



Katsunori Ueda, President

Nihon Enterprise Co., Ltd. (4829)



## 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	<a href="http://www.nihon-e.co.jp/l_en/">http://www.nihon-e.co.jp/l_en/</a>

## Stock Information

Share Price	Number of shares issued (end of the term)		Total market cap	ROE Act.	Trading Unit
¥216	40,133,600 shares		¥8,668million	3.6%	100 shares
DPS Est.	Dividend yield Est.	EPS Est.	PER Est.	BPS Act.	PBR Act.
¥2.50	1.2%	¥4.98	43.4x	¥123.34	1.8x

\*The share price is the closing price on January 20.

\*The number of shares issued, DPS, EPS, and BPS were taken from the brief report on the earnings results for the second quarter of the fiscal year ending May 2021. ROE is the value as of the end of the previous term.

## 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. Net Income is the net income attributable to owners of the parent. The same applies hereafter.

\*Unit: million-yen, yen

This Bridge Report provides details of earnings results for the second quarter of fiscal year ending May 2021 and the fiscal year ending May 2021 earnings forecast of Nihon Enterprise Co., Ltd.

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## Key Points

- For the cumulative second quarter of the fiscal year May 2021, sales were 1,886 million yen, up 7.2% year on year. Sales grew thanks to the increase of development projects entrusted by corporations, the growth of Business Support Services, the promotion of services and products for coping with the novel coronavirus, the expansion of fixed-rate contents for telecommunication carriers, etc. The sales of the Creation Segment dropped due to the decline in Content Service, but the sales of the Solutions Segment increased thanks to the significant growth of System Developing and Operating Service. As for profit, cost ratio rose as the ratio of sales from the Creation Segment, whose profit margin is high, decreased, and gross profit declined 2.7% year on year. Gross profit margin dropped 4.1% year on year. On the other hand, SG&A augmented 5.8% year on year, as there was no longer reversal of allowance for doubtful accounts, which was posted in the same period of the previous year, and personnel costs for recruiting human resources for enhancing marketing capacity increased, and operating income dropped 43.0% year on year to 76 million yen. Due to the decrease in revenues from subsidies for the shift from demonstration experiment to entrusted development, non-operating income/loss worsened, and ordinary income dropped 46.1% year on year to 83 million yen. Due to the augmentation of the tax burden, etc., net income decreased 82.2% year on year to 19 million yen.
- There is no revision to the full-year financial forecasts. The company will (1) strive to make large-scale transactions for kitting support, which is their core business, in the second half, (2) enrich content services for telecommunication carriers, which are highly profitable, (3) undertake development for digital transformation (DX) of society amid the coronavirus crisis, and (4) expand Business Support Services, while improving revenues in each business, and aims to increase annual profit. Profit margin is expected to recover. As for dividends, the company plans to pay a term-end dividend of 2.5 yen/share, up 0.5 yen/share from the previous term. The estimated payout ratio is 50.2%.
- In the first half, the progress rates toward the full-year forecasts were 47.2% for sales, and 22.6% for operating income. Compared with the past several terms, the progress rate of sales is as usual, but the progress rate of operating income is lower than usual. However, the full-year forecasts are unchanged, because the company plans to make a large-scale transaction for kitting support this spring, and the improved content services for telecommunication carriers, which are highly profitable, are expected to contribute to business results from the second half. Firstly, we would like to pay attention to the progress of these services from the third quarter.
- Although this will be detailed in the section for overviewing each business segment, it seems that not only kitting support, but also services that have been offered since before are steadily meeting new demand that has emerged amid the coronavirus crisis. It is noteworthy how speedily these services will contribute to revenues in this term and following terms.

## 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, 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 “Solution 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.

#### (1) 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 other (solar power generation).

### ◎ Content Services

The company offers a comprehensive e-book service, entertainment contents, and lifestyle contents, such as “ATIS Traffic Information Service (traffic information),” “Lucky Station,” and “Inaseri Market,” a fresh seafood EC site for general consumers.

Entertainment	<ul style="list-style-type: none"> <li>• 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</li> </ul>
Lifestyle	<ul style="list-style-type: none"> <li>• 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.</li> <li>• Apps to support women’s “beauty” and “health” for 200 thousand users per month</li> <li>• A flea market app that handles all genres of products, including high-end goods, fashion items, and appliances.</li> <li>• EC websites for general consumers selling fisheries products, fruit, and vegetables that satisfy intermediate wholesalers of the Toyosu market.</li> </ul>

(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.

Kitting Support	<ul style="list-style-type: none"> <li>• Development and sale of “Kitting-One,” etc., a tool for supporting kitting that could reduce workload and improve “productivity” and “accuracy”.</li> </ul>
ATIS Traffic Information	<ul style="list-style-type: none"> <li>• 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</li> <li>• Development of recurring-revenue business, including the provision of community FM, etc.</li> </ul>
Sound Solution	<ul style="list-style-type: none"> <li>• Development and sale of “Primus,” IP-PBX software that offers a business phone environment that is excellent in flexibility and user-friendliness.</li> <li>• 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. Enhancement of security through the installation of the face recognition function.</li> </ul>
Education, procurement, and sightseeing	<ul style="list-style-type: none"> <li>• e-learning, reverse auction, promotion of sightseeing, etc.</li> </ul>
Inaseri	<ul style="list-style-type: none"> <li>• 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</li> </ul>

(Produced based on the reference material of the company)

◎ Other

With the aim of revitalizing each region with renewable energy, the company generates electricity from solar power and sells it, etc.

Solar power generation	<ul style="list-style-type: none"> <li>▪Promoting regional vitalization through renewable energy in Yamaguchi Prefecture.</li> </ul>
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(Produced based on the reference material of the company)

**(2) 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 demand for terminals grew, as telework was promoted amid the coronavirus crisis and customers changed cellphones as the government urged the lowering of cellphone fees, the distribution amount of used terminals increased, so the demand for the company’s services is expected to grow. (The market of used terminals is already growing, mainly for smartphones.)

System development and operation services	<p>*Solution services</p> <p>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.</p> <p>The company also offers the service of predicting the required time for pulling a car out of a multilevel parking garage for the first time in the industry.</p>
	<p>*Business support service</p> <p>In this service, staff are stationed for supporting business operations to solve problems in client enterprises. Service are expanded based on a broad range of support contents.</p>
	<p>*Used terminals purchase and sales service</p> <p>A service that purchases used terminals and sells them to buyers. The company aims to provide refurbishments* in addition to rigorous grading (assessment).</p>
	<p>*Service of offering countermeasures against the novel coronavirus</p> <p>The company sells glass coating agents, etc.</p>

\*Refurbishing: To refurbish terminals, including used ones, to a state close to the brand new one.

(Produced based on the reference material of the company)

## 2. The Second quarter of Fiscal Year ending May 2021 Earnings results

### 2-1 The second quarter Consolidated Earnings (cumulative)

	2Q of FY May 20	Ratio to Sales	2Q of FY May 21	Ratio to Sales	YoY
Sales	1,759	100.0%	1,886	100.0%	+7.2%
Gross profit	772	43.9%	751	39.8%	-2.7%
SG&A	637	36.2%	674	35.8%	+5.8%
Operating Income	134	7.6%	76	4.1%	-43.0%
Ordinary Income	154	8.8%	83	4.4%	-46.1%
Quarterly Net Income	107	6.1%	19	1.0%	-82.2%

\*Unit: million yen

#### Sales increased 7.2% and operating income decreased 43.0% year on year.

Sales were 1,886 million yen, up 7.2% year on year. Sales grew thanks to the growth of Business Support Services, the promotion of services and products for coping with the novel coronavirus, the expansion of fixed-rate contents for telecommunication carriers, etc. The sales of the Creation Segment dropped due to the decline in Content Service, but the sales of the Solutions Segment increased thanks to the significant growth of System Developing and Operating Service.

As for profit, cost ratio rose as the ratio of sales from the Creation Segment, whose profit margin is high, decreased, and gross profit declined 2.7% year on year. Gross profit margin dropped 4.1% year on year. On the other hand, SG&A augmented 5.8% year on year, as there was no longer reversal of allowance for doubtful accounts, which was posted in the same period of the previous year, and personnel costs for recruiting human resources for enhancing marketing capacity increased, and operating income dropped 43.0% year on year to 76 million yen. Due to the decrease in revenues from subsidies for the shift from demonstration experiment to entrusted development, non-operating income/loss worsened, and ordinary income dropped 46.1% year on year to 83 million yen. Due to the augmentation of the tax burden, etc., net income decreased 82.2% year on year to 19 million yen.

### 2-2 Trend of each segment

#### ◎ Sales and Operating income in each segment

	2Q of FY May 20 (cumulative)	Ratio to Sales	2Q of FY May 21 (cumulative)	Ratio to Sales	YoY
Creation Segment	1,040	59.1%	982	52.1%	-5.6%
Solution Segment	719	40.9%	904	47.9%	+25.6%
Total sales	1,759	100.0%	1,886	100.0%	+7.2%
Creation Segment	336	32.4%	299	30.4%	-11.2%
Solution Segment	94	13.1%	67	7.4%	-28.7%
Adjustments	-296	-	-289	-	-
Total operating income	134	7.6%	76	4.1%	-43.0%

\*Unit: million yen. Ratio to sales of operating income is operating margin.

#### ① Creation Segment

	2Q of FY May 20 (cumulative)	2Q of FY May 21 (cumulative)	YoY
Content Service	639	580	-9.1%
Business Supports	367	367	0.0%
Other (Solar Power Generation)	32	33	+1.8%
Segment Sales	1,040	982	-5.6%

\*Unit: million yen



## BRIDGE REPORT



The sales of Content Service declined, as monthly charged content decreased and the content the company focused on in the platforms operated by enterprises other than telecommunication carriers was sluggish, although fixed-rate content for telecommunication carriers grew.

The sales of Business Supports were unchanged, as the adoption of tools, which is the revenue base for kitting support, increased steadily, but the special demand in the first quarter of the previous year disappeared, decreasing sales, while services such as traffic information and procurement ones, were healthy.

The sales of other business (solar power generation) grew, thanks to favorable weather, etc.

## ② Solutions Segment

	2Q of FY May 20 (cumulative)	2Q of FY May 21 (cumulative)	YoY
System Developing, Operating	719	904	+25.7%
Others	0	-	-
Segment Sales	719	904	+25.6%

\*Unit: million yen

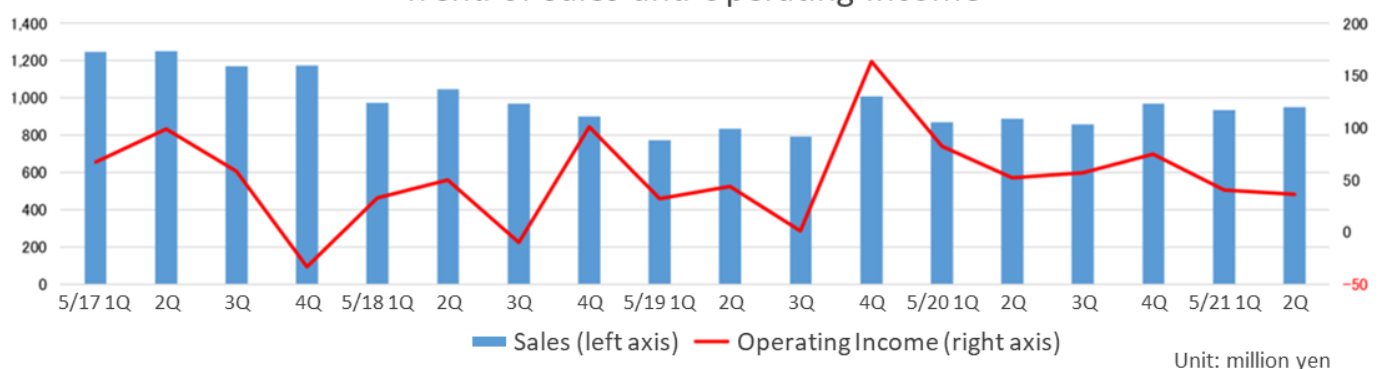
The sales of System Developing and Operating grew considerably, as development entrusted by corporations increased due to their strong willingness to invest in IT, Business Support Services, which can solve the problem of shortage of manpower, grew, and the company actively promoted services and products for coping with the novel coronavirus. The company posted the largest sales in the first half since fiscal 2017.

## 2-3 Trend of quarterly results

	2Q of FY May 20 (Sep. to Nov.)	Ratio to Sales	2Q of FY May 21 (Sep to Nov.)	Ratio to Sales	YoY
Sales	888	100.0%	949	100.0%	+6.9%
Operating Income	52	5.9%	36	3.8%	-30.4%
Ordinary Income	60	6.9%	40	4.3%	-32.9%
Quarterly Net Income	41	4.7%	6	0.7%	-84.6%

\*Unit: million yen

### Trend of Sales and Operating Income



On quarterly basis, sales increased and operating income decreased.

## ① Creation Segment

	FY5/20 1Q	2Q	3Q	4Q	FY5/21 1Q	2Q	3Q	4Q
Content Service	322	317	300	301	299	281	-	-
Business Supports	211	156	186	191	175	192	-	-
Other	19	13	9	17	17	16	-	-
Segment Sales	552	487	496	510	492	490	-	-

\*Unit: million yen

## BRIDGE REPORT



## \*Content Service

In the first quarter, sales dropped 0.5% year on year, indicating that business performance is bottoming out, and while consumption by people staying home was active, the Inasari Market and the fixed-rate content for telecommunication carriers remained healthy, but sales declined 6.0% year on year, due to the decrease of monthly charged content and the sluggishness of content they focused on in the platforms operated by enterprises other than telecommunication carriers.

## \*Business Supports

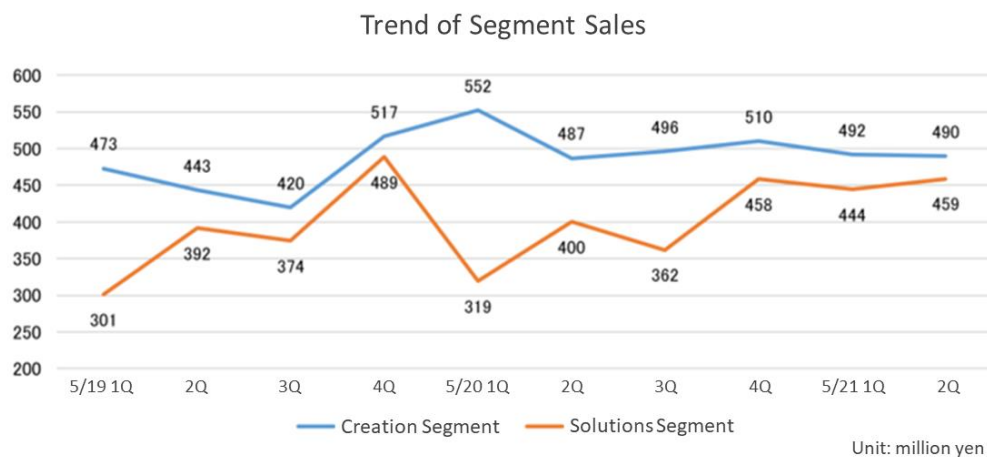
Sales grew 9.6% year on year. Thanks to the demand for IT in the trend of DX, the kitting support business expanded, and the sales of services, such as traffic information and procurement ones, increased.

## ② Solutions Segment

	FY5/20 1Q	2Q	3Q	4Q	FY5/21 1Q	2Q	3Q	4Q
System Developing, Operating	319	400	362	457	444	459	-	-
Others	0	0	0	1	-	-	-	-
Segment Sales	319	400	362	458	444	459	-	-

\*Unit: million yen

By offering solutions for DX amid the coronavirus crisis, the sales of entrusted development and Business Support Services grew. Sales hit a record high in the second quarter since fiscal 2017.



## 2-4 Financial Conditions and Cash Flow (CF)

## ◎ Summary of BS

	May 2020	November 2020		May 2020	November 2020
Cash, etc.	4,715	4,463	Payables	105	136
Receivables	449	512	Short Term debt	25	23
Current Assets	5,365	5,270	Current Liabilities	566	544
Tangible Assets	350	334	Long Term debt	230	218
Intangible Assets	305	303	Noncurrent Liabilities	307	298
Investments and Others	178	183	Liabilities	873	842
Noncurrent Assets	834	821	Net Assets	5,326	5,248
Total Assets	6,200	6,091	Total Liabilities and Net Assets	6,200	6,091

\*Unit: million yen



Due to the decrease in cash, etc., total assets dropped 109 million yen from the end of the previous term to 6,091 million yen. Due to the decline in borrowings, etc., liabilities decreased 30 million yen from the end of the previous term. Due to the drop in retained earnings, etc., net assets decreased 78 million yen from the end of the previous term. As a result, capital-to-asset ratio rose 0.4% from the end of the previous term to 81.3%.

#### ◎Cash Flow (CF)

	2Q of FY May 20	2Q of FY May 21	Increase/decrease
Operating cash flow (A)	331	-62	-393
Investing cash flow (B)	-39	-62	-22
Free Cash Flow (A+B)	291	-124	-416
Financing cash flow	-55	-128	-73
Cash and Equivalents at the end of term	4,492	4,432	-59

\*Unit: million yen

Due to the decrease in net income before taxes, etc., operating CF and free CF turned negative. The cash position is almost unchanged.

### 3. Overview of Each Segment

In the two businesses, noteworthy products and services are as follows.

#### 3-1 Creation Segment

##### ◎ Chokotto Game for Sugotoku

Chokotto Game for Sugotoku, a portal site for video games for Sugotoku Content®, which is a fixed-rate service for smartphones of NTT Docomo, Inc., ranks 5<sup>th</sup> in the general section, and ranks 1<sup>st</sup> in game section of Sugotoku Content (as of Jan. 14), because users can enjoy it easily in a brief period of time during commuting and a break. Thanks to the consumption by people staying home amid the coronavirus crisis, it is expected to be used further.

The company plans to release new contents, to promote further use.

##### ◎ Kitting support

The service of supporting kitting (initial settings of terminals) by automating it with RPA tools has been expanding steadily, as enterprises promoted IT investment for DX amid the novel coronavirus pandemic.

In the third and fourth quarters, the company plans to receive large-scale orders. It also fortified the system for undertaking tasks for offering services stably.

##### ◎ Online conference system, NEEDS

In November 2020, the face recognition function was installed in NEEDS, an online conference system under the theme of Simple & Easy.

As the company achieved high security and user-friendliness, it was featured in Nikkei Business Daily on November 17, 2020. The company aims to increase the use of this system by conducting sales promotion mainly in the fields where demand is expected to grow.

##### ◎ Reverse auction, Profair

Profair, a purchase support service for supporting fair and impartial transactions through reverse auctions, met the demand for non-face-to-face operations amid the coronavirus crisis, and it is being adopted by public offices, national and public universities, private colleges, private enterprises, etc. This spring, it is scheduled to be adopted by leading public enterprises.

The company will improve usability and promote the use of the service, based on a plentiful track record.

##### ◎ Inaseri Market and Inaseri

As for Inaseri Market for general consumers and Inaseri for restaurant business operators, which are EC sites that sell high-quality seafood handpicked by intermediate wholesalers of Toyosu, the company responded to the changes in society swiftly, and carried out upfront investment for strengthening and advertising its services, getting media exposure and increasing customers among general consumers. In the first half of this term, sales grew as high as 38% year on year.

The company will enrich its product lineup and customer services, to achieve further growth.

#### 3-2 Solution Segment

##### ◎ Solution service

The company offers comprehensive solution services, including consulting and business support with stationed staff, mainly for development of systems for AI, IoT, and security. It contributes to the reform of business administration, business operations, and workstyles of clients, and promote digital transformation.

##### ◎ Service of predicting the required time for pulling a car out of a multilevel parking garage

The company developed the industry's first service of visualizing the estimated required time for pulling a car out of a multilevel parking garage with AI image analysis and offering information in cooperation with Marubeni Network Solutions Inc. and released it in December 2020.

By displaying the estimated number of cars leaving a garage in 30 minutes, 1 hour, and 2 hours on a signage or an online dedicated page, the company will contribute to the facilitation of economic activities amid the coronavirus crisis.

The company aims to promote sales to about 3,000 shopping malls that have large multilevel parking garages around Japan.

**◎ Business support service**

In the service of supporting business with stationed staff, which is expanding, the company supports business, mainly through marketing targeted at leading telecommunication carriers.

As the company concentrated on the recruitment and dispatch of excellent personnel who can satisfy customer needs, the sales in the second quarter increased significantly, 2.3 times year on year.

The company will further improve the support for leading telecommunication carriers, which are existing clients, and expand the support for affiliated enterprises.

**◎ Service of buying and selling used terminals**

In this service, the company helps enterprises dispose of used terminals efficiently and effectively, by deleting data with software recommended around the world. As telework was promoted amid the coronavirus crisis, the demand for terminals grew, and the sales in the second quarter increased 2.7 times year on year.

Sales are expected to grow further, as the demand for replacement of terminals will increase through the diffusion of new lifestyles and the lowering of cellphone charges for leading telecommunications carriers urged by the government.

**◎ Glass coating agents**

The company started selling glass coating agents as a peripheral business of terminals, and the number of transactions and its business scale are expanding, as the products are used for devices, such as smartphones and tablets, equipment, and large-scale facilities, amid the novel coronavirus pandemic.

The company aims to expand this business further by taking advantage of the features of the products, such as convenience and versatility.

## 4. Fiscal Year ending May 2021 Earnings Forecast

### 4-1 Consolidated Earnings Forecast

	FY May 20 Act.	Ratio to Sales	FY May 21 Est.	Ratio to Sales	YoY	Progress rate
Sales	3,588	100.0%	4,000	100.0%	+11.5%	47.2%
Operating Income	267	7.4%	340	8.5%	+27.2%	22.6%
Ordinary Income	310	8.6%	340	8.5%	+9.6%	24.5%
Net Income	176	4.9%	200	5.0%	+13.3%	9.6%

\*Unit: million yen

#### No revision in the full-year forecasts, with an 11.5% increase in sales and a 27.2% increase in operating income year on year.

There is no revision to the full-year financial forecasts. The company will (1) strive to make large-scale transactions for kitting support, which is their core business, in the second half, (2) enrich content services for telecommunication carriers, which are highly profitable, (3) undertake development for digital transformation (DX) of society amid the coronavirus crisis, and (4) expand Business Support Services, (5) further promote the development of new businesses to increase revenue.

While expanding high-profitable business, it aims to increase annual profit. Profit margin is also expected to recover.

As for dividends, the company plans to pay a term-end dividend of 2.5 yen/share, up 0.5 yen/share from the previous term. The estimated payout ratio is 50.2%.

### 4-2 Scheme for Business Expansion

Recognizing the new normal and reform society needs to face amid the coronavirus crisis as business chances, the company solves social issues with a wide array of products for DX.

To do so, the company will utilize managerial resources of the corporate group, which is composed of ten companies (the company, eight consolidated subsidiaries, and one non-consolidated subsidiary) and conducts business with the aim of maximizing the synergy among group companies.

In addition, as social contribution activities, the company started helping procure medical goods, including face masks, gloves, and protective clothing, which became difficult to procure in the novel coronavirus pandemic, based on the relations with Chinese companies in April 2020. While minimizing profit, the company keeps supporting municipalities, medical institutions, nursing-care facilities, etc. around Japan.

## 5. Conclusions

In the first half, the progress rates toward the full-year forecasts were 47.2% for sales, and 22.6% for operating income. Compared with the past several terms, the progress rate of sales is as usual, but the progress rate of operating income is lower than usual. However, the full-year forecasts are unchanged, because the company plans to make a large-scale transaction for kitting support this spring, and the improved content services for telecommunication carriers, which are highly profitable, are expected to contribute to business results from the second half. Firstly, we would like to pay attention to the progress of these services from the third quarter.

As mentioned in the section for over-viewing each business segment, it seems that not only kitting support, but also services that have been offered since before are steadily meeting new demand that has emerged amid the coronavirus crisis. It is noteworthy how speedily these services will contribute to revenues in this term and following terms.

## <Reference: Regarding Corporate Governance>

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

Organization type	Company with auditors
Directors	5 directors, including 2 outside ones
Auditors	3 auditors, including 2 outside ones

### ◎Corporate Governance Report

Updated on August 27, 2020

#### 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)>

<Principle 5-2: Formulation and announcement of management strategies and plans>

Our company does not announce our mid-term management plan, but at the beginning of each term, we disclose target values for the term. As for the setting of target values, we revise our business portfolio while considering capital cost, and design plans for allocating managerial resources to equipment, R&D, and human resources. As for concrete measures for attaining goals, we give understandable explanations to shareholders through brief earnings results, results briefing sessions, and daily IR activities, so that they can understand our measures.

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

<Principle 1-4: Strategically held shares>

The following are our policy for reducing strategically held shares, discussion on the appropriateness of shareholding, and standards for exercising voting rights.

##### 1. Policy for reducing strategically held shares

Our company holds the limited number of strategically held shares, only when it is considered strategically important to maintain or cement the stable relationships with business partners and the shareholding is expected to contribute to the sustainable growth of our company and the improvement in our corporate value. We review strategic judgments when necessary and reduce strategically held shares, if shareholding is not meaningful or consistent with our capital policy.

##### 2. Discussion on the appropriateness of strategic shareholding

Every year, we discuss the rationality of business alliances with invested companies, maintenance and expansion of transactions, etc., the necessity of shareholding for our corporate growth, and the risks of shareholding, while considering the trends of invested companies, the situation of transactions, the market prices of strategically held shares, etc., and judge the appropriateness of shareholding from the viewpoint of effectiveness of utilization of funds.

##### 3. Standards for exercising voting rights of strategically held shares

We exercise voting rights of strategically held shares, while comprehensively considering whether a proposal would match our shareholding policy and whether it would improve the corporate value of the issuing company.

#### 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 : <https://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.
- 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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