



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	http://www.nihon-e.co.jp/l_en/

Stock Information

Share Price	Number of shares issued (end of the term)		Total market cap	ROE Act.	Trading Unit
¥206	40,134,900 shares		¥8,267million	2.7%	100 shares
DPS Est.	Dividend yield Est.	EPS Est.	PER Est.	BPS Act.	PBR Act.
¥3.00	1.5%	¥6.35	32.4x	¥126.06	1.6x

*The share price is the closing price on July 26.

*Each number was taken from the brief report on the earnings results for fiscal year ended May 2021.

Consolidated Earnings Trends

Fiscal Year	Sales	Operating Income	Ordinary Income	Net Income	EPS	DPS
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 Act.	4,346	338	355	134	3.35	3.00
May. 2022 Est.	4,730	375	380	255	6.35	3.00

*Estimates are those of the company. Net Income is the net income attributable to owners of the parent. The same applies hereafter. The dividend for FY 5/21 includes a commemorative dividend of 0.50 yen per share.

*Unit: million-yen, yen

This Bridge Report provides details of earnings results for fiscal year ended May 2021 and future outlook of Nihon Enterprise Co., Ltd.

Key Points

1. Company Overview

2. Fiscal Year ended May 2021 Earnings Results

3. Overview of Each Segment

4. Fiscal Year ending May 2022 Earnings Forecast

5. Conclusions

<Reference: Regarding Corporate Governance>

Key Points

- The sales in the fiscal year May 2021 were 4,364 million yen, up 21.1% year on year. The double-digit sales growth is attributable 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 large-scale transactions for kitting support, etc. Gross profit rose 13.4% year on year thanks to the sales growth, although gross profit margin declined 2.8% year on year due to the drop in the ratio of sales of the Creation Segment, which has a high profit margin, caused by the decrease in sales of content services. Operating income increased 26.6% year on year to 338 million yen, as the sales growth offset the 10.7% increase in SG&A caused by the augmentation of personnel expenses for recruitment for enhancing marketing capability. For commemorating the 20th anniversary of listing, the company decided to pay a commemorative dividend of 0.50 yen/share in addition to a common dividend of 2.50 yen/share for an annual dividend of 3.00 yen/share. The payout ratio is 89.6%.
- For the fiscal year May 2022, sales are projected to rise 8.8% year on year to 4,730 million yen and operating income is forecast to increase 10.8% year on year to 375 million yen. The company aims to expand sales by enriching highly profitable fixed-rate contents for telecommunication carriers, developing new content services, improving kitting support services, which are mainstay, promoting new businesses, expanding commissioned development and operation support services for the DX of society amid the coronavirus pandemic, and so on. In addition, the company will strive to increase profit and profit margin by expanding highly profitable businesses. The company plans to pay a common dividend of 3.00 yen/share, up 0.50 yen/share from the previous term. The expected payout ratio is 47.2%.
- The fiscal year May 2021 saw double-digit increases in sales and profit, which are almost in line with the forecasts. For the fiscal year May 2022, too, sales and profit are expected to grow, and sales are projected to rise for the third consecutive term, while operating income is forecast to increase for the fourth consecutive term. In both businesses, the company develops and offers new products and services to meet the needs that emerged in the coronavirus pandemic, improving the satisfaction levels of individual and corporate customers.
- In the past several years, operating income margin has increased, but net income margin has been stagnant. Both PER and PBR are higher than the average values in the first section of Tokyo Stock Exchange, but investors and markets are considered to expect the improvement in ROE, which has been 2-3%, in addition to the growth of the top line. We would like to pay attention to the improvement in profitability of the two businesses and measures for increasing the efficiency of assets.

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 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.

1-1 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, social welfare facility and various children's institutions and so on. 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.

1-2 Corporate Group: 7 Consolidated Subsidiaries, 1 Non-Consolidated Subsidiary

The company has 7 domestic subsidiaries including Dive Co., Ltd., which plans, develops, and operates apps and websites, supports business, 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 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.

To create businesses and maximize business value by developing new services, the company absorbed Advanced Traffic Information Service Co., Ltd., which provides mainly traffic information, on June 1, 2021.

1-3 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 entertainment contents, such as a comprehensive e-book service and games, and lifestyle contents, such as "ATIS Traffic Information Service," "Lucky Station," and "Inaseri Market," a fresh seafood EC site for general consumers.

Entertainment	<ul style="list-style-type: none"> • A variety of content, including smartphone games provided in the fixed-rate services for telecommunication carriers, comprehensive electronic book services covering various genres, and tools for facilitating communication.
Lifestyle	<ul style="list-style-type: none"> • Practical apps with useful features for customers who want to know detailed information on expressways and general roads around Japan, such as traffic congestion maps for estimating the time to travel between expressway exits and live videos for checking real-time road conditions • Apps to support women's "beauty" and "health" for 200 thousand users per month. Provision of new services and functions under the theme of "pregnancy-related activities" • A flea market app that handles all genres of products, including high-end goods, fashion items, and appliances. • EC websites for general consumers selling fisheries products, fruit, and vegetables that satisfy intermediate wholesalers of the Toyosu market. Enrichment of the product lineup and services

(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 “Outsourcing,” 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"> •Development and sale of “Kitting-One,” etc., a tool for supporting kitting that could reduce workload and improve “productivity” and “accuracy”.
ATIS Traffic Information	<ul style="list-style-type: none"> •To provide TV stations and FM radio stations with not only the situations of expressways and general roads around Japan, but also information on local weather and delays of trains 24 hours a day •To offer “ATIS on Cloud,” a traffic information service for distribution companies to check traffic events on a map, and “iGPSon NET,” a system for managing the dynamic states of vehicles
Sound Solution	<ul style="list-style-type: none"> •Development and sale of IP-PBX software that offers a business phone environment that is excellent in flexibility and user-friendliness. •To develop and sell “NEEDS,” an online conference system with a high level of security based on a face recognition function, which integrates the chatting system and other functions into a single window under the theme of “simplicity & user friendliness”
Education, procurement, and sightseeing	<ul style="list-style-type: none"> •e-learning, ASP services for helping make proper quotes electronically, promotion of sightseeing, etc.
Inaseri	<ul style="list-style-type: none"> •Provision of seafoods, fruits and vegetables selling service based on the linkage between “Inaseri,” e-commerce of fresh fish for restaurant operators, and the wholesalers of Tokyo Fish Market Wholesale Cooperative

(Produced based on the reference material of the company)

◎ Other

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"> •Promoting regional vitalization through renewable energy in Yamaguchi Prefecture.
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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

The company mainly provides system development/operation 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. 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 due to the widespread adoption of 5G (5th generation mobile communication system) compatible terminals, 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	*Solution services While the demand for systems related to AI, IoT, and security is growing, the company offers comprehensive solution services, including consulting, development, maintenance, and operation, according to market needs.
	*Business support service 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.
	Used terminals purchase and sales service A service that purchases used terminals and sells them to buyers. The company aims to provide refurbishments in addition to rigorous grading (assessment).
	*Service of offering countermeasures against the novel coronavirus The company sells NE coat HardoLass, glass coating agents, etc.

*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)

1-4 ROE analysis

	FY 5/18	FY 5/19	FY 5/20	FY 5/21
ROE (%)	3.4	2.0	3.6	2.7
Net income margin (%)	4.267	2.866	4.921	3.095
Total asset turnover (x)	0.639	0.567	0.587	0.705
Leverage (x)	1.232	1.223	1.232	1.224

* Calculations by Investment Bridge Co., Ltd. based on the company's financial data.

ROE is expected to rise, through the improvement in profitability and efficiency of use of assets.

2. Fiscal Year ended May 2021 Earnings Results

2-1 Consolidated Earnings (cumulative)

	FY May 20	Ratio to Sales	FY May 21	Ratio to Sales	YoY	Difference from forecast
Sales	3,588	100.0%	4,346	100.0%	+21.1%	+8.7%
Gross profit	1,545	43.1%	1,753	40.3%	+13.4%	-
SG&A	1,278	35.6%	1,415	32.6%	+10.7%	-
Operating Income	267	7.4%	338	7.8%	+26.6%	-0.4%
Ordinary Income	310	8.6%	355	8.2%	+14.6%	+4.6%
Net Income	176	4.9%	134	3.1%	-23.8%	-32.7%

*Unit: million yen

Sales increased 21.1% and operating income increased 26.6% year on year

The sales in the fiscal year May 2021 were 4,364 million yen, up 21.1% year on year. The double-digit sales growth is attributable 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 large-scale transactions for kitting support, etc.

Gross profit rose 13.4% year on year thanks to the sales growth, although gross profit margin declined 2.8% year on year due to the drop in the ratio of sales of the Creation Segment, which has a high profit margin, caused by the decrease in sales of content services. Operating income increased 26.6% year on year to 338 million yen, as the sales growth offset the 10.7% increase in SG&A caused by the augmentation of personnel expenses for recruitment for enhancing marketing capability, reversal of allowance for doubtful accounts in the previous fiscal year, etc. Net income declined 23.8% year on year to 134 million yen due to extraordinary losses of 88 million yen from impairment losses on fixed assets.

For commemorating the 20th anniversary of listing, the company decided to pay a commemorative dividend of 0.50 yen/share in addition to a common dividend of 2.50 yen/share for an annual dividend of 3.00 yen/share. The payout ratio is 89.6%.

2-2 Trend of each segment

◎ Sales and Operating income in each segment

	FY May 20 (cumulative)	Ratio to Sales	FY May 21 (cumulative)	Ratio to Sales	YoY
Creation Segment	2,047	57.1%	2,155	49.6%	+5.3%
Solution Segment	1,540	42.9%	2,191	50.4%	+42.2%
Total sales	3,588	100.0%	4,346	100.0%	+21.1%
Creation Segment	636	31.1%	696	32.3%	+9.4%
Solution Segment	186	12.1%	229	10.5%	+23.2%
Adjustments	-555	-	-587	-	-
Total operating income	267	7.4%	338	7.8%	+26.6%

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

① Creation Segment

	FY May 20	FY May 21	YoY
Content Service	1,241	1,131	-8.8%
Business Supports	746	962	+29.0%
Other (Solar Power Generation)	60	61	+2.1%
Segment Sales	2,047	2,155	+5.3%

*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.

Business Support Services have been healthy, as the company made large-scale transactions for kitting support, etc. Sales hit a record high for the first time after fiscal 2017.

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

② Solutions Segment

	FY May 20	FY May 21	YoY
System Developing, Operating	1,538	2,191	+42.4%
Others	1	-	-
Segment Sales	1,540	2,191	+42.2%

*Unit: million yen

The sales of System Developing and Operating increased largely, 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.

2-3 Trend of quarterly results

	4Q of FY May 20 (Mar. to May.)	Ratio to Sales	4Q of FY May 21 (Mar. to May.)	Ratio to Sales	YoY
Sales	969	100.0%	1,185	100.0%	+22.3%
Operating Income	75	7.7%	134	11.3%	+78.9%
Ordinary Income	77	8.0%	138	11.6%	+79.2%
Quarterly Net Income	23	2.4%	73	6.2%	+212.7%

*Unit: million yen

Trend of Sales and Operating Income



Quarterly sales and profit grew considerably year on year. Quarterly sales dropped 7.0% and operating income rose 5.1% from 3Q.

① Creation Segment

	FY5/20 1Q	2Q	3Q	4Q	FY5/21 1Q	2Q	3Q	4Q
Content Service	322	317	300	301	299	281	287	263
Business Supports	211	156	186	191	175	192	279	314
Other	19	13	9	17	17	16	10	17
Segment Sales	552	487	496	510	492	490	577	595

*Unit: million yen

BRIDGE REPORT

***Content Service**

Sales declined by 8.2% from the previous quarter (3Q). Although flat-rate content for communication carriers continued to perform well, monthly charged content and focused content on platforms operated by ones other than communication carriers were weak.

***Business Supports**

Sales grew 12.6% from the previous quarter (3Q). The kitting support business largely expanded. Quarterly sales hit a record high for the first time after fiscal 2017.

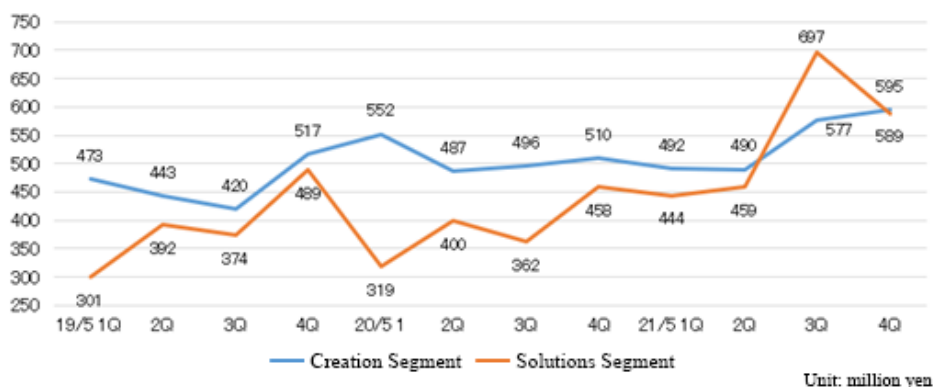
② Solutions Segment

	FY5/20 1Q	2Q	3Q	4Q	FY5/21 1Q	2Q	3Q	4Q
System Developing, Operating	319	400	362	457	444	459	697	589
Others	0	0	0	1	-	-	-	-
Segment Sales	319	400	362	458	444	459	697	589

*Unit: million yen

Sales dropped 15.5% from 3Q, in which the sales from large-scale transactions were posted, but commissioned development projects, Business Support Services, services and products for coping with the novel coronavirus are healthy, as the company offers solutions for DX amid the coronavirus pandemic. Quarterly sales hit a record high for the first time after fiscal 2017.

Trend of Segment Sales

**2-4 Financial Conditions and Cash Flow (CF)****◎ Summary of BS**

	May 2020	May 2021	Increase/ decrease		May 2020	May 2021	Increase/ decrease
Cash, etc.	4,715	4,739	+23	Payables	105	144	+39
Receivables	449	517	+68	Short Term debt	25	23	-1
Current Assets	5,365	5,395	+30	Current Liabilities	566	693	+127
Tangible Assets	350	333	-16	Long Term debt	230	206	-23
Intangible Assets	305	225	-80	Noncurrent Liabilities	307	257	-50
Investments and Others	178	177	-0	Liabilities	873	950	+77
Noncurrent Assets	834	736	-97	Net Assets	5,326	5,182	-144
Total Assets	6,200	6,132	-67	Total Liabilities and Net Assets	6,200	6,132	-67

*Unit: million yen

Total assets decreased 67 million yen from the end of the previous term to 6,132 million yen, due to the decline in intangible fixed assets (software), etc. Liabilities augmented 77 million yen from the end of the previous term, due to the increase in accounts payable, etc. Net assets decreased 144 million yen from the end of the previous term, due to the decline in non-controlling shareholders' equity, etc. As a result, capital-to-asset ratio rose 1.6 points from the end of the previous term to 82.5%.

◎Cash Flow (CF)

	FY May 20	FY May 21	Increase/decrease
Operating cash flow (A)	632	483	-148
Investing cash flow (B)	-85	-130	-45
Free Cash Flow (A+B)	546	353	-193
Financing cash flow	-116	-330	-213
Cash and Equivalents at the end of term	4,685	4,708	+22

*Unit: million yen

The surpluses of operating CF and free CF shrank, due to the augmentation of accounts receivable.
The cash position was almost unchanged.

3. Overview of Each Segment

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

3-1 Creation Segment

◎ Woman's Rhythm Notebook

This is an app for supporting each woman's life, which is used by 200,000 users per month. The company upgraded the services for fee-paying members considerably.

The "self-check function," which is one of newly added functions under the theme of "pregnancy-related activities," can diagnose the pregnancy-related activities of partners.

The company will increase users by adding more functions, distributing 5G content and offering services with a new platform.

◎ "Inasari Market"

"Inasari Market," an EC site for general consumers to purchase high-quality seafood selected by wholesalers in Toyosu, was covered by the media more often and the number of customers from general consumers increased, as the company responded swiftly to social changes and conducted upfront investment for improving services and posting ads. In the fiscal year May 2021, sales skyrocketed 2.9 times from the previous term.

In response to the continuous increase of use of EC amid the coronavirus pandemic, the company will enrich its product lineup and customer services.

◎ Kitting support

The kitting support service, which automates the initial setting of terminals with an RPA tool, has been growing steadily, as enterprises enhanced investment in IT for DX amid the novel coronavirus pandemic. As the RPA market expanded, the company launched the kitting service for PCs in addition to that for smartphones.

The company received large-scale orders in the third to fourth quarter, so sales grew significantly. The company has been offering this service in major cities but will offer it nationwide.

◎ "Profair," an ASP service for helping make proper quotes electronically

"Profair," an ASP service for helping make proper quotes electronically, actualizes fair and impartial transactions and efficient purchase processes in "Nippon Open Market," a reverse auction. The number of its customers keeps growing, as non-face-to-face processes are increasing through the spread of new lifestyles. In the fiscal year May 2021, sales grew 1.3 times from the previous term.

It is being adopted by private colleges, enterprises, etc. in addition to government offices and national/public universities, and the company will take measures to retain existing customers and increase new customers based on its advantages in the market.

◎ “Aizukko+”

In a project entrusted by Aizuwakamatsu City, Fukushima Prefecture, the company developed an app for smartphones for “Aizukko Web, an educational portal site of Aizuwakamatsu City,” which summarizes and distributes information on kindergartens, elementary schools, middle schools, and education boards. “Aizukko Web, an educational portal site of Aizuwakamatsu City” has been adopted by a total of 30 kindergartens, elementary and middle schools in Aizuwakamatsu City.

The company aims to contribute to the construction of a smart city in Aizuwakamatsu City and receive orders for smart city-related system development, by utilizing the technology and knowledge nurtured through demonstration experiments.

3-2 Solution Segment

◎ Solution service

As enterprises are promoting DX to cope with social issues and global warming, the demand for system development utilizing various technologies, such as AI, cloud, and big data, is growing.

In order to steadily capture this demand, the company offers comprehensive solutions by utilizing the knowledge nurtured through the development of original contents.

(Development cases)

① Building maintenance system with cleaning robots

The company supports building maintenance by using cleaning robots for buildings. The company developed a platform at the server side, realizing remote control, error notification, and cleaning map editing. The conditions of each building are managed by developing data.

② Health management system equipped with a body temperature detection sensor

The helmet is mounted with a body temperature detection sensor and the health conditions of construction workers are remotely managed with IoT, to secure the safety of workers and the efficiency of their work. It is also equipped with a function to send an alert when a value exceeds a preset level and notify staff of abnormal values for mutual monitoring.

◎ Business support service

The company supports the business operations of leading communications carriers, etc.

As the company was recognized for its ingenuity in recruiting and training personnel, which enabled it to provide high-quality services with highly skilled personnel, the company succeeded in retaining existing customers and increasing new customers.

The transactions for technical support in addition to marketing support are increasing. In the fiscal year May 2021, sales grew 2.1 times from the previous term.

The company will keep improving its recruitment capability and education of personnel, to support customers.

◎ Service of buying and selling used terminals (Terminal peripherals business)

By deleting data safely and reliably with globally recommended software, the company helps enterprises dispose of their used terminals efficiently and effectively. As the demand for terminals grew through the promotion of telework and active investment in IT amid the coronavirus pandemic, clients increased, including business supporting enterprises and IT-related trading firms. The number of terminals handled is increasing considerably.

The company will enhance activities with enterprises that support corporate business operations in addition to cellphone distributors, to expand business further.

◎ “NE Coat HardoLass,” Glass coating agents

The glass coating agent “NE Coat HardoLass” complies with the guidelines for antibacterial and antivirus performance and safety produced by Society of International sustaining growth for Antimicrobial Articles (SIAA), a third-party organization. The company distributed it to various facilities and is increasing the sales of the product for added value services at cellphone shops (the service of coating purchased terminals), as the demand for terminals has grown.

The company will promote sales by taking advantage of the characteristics that support the new lifestyles amid the coronavirus pandemic.

4. Fiscal Year ending May 2022 Earnings Forecast

4-1 Consolidated Earnings Forecast

	FY May 21 Act.	Ratio to Sales	FY May 22 Est.	Ratio to Sales	YoY
Sales	4,346	100.0%	4,730	100.0%	+8.8%
Operating Income	338	7.8%	375	7.9%	+10.8%
Ordinary Income	355	8.2%	380	8.0%	+6.9%
Net Income	134	3.1%	255	5.4%	+89.6%

*Unit: million yen

It is forecasted that sales and profit will increase

Sales are projected to rise 8.8% year on year to 4,730 million yen and operating income is forecast to increase 10.8% year on year to 375 million yen. The company aims to expand sales by enriching highly profitable fixed-rate contents for telecommunication carriers, developing new content services, improving kitting support services, which are mainstay, promoting new businesses, expanding commissioned development and operation support services for the DX of society amid the coronavirus pandemic, and so on. In addition, the company will strive to increase profit and profit margin by expanding highly profitable businesses. The company plans to pay a common dividend of 3.00 yen/share, up 0.50 yen/share from the previous term. The expected payout ratio is 47.2%.

4-2 Scheme for Business Expansion

With the aim of contributing to the realization of a decarbonized society as “an enterprise that steers society in a better direction,” the company provides a wide array of products for DX, while considering the new normal and transformation our society must confront amid the coronavirus pandemic as chances.

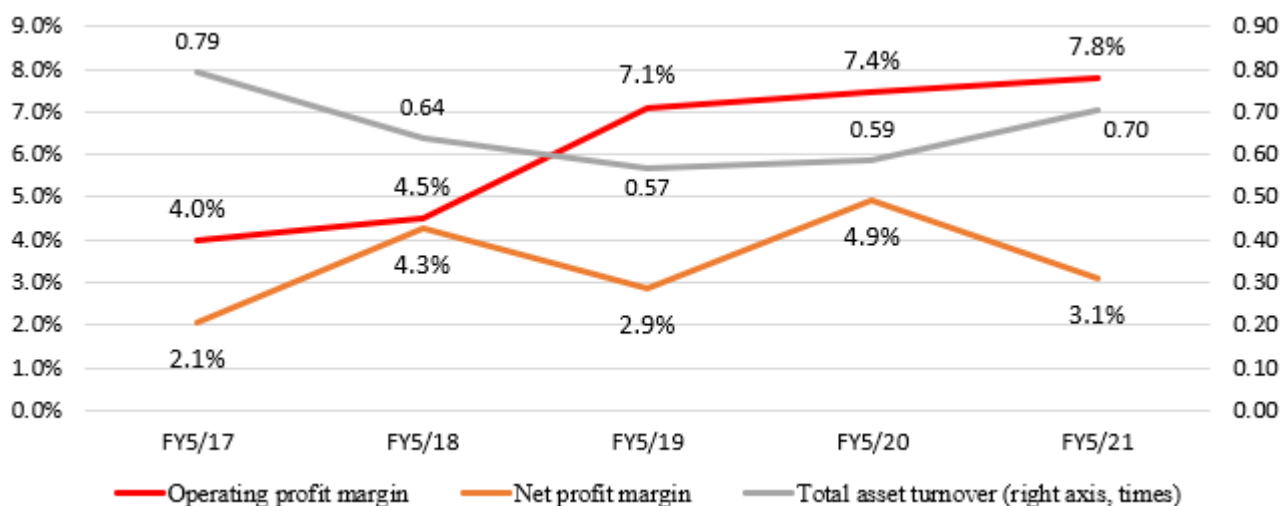
To do so, the company will utilize managerial resources of the corporate group, which is composed of 8 companies (7 consolidated subsidiaries and 1 non-consolidated subsidiary) and conducts business with the aim of maximizing the synergy among group companies.

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

The fiscal year May 2021 saw double-digit increases in sales and profit, which are almost in line with the forecasts. For the fiscal year May 2022, too, sales and profit are expected to grow, and sales are projected to rise for the third consecutive term, while operating income is forecast to increase for the fourth consecutive term. In both businesses, the company develops and offers new products and services to meet the needs that emerged in the coronavirus pandemic, improving the satisfaction levels of individual and corporate customers.

In the past several years, operating income margin has increased, but net income margin has been stagnant. Both PER and PBR are higher than the average values in the first section of Tokyo Stock Exchange, but investors and markets are considered to expect the improvement in ROE, which has been 2-3%, in addition to the growth of the top line. We would like to pay attention to the improvement in profitability of the two businesses and measures for increasing the efficiency of assets.



<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 July 27, 2021

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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