Our company's ideal state (management philosophy, etc.), management strategy and plan Our company's ideal state (management philosophy, etc.) is as described in "Corporate ethos" in Corporate Information of our website. Under the basic philosophy of "aiming to distribute happiness to everyone by creating social value while going with employees, family members, customers, shareholders, and business partners," we designed our management strategy and plan. However, the management situation in our business environment is changing rapidly, so we do not announce concrete figures or the like in the current management strategy and plan, which would make us stick to concrete numerical goals and hinder our flexible response.
<b>【Supplementary Principle 3-1-2】</b>	Our company recognizes the usefulness of information in English for overseas investors, and will discuss it while considering the shareholder composition, etc.
<b>【Principle 4-1 Roles and duties of the board of directors (1)】</b> <b>【Supplementary Principle 4-1-2】</b>	Our company's ideal state (management philosophy, etc.) is as described in "Corporate ethos" in Corporate Information of our website. Under the basic philosophy of "aiming to distribute happiness to everyone by creating social value while going with employees, family members, customers, shareholders, and business partners," we designed our management strategy and plan. However, the management situation in our business environment is changing rapidly, so we do not announce concrete figures or the like in the current management strategy and plan, which would make us stick to concrete numerical goals and hinder our flexible response. However, we

## BRIDGE REPORT



	analyze the results compared with the goals in each mid-term management plan and reflect the analysis results in the plan for the following term.
【Principle 4-2 Roles and duties of the board of directors (2)】 【Supplementary Principle 4-2-1】	At the 36 <sup>th</sup> annual meeting of shareholders, a new budget for remunerations for adopting the system for giving remunerations to executives in the form of shares with restrictions on share transfer was approved, and we give remunerations to 4 directors in the form of shares with restrictions on share transfer in order to share value with shareholders.
【Principle 4-10 Utilization of an arbitrary system】 【Supplementary Principle 4-10-1】	The board of directors of our company is composed of as few as 8 members, including 2 independent outside directors. We believe that with the current system, we can receive appropriate involvement and advice from independent outside directors in the deliberation of important matters regarding nomination, remuneration, etc.
【Principle 5-2 Formulation and announcement of management strategy and plan】	We have formulated a mid-term management plan. However, the management situation in our business environment is changing rapidly, so we do not announce concrete figures or the like in the current management strategy and plan, which would make us stick to concrete numerical goals and hinder our flexible response.

## &lt;Major principles we disclose&gt;

Principles	Major principles we disclose
【Principle 1-4 Strategically held shares】	Our company does not hold any listed shares as strategically held shares. We have no plan to hold such shares, but if it is judged that it is meaningful to hold such shares after considering the business relationships with business partners, etc., the board of directors will discuss it. If we hold such shares and exercise voting rights, we will examine each bill and judge whether or not it will contribute to the improvement in corporate value of our company and the invested enterprise.
【Principle 2-6 Exertion of functions as an asset owner of corporate pensions】	Our company does not have a corporate pension fund system.
【Principle 4-11 Prerequisites for securing the effectiveness of the board of directors and the audit committee】 【Supplementary Principle 4-11-1】	Our company considers that the board of directors is needed to be composed of members who possess diverse knowledge, experience, and skills. Namely, we believe that it is indispensable to secure the diversity of the board of directors with such members in order to oversee business execution and make decisions about important items. In addition, from the viewpoints of holding sufficient discussions and making decisions swiftly in the board of directors, we think that the board of directors should be composed of up to 15 members, including up to 10 directors (excluding directors belonging to the audit committee) and up to 5 directors who belong to the audit committee. The procedures were discussed under the above policy and approved by the board of directors.
【Supplementary Principle 4-11-2】	Our company discloses the important concurrent posts of directors and outside directors in other listed companies through our business reports and reference material for general meetings of shareholders.
【Supplementary Principle 4-11-3】	In order to evaluate the effectiveness of the board of directors, our company conducted “a self-assessment questionnaire survey for evaluating the board of directors” targeting all directors, and then analyzed and evaluated their answers. As a result, we confirmed that the board of directors holds meetings properly, secures the balance between knowledge, experience, and abilities, and deliberates each bill to a sufficient degree. We will keep striving to enhance the effectiveness of the board of directors while reflecting the

BRIDGE REPORT



	<p>evaluation results in the activities in the following fiscal year.</p>
<p>【Principle 5-1 Policy for constructive dialogues with shareholders】</p>	<p>Our company holds voluntary, effective dialogues with shareholders and investors, mainly via the representative director. In addition to holding a briefing session for shareholders after each general meeting of shareholder, we upload the reference material and videos of the financial results briefing session, which is held every six months for mainly analysts and institutional investors from the viewpoint of fairness, to our website.</p> <p>When necessary, the director in charge of IR and the section in charge of IR give assistance, and the section in charge of IR takes the initiative in coordinating related divisions in order to realize smooth dialogues with shareholders and investors, and their opinions obtained through the dialogues are shared by the board of directors when necessary, to improve our corporate value.</p> <p>During the dialogues with shareholders and investors, we make efforts to prevent the leakage of insider information in accordance with the regulations for managing inside information.</p> <p>Our policies for systems and activities for promoting constructive dialogues with shareholders are as follows:</p> <ol style="list-style-type: none"> <li>(1) The director in charge of IR manages the dialogues with shareholders and investors, and we strive to realize voluntary, constructive dialogues.</li> <li>(2) The section in charge of IR takes the initiative in coordinating related divisions, for example, by sharing necessary information for producing reference material in order to hold smooth dialogues with shareholders and investors.</li> <li>(3) The section in charge of IR listens to the requests from shareholders and investors, holds individual interviews between them and the representative director, the director in charge of IR, or the section in charge of IR, and organizes a session in which the representative director reports financial results and a briefing session for shareholders after each general meeting of shareholders.</li> <li>(4) The opinions obtained through the dialogues with shareholders and investors are sent to the management when necessary, to share and utilize information.</li> <li>(5) During the dialogues with shareholders and investors, we make efforts to prevent the leakage of insider information in accordance with the regulations for managing inside information.</li> </ol>

This report is intended solely for information purposes, and is not intended as a solicitation for investment. The information and opinions contained within this report are made by our company based on data made publicly available, and the information within this report comes from sources that we judge to be reliable. However, we cannot wholly 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) 2020 Investment Bridge Co., Ltd. All Rights Reserved.