
 <p>Katsunori Ueda, President</p>	Nihon Enterprise Co., Ltd. (4829)
	 <p>NIHON ENTERPRISE</p>

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
¥176	40,134,900 shares		¥7,063million	2.7%	100shares
DPS Est.	Dividend yield Est.	EPS Est.	PER Est.	BPS Act.	PBR Act.
¥3.00	1.7%	¥6.35	27.7x	¥124.95	1.4x

*The share price is the closing price on January 18. Number of issued shares, DPS, EPS, BPS are from the second quarter financial report for the fiscal year ending May 2022. ROE is the result of the previous term.

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 group. 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 the second quarter of the fiscal year ending May 2022 and future outlook of Nihon Enterprise Co., Ltd.

Key Points

1. Company Group Overview

2. Cumulative Second Quarter of the Fiscal Year ending May 2022 Earnings Results

3. Overview of Each Segment

4. Fiscal Year ending May 2022 Earnings Forecast

5. Conclusions

<Reference: Regarding Corporate Governance>

Key Points

- **In the cumulative second quarter of the fiscal year May 2022, sales increased 6.9% year on year to 2,016 million yen. The Solutions Segment, including "Commissioned Development" for corporate clients and "Business Support Services" that help address the shortage of human resources, expanded. The Creation Segment saw a decline in sales. Operating income increased 13.3% year on year to 86 million yen. Although personnel expenses increased due to increased hiring to strengthen the sales force, this was absorbed by increased revenues and improved profitability in the Solutions Segment. Quarter sales increased 4.5% year on year, but quarterly profit decreased 75.4% year on year. Sales decreased 3.2% and income decreased 88.6% from the first quarter.**
- **There is no change in the earnings forecast. 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 group 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 group will strive to increase profit and profit margin by expanding highly profitable businesses. The company group 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%.**
- **Progress rate in the first half was 42.6% for net sales and 23.2% for operating income. The progress rate of profit is lower than usual, and we will take notice of how the highly profitable Creation Segment will grow from the third quarter onward.**
- **From a medium-term perspective, we would like to see how quickly each of the services in the Solutions Segment, which are being released one after another in response to DX, will contribute to business performance.**

*The "Accounting Standard for Revenue Recognition" and other standards have been applied from the fiscal year May 2022, so year-on-year comparisons are for reference only.

1. Company Group 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 to create new services on the back of DX. 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.

Mission statement	Our true purpose is to contribute to society and the advancement of culture through our activities while remaining true to our true nature as merchants.
Belief	We pledge to unite and serve our profession vigorously with the following five spirits:
The Spirit We Adhere to	A spirit of serving the country with commerce A spirit of selflessness and dedication A spirit of profit sharing A spirit of challenge and valiant effort A spirit of gratitude

With the "Mission Statement" as the cornerstone of management, the entire group shares the "Belief" and the "Five Spirits" and engages in business activities to achieve the vision, aiming to be "a company that represents the 21st century and changes society for the better."

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 group offers services utilizing its own rights and assets, including contents services, business support services, and other (solar power generation).

◎ Content Services

The company group offers entertainment contents, such as a comprehensive e-book service and games, and lifestyle contents, such as "ATIS Traffic Information Service," "Woman's Rhythm Notebook," "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, and comprehensive electronic book services covering various genres.
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. Also provides a service website where some functions, including applications, can be used free of charge. •Apps to support women’s “beauty” and “health” for 200 thousand users per month. Also started offering the service on NTT DoCoMo's "Sugotoku Contents®" for smartphones. •EC websites for general consumers selling fisheries products, fruit, and vegetables that satisfy intermediate wholesalers of the Toyosu market. Strengthening announcements on SNS and so on.

(Source: the company group)

◎ **Business Support Service**

The company group 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 group 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 group develops and sells the IP-PBX software “Primus” and sells the IP-PBX communication systems “NE-Phone System” for medical and welfare facilities and offices, 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 •Provides a system that visualizes the time required to reach the nearest road by using AI cameras to analyze images of congestion in multi-story parking lots at commercial facilities.
Sound Solution	<ul style="list-style-type: none"> •Development and sell "NE-Phone System" for hospitals and offices as IP-PBX software that provides a business phone environment with excellent operability and flexibility. •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 group)

◎ **Other**

With the aim of revitalizing each region with renewable energy, the company group 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 group)

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

The company group mainly provides system development/operation services. In the system development/operation services, the company group 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 group 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 group is increasing new clients, as it deals with an increasing number of products.

System development and operation services	*Solution services While the demand for systems related to AI, IoT, and security is growing, the company group 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 After purchasing and rigorously grading (assessing) used handsets, the company uses world-standard software to erase data before selling them to buyers.
	*Service of offering countermeasures against the novel coronavirus The company sells "NE coat HardoLass, glass coating agents, etc.

(Produced based on the reference material of the company group)

1-4 Business Environment and Policy

The DX for a decarbonized society is accelerating, driven by the growing importance of sustainability that was heightened by COVID-19. In addition, the growing popularity of 5G is expected to significantly boost not only mobile content, but also the overall IT market. Both the DX domestic market and domestic sales quantity of 5G devices are expected to grow rapidly.

In this environment, the company group aims to increase user satisfaction and contribute to society by creating and providing a wide variety of convenient and interesting services through various IT devices, and intends to further expand its business domain.

1-5 ESG

With the aim of achieving a sustainable society and increasing corporate value, the company group is taking the following actions.

E: Environment	<ul style="list-style-type: none"> ●Initiatives in corporate activities Paperless office, reduction of electricity consumption, etc. to reduce CO₂ emissions. ●Initiatives through business activities Digitalization support services, renewable energy development, marine products EC services for effective utilization of marine resources, recycling support services, etc.
S: Society	<ul style="list-style-type: none"> ●Initiatives to promote diverse human resources Introduction of early morning work systems, establishment of telework systems, setting of overtime-free days, promotion of female managers, development of personnel evaluation and education systems, etc. ●Social contribution activities <ul style="list-style-type: none"> ▪Qualifications for quality improvement and information security. ▪The amount equivalent to 1% of net income is set aside as a donation.

G: Governance	<ul style="list-style-type: none"> ●Initiatives to improve transparency and fairness of management ▪Accurate information disclosure to all stakeholders. ▪To instill corporate ethics based on the corporate philosophy and ensure compliance.
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1-6 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 (%)	4.3	2.9	4.9	3.1
Total asset turnover (x)	0.6	0.6	0.6	0.7
Leverage (x)	1.2	1.2	1.2	1.2

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

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

2. Fiscal Year ending May 2022 Earnings Results

2-1 Consolidated Earnings (cumulative)

	2Q of FY 5/21	Ratio to Sales	2Q of FY 5/22	Ratio to Sales	YoY
Sales	1,886	100.0%	2,016	100.0%	+6.9%
Gross profit	751	39.8%	853	42.3%	+13.5%
SG&A	674	35.8%	766	38.0%	+13.6%
Operating Income	76	4.1%	86	4.3%	+13.3%
Ordinary Income	83	4.4%	88	4.4%	+5.9%
Net Income	19	1.0%	43	2.1%	+125.1%

*Unit: million yen Since the "Accounting Standard for Revenue Recognition" has been applied from this term, the year-on-year comparison is a reference value.

Increased sales and profits

Sales increased 6.9% year-on-year to 2,016 million yen. Expansion of solution business such as "contract development" for corporations and "business support service" that matches the problem of human resources shortage. Sales in the creation business decreased.

Operating profit increased 13.3% year on year to 86 million yen. Although personnel expenses increased due to the recruitment of human resources to strengthen sales capabilities, this was absorbed by the increase in sales and profitability of the solution business.

The application of the "Accounting Standard for Revenue Recognition" increased net sales and cost of sales by 86 million yen and 52 million yen, respectively, and increased operating income, ordinary income, and income before income taxes and minority interests each by 33 million yen, compared to the conventional accounting.

2-2 Trend of each segment

◎ Sales and Operating income in each segment

	2Q of FY 5/21	Ratio to Sales	2Q of FY 5/22	Ratio to Sales	YoY
Creation Segment	982	52.1%	934	46.4%	-4.8%
Solution Segment	904	47.9%	1,081	53.6%	+19.7%
Total sales	1,886	100.0%	2,016	100.0%	+6.9%
Creation Segment	299	30.4%	256	27.5%	-14.1%
Solution Segment	67	7.4%	139	12.9%	+106.9%
Adjustments	-289	-	-309	-	-
Total operating income	76	4.1%	86	4.3%	+13.3%

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

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① Creation Segment

	2Q of FY 5/21	2Q of FY 5/ 22	YoY
Content Service	580	503	-13.3%
Business Supports	367	398	+8.4%
Other (Solar Power Generation)	33	32	-2.4%
Segment Sales	982	934	-4.8%

*Unit: million yen

In Content Services, sales declined due to a decrease in monthly content and content on platforms operated by non-carriers, despite a focus on subscription-based content for telecommunications carriers.

The sales of Business Support Services increased along with the expansion of kitting support, voice solutions, and other services.

Other (solar power generation) sales decreased due to a slight decrease in power generation caused by weather.

② Solutions Segment

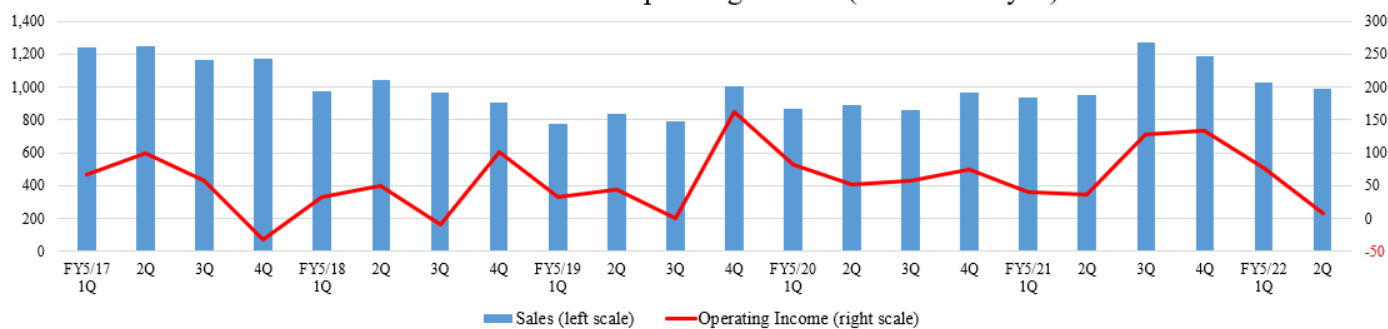
	2Q of FY 5/21	2Q of FY 5/ 22	YoY
System Developing, Operating	904	1,081	+19.7%
Others	-	-	-
Segment Sales	904	1,081	+19.7%

*Unit: million yen

In system development and operation services, "Commissioned Development" for corporate clients and "Business Support Services," which address labor shortage issues, expanded. It was a record high for the first half of the year since FY 2017.

2-3 Trend of quarterly results

Trends of Sales and Operating Income (unit:million yen)



Quarterly sales increased 4.5% year on year but quarterly profit decreased 75.4% year on year. Quarterly sales decreased 3.2% and quarterly profit decreased 88.6% from the previous quarter (1Q).

① Creation Segment

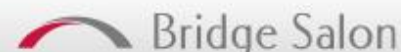
	FY5/21 1Q	2Q	3Q	4Q	FY5/22 1Q	2Q	3Q	4Q
Content Service	299	281	287	263	252	251	-	-
Business Supports	175	192	279	314	211	187	-	-
Other	17	16	10	17	18	14	-	-
Segment Sales	492	490	577	595	481	453	-	-

*Unit: million yen

*Content Service

From the previous quarter (Q1), sales decreased 0.6%. Monthly content for telecommunications carriers and content on platforms operated by non-carriers declined, while subscription content for telecommunications carriers increased.

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*Business Supports

From the previous quarter (Q1), sales decreased 11.1%. Kitting support was affected by the shortage of new devices, etc.

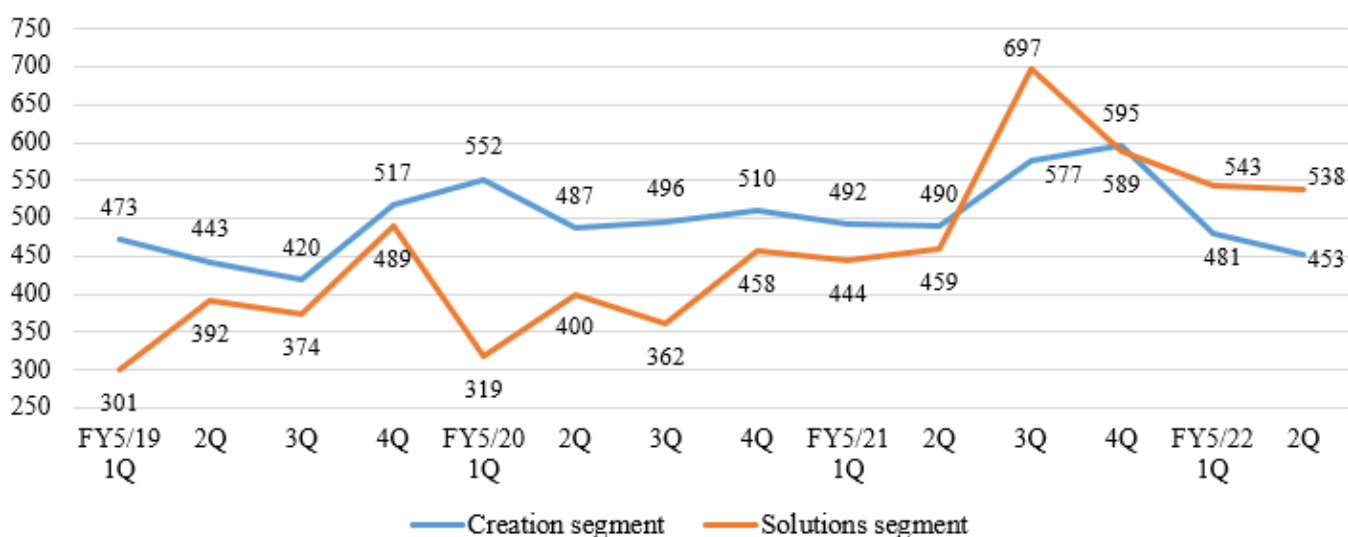
② Solutions Segment

	FY5/21 1Q	2Q	3Q	4Q	FY5/22 1Q	2Q	3Q	4Q
System Developing, Operating	444	459	697	589	543	538	-	-
Others	-	-	-	-	-	-	-	-
Segment Sales	444	459	697	589	543	538	-	-

*Unit: million yen

Despite a 0.9% decrease in sales from the previous quarter (Q1), the trend of companies promoting DX continued amid the COVID-19 pandemic, and "Commissioned Development" remained strong, with the largest sales (since FY 2017) in the second quarter.

Trends of SEGMENT sales (unit: million yen)



2-4 Financial Conditions and Cash Flow (CF)

◎ Summary of BS

	May 2021	November 2021	Increase/decr ease		May 2021	November 2021	Increase/decr ease
Cash, etc.	4,739	4,400	-338	Payables	144	163	+19
Receivables	517	717	+200	Short Term debt	23	23	-
Current Assets	5,395	5,231	-164	Current Liabilities	693	564	-129
Tangible Assets	333	320	-13	Long Term debt	206	195	-11
Intangible Assets	225	222	-2	Noncurrent Liabilities	257	248	-8
Investments and Others	177	181	+3	Liabilities	950	813	-137
Noncurrent Assets	736	724	-12	Net Assets	5,182	5,142	-39
Total Assets	6,132	5,955	-177	Total Liabilities and Net Assets	6,132	5,955	-177

*Unit: million yen

Total assets decreased from 177 million yen from the end of the previous term to 5,955 million yen due to a decrease in cash and deposits. Liabilities decreased from 137 million yen to 813 million yen. Net assets were virtually unchanged at 5,142 million yen. As a result, equity ratio increased 1.7 points from the end of the previous term to 84.2%.

◎Cash Flow (CF)

	2Q of FY May 21	2Q of FY May 22	Increase/decrease
Operating cash flow (A)	-62	-140	-78
Investing cash flow (B)	-62	-57	+4
Free Cash Flow (A+B)	-124	-198	-73
Financing cash flow	-128	-140	-11
Cash and Equivalents at the end of term	4,432	4,370	-62

*Unit: million yen

The deficits of operating CF and free CF augmented owing to an increase in notes and accounts receivable-trade. The cash position declined.

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. "Women's Rhythm Notebook for Sugotoku" begins offering on "Sugotoku Contents®" service for smartphones which platform NTT DOCOMO, INC. offers. In the video section, "Miki Ando's Body Makeup Lesson" was newly launched.

◎Chokotto game ("Game for a bit")

A game portal site that offers more than 100 types of standard and mini-games that anyone can easily play "for a bit" on the train or during breaks. Two new games were released.

◎Fivetalk

Communication application to enjoy chat and calls while drawing. Obtained patents for communication programs, etc.

◎"Inaseri Market"

The "Inaseri Market" for general consumers, an EC site where customers can purchase high-quality seafood products from the Toyosu middle wholesalers, has also begun to be displayed on general EC sites and gift EC sites. Sales promotions through SNS have also been successful, resulting in a net increase in the total number of registered users. The company group aims to expand usage through further platform development.

◎ Kitting support

Kitting support services, which automate the initial setup of devices using RPA tools, have been affected by the shortage of new devices due to the stagnation of manufacturing parts in Asia due to the spread of COVID-19, but there remains strong demand for device replacement by companies in line with the DX-oriented society. With an eye on resolving the shortage of devices, the company group is building a service delivery system, including expanding the number of cooperating companies.

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

"Profair," an electronic quotation business support ASP service that realizes fair and equitable transactions and efficient purchasing operations on the "Japan Open Market," a reverse auction site, has been performing well thanks to its abundant use by public universities, central government agencies, and other organizations, as well as the penetration of new lifestyle styles in society.

The company will continue to cultivate new customers based on its credibility and track record of success with central government ministries and agencies, public universities, and public institutions.

◎NE-Phone system

An IP-PBX communication system for both on-premise and cloud computing launched in September 2021. Two types of systems are available, one for hospitals and the other for offices, to meet the demand of medical institutions that need to replace communication equipment due to the termination of PHS, as well as companies that will be migrating to IP networks from the public switched telephone network around 2024.

For hospitals, sXGP, the successor standard to PHS, will be supported, contributing to ICT in the medical field. In January 2022, the company group began nurse call collaboration with CareCom, Inc.

For the office market, the company group will respond to cloud computing needs for telecommuting, as well as to the need for more efficient office operations, such as monitoring whispering (where an interpreter provides simultaneous interpretation in a quiet whisper next to the person listening).

Strengthening the system will promote sales and expand functions to broaden the customer base.

3-2 Solution Segment

◎ Solution service

For DX-related development, which requires complex technologies and consulting for customer operations, the company group provides comprehensive solution services that leverage the know-how it has cultivated through in-house content development.

The subsidiary Four Qualia Co., Ltd. was commissioned by a gas company to develop a delivery application for drivers in the construction of a logistics platform. AI is used to provide optimal route instructions that take into account road information, delivery conditions, and designated delivery times. This has realized efficiency and standardization of delivery without relying on the experience and knowledge of the driver.

◎ Business support service

The company group provides services to major telecommunications carriers and other companies from the upstream process with its highly skilled human resources. By acquiring high-level personnel and enhancing training programs to strengthen proposal capabilities, the company group is engaged in DX-related projects for major telecommunications carriers and other cutting-edge projects.

It will continue to strengthen its recruiting capabilities and human resource training to further develop its existing client base.

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

The service, which supports the disposal of used devices, is expanding against a backdrop of corporate IT investment fever and a growing awareness of the need to build a sustainable society. The service is highly regarded for its features, such as safe and secure data wiping using software recommended in many countries around the world, credibility as a company listed on the First Section of the Tokyo Stock Exchange, and effective utilization of unneeded assets.

With an eye on overcoming the shortage of new devices, the company is promoting the development of new business partners.

◎ Glass coating agents

A glass coating material with antibacterial and antiviral properties, certified by SIAA*. Sales have been strong against the backdrop of efforts to improve services at cell phone stores. The company has a track record of installations in sanitation facilities, vehicles, shrines, etc., in addition to devices.

The company will expand its business by increasing demand for devices and strengthening relationships with distributors.

*SIAA: Society of Industrial Technology for Antimicrobial Articles. With the aim of promoting the use of appropriate and safe antimicrobial and antifungal processed products, the SIAA has established rules regarding the quality and safety required of antimicrobial and antiviral processed products, and allows products that conform to these rules to indicate the SIAA mark.

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	Progress rate
Sales	4,346	100.0%	4,730	100.0%	+8.8%	42.6%
Operating Income	338	7.8%	375	7.9%	+10.8%	23.2%
Ordinary Income	355	8.2%	380	8.0%	+6.9%	23.2%
Net Income	134	3.1%	255	5.4%	+89.6%	17.0%

*Unit: million yen

No change in earnings forecast. It is forecasted that sales and profit will increase

There is no change in the earnings forecast. 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 group 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 group will strive to increase profit and profit margin by expanding highly profitable businesses. The company group 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 group 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 group 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.

5. Conclusions

Progress rate in the first half was 42.6% for net sales and 23.2% for operating income. The progress rate of profit is lower than usual, and we will pay attention to how the highly profitable Creation Segment will grow from the third quarter onward. From a medium-term perspective, we would like to see how quickly each of the services in the Solutions Segment, which are being released one after another in response to DX, will contribute to business performance.

<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 December 22, 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)>

The information is based on the code revised in June 2021.

<Supplementary Principle 2-4-1: Disclosure of diversity-related concepts and voluntary, measurable objectives.>

We believe that the increase of corporate value is achieved through the continuous growth of each employee and the enhancement of their own value in a rapidly changing business environment, thereby ensuring diversity. For this reason, our company's basic policy is to promote people based on their abilities, aptitude, and performance, with no particular restrictions on their appointment to management positions. Accordingly, we currently have 28 mid-career hires in management positions and 7 women in management positions, but we have not set specific numerical targets for each category, such as mid-career hires, women, or non-Japanese employees. To ensure diversity, we will consider formulating a human resource development policy and an internal environment improvement policy, as well as disclosing the status of their implementation.

<Supplementary Principle 4-2-2: The board of directors shall formulate a fundamental policy regarding the company's sustainability initiatives and oversee the allocation of management strategies and the execution of business portfolio strategies.>

Our company is investing the necessary management resources to promote sustainability initiatives, but is still considering the formulation of a basic policy for its own sustainability initiatives. We will also formulate a plan for the allocation of management resources such as human capital and intellectual property based on the basic policy, and will make efforts to ensure effective supervision by the Board of Directors.

<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)>

The information is based on the code revised in June 2021.

<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.

<Supplementary Principle 3-1-3: Disclosure of the company's sustainability efforts>

Our corporate group aims to serve society as a whole by creating and providing a wide variety of convenient and delightful services. To maintain and enhance our corporate value over the medium to long term, we believe it is important to develop and provide new services that will help realize a more convenient and affluent society.

As part of its sustainability efforts, our corporate group operates a solar power generation business in Yamaguchi Prefecture and is also actively engaged in system development using cutting-edge technologies such as AI and 5G to "achieve a sustainable society" by utilizing its planning and technical capabilities accumulated in the IT solutions business, such as undertaking the construction of energy management systems using the blockchain technology. We believe that these efforts will lead to the realization of a decarbonized society and are important for our company to maintain and improve its corporate value over the medium to long term.

We are investing in human capital by continuing to actively recruit the human resources necessary to promote these businesses. In addition, we invest a certain amount in intellectual property every year because continuous investment in software assets contributes to the improvement of our competitiveness and added value, and to the continuous provision of services by our group.

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.

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

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

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