

BRIDGE REPORT



Chairman & CEO Hiroshi Iida

I.K Co., Ltd. (2722)



Company Information

Market	Tokyo stock exchange 1st section and Nagoya stock exchange 1st section
Industry	Retail Business (Commerce)
Chairman & CEO	Hiroshi Iida
HQ Address	KDX Nagoya Station Building, 3-26-8 Meieki, Nakamura-ku, Nagoya-shi, Aichi
Year-end	End of May
Homepage	https://www.ai-kei.co.jp/en

Stock Information

Share Price	Shares Outstanding		Total market cap	ROE Act.	Trading Unit
¥893	7,808,000 shares		¥6,972 million	14.0%	100 shares
DPS Est	Dividend yield Est.	EPS Est.	PER Est.	BPS Act.	PBR Act.
¥12.00	1.3%	¥69.66	12.8x	¥385.34	2.3x

*The share price is the closing price on January 21. Each figure was taken from the brief report on results for the second quarter ending May 2021. ROE and BPS were taken from the results of the previous term.

Earnings Trend

Fiscal Year	Sales	Operating Income	Ordinary Income	Net Income	EPS	DPS
May 2017 Act.	15,273	557	554	425	57.13	7.50
May 2018 Act.	18,337	898	899	641	86.07	10.00
May 2019 Act.	17,614	431	437	238	31.85	12.00
May 2020 Act.	18,483	590	623	384	52.19	12.00
May 2021 Est.	19,846	804	810	506	69.66	12.00

*Unit: million yen, yen. The estimated values are those announced by the Company. Stock split in a ratio 1:2 was conducted on 1st December 2017 and 1st April 2018. EPS and DPS were retroactively adjusted.

The financial statement for the second quarter of the fiscal year ending May 2021 and many more about I.K Co., Ltd. will be described.

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Key Points

- The sales for the second quarter of the fiscal year ending May 2021 were 11,091 million yen, up 25.9% year on year. The sales of the B-to-C and B-to-B-to-C businesses rose 1,766 million yen and 450 million yen, respectively, year on year. Sales of other segments also improved 64 million yen, resulting in an increase in the overall sales by 2,281 million yen. Operating income augmented 352 million yen year on year to 534 million yen. The SG&A ratio was 47.8%, up 2.2 points from the second quarter of the previous year, due to increased advertising costs and higher packing and freight expenses. However, it was offset as the gross profit margin was 52.6%, up 4.9 points from the previous year's second quarter.
- Sales grew significantly due to the demand by people staying at home for Speed Heat and Step 8 through TV shopping in the B-to-C business. In terms of profits, PB products (in-house developed products), which have a high gross margin, contributed to the strong performance via the TV and online shopping routes.
- In November 2020, the company upwardly revised its earnings forecast for the fiscal year ending May 2021. According to the previous estimates, sales were forecasted to be 10,690 million yen in the second quarter, and operating income was projected to be 451 million yen, but the actual figures exceeded these estimates. Nonetheless, sales and operating income estimates in the full-year forecast have been left unchanged at 19,846 million yen and 804 million yen, respectively. The dividend is unchanged at 12.00 yen / share. The expected payout ratio is 17.2%.
- The company aims to become a full-fledged “marketing manufacturer,” a business model that is one of a kind in the world. Currently, the percentage of the in-house developed products is 68% of the company's total products. We want to see how quickly the company can change this percentage from 68% to 100%.

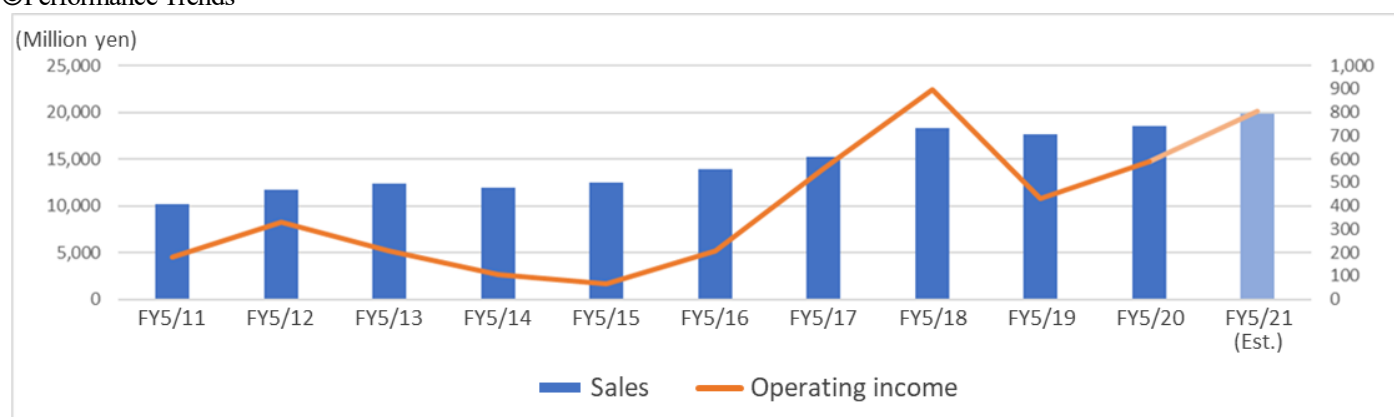
1. Company Overview

I.K Co., Ltd. is a “marketing manufacturer,” which conducts integrated business activities including product planning, manufacturing, selling and distribution through its original promotion strategy.

The company operates the three businesses: the “B-to-C business,” to sell sundries, food products, and cosmetics via TV shopping, EC, and shops to consumers, the “B-to-B-to-C business,” to sell products via various routes, including co-op stores, mail-order companies, shops, overseas channels, etc., and the “other business,” to offer IT solutions for developing and selling systems.

The company strives to establish a group management to make all stakeholders its fans by promoting “the increase of fans” as its corporate philosophy.

◎Performance Trends



1-1 Corporate History

After spending his high school and college days in a “freewheeling” school environment, Mr. Hiroshi Iida (present chairman and CEO), who had a strong entrepreneurial spirit from the beginning, worked for a nonlife insurance company and went on to establish I.K Ltd. in May 1982. While working on the sales of various products, he opened an account of Aichi CO-OP Union in April 1983 on getting favors from people in charge of sales and started trading with occupational co-ops.

As the sales of flyers about a rechargeable cleaner, the first product, became a major hit, the horizontal expansion to other co-ops progressed, the number of items handled also increased and the business expanded rapidly. It got listed on the JASDAQ market in December 2001.

Due to the increase in recognition and reliability after the listing, the company began supplying products to the mail-order systems of department stores and retailers in a full-fledged manner, steadily expanding sales outlets, and achieved sales increases for 25 consecutive terms until the fiscal year ended May 2007.

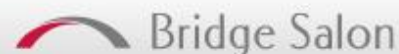
However, as the Lehman’s bankruptcy put the growth at halt, the company shifted to a “marketing manufacturer” that conducts integrated business activities including product planning, manufacturing, sales and distribution of products on its own using a unique promotion strategy and established “B to C channels” in addition to “B to B to C” to offer its products directly to customers, which allowed it to return to the growth track once again.

The company is actively putting efforts in M&A such as making Prime Direct Inc., a major company for television shopping, into a wholly owned subsidiary in September 2014.

1-2 Management Philosophy

Increase of fans	What they should pursue to become a leading company in the 21 st century is not the amount of sales, capital or the number of employees. When they look ahead 100 years, they consider that making more and more people their “fans” will lead to prosperity for the company, therefore, they set “increase of fans” as the company’s management philosophy with a goal of “making all people involved in I.K Co., Ltd its fans.”
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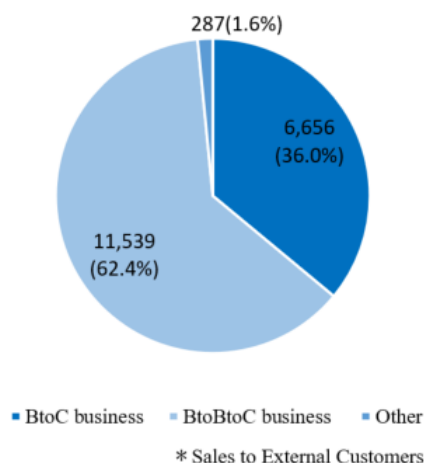


1-3 Business Description

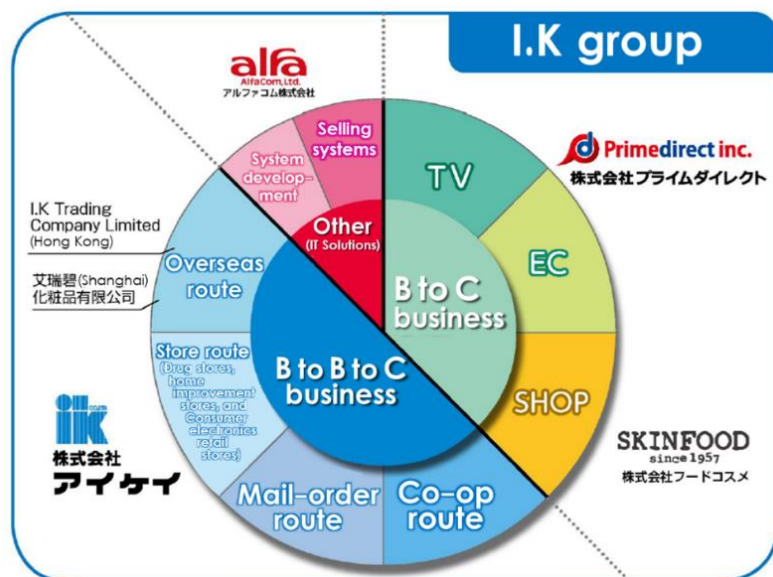
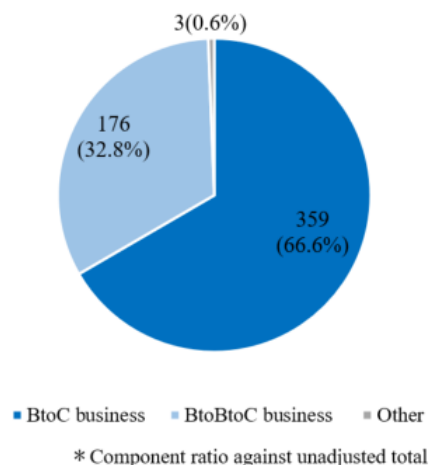
(1) Segments

From the fiscal year ended May 2020, the company will enhance the operation speed and focus investments on promising businesses, all of which are necessary steps for growth. In addition, it will try to let investors gain a better understanding about its business. That is why the company has changed the business segment to “B to C Business,” “B to B to C Business,” and “Other.”

Sales Composition (FY May 2020 Unit: million yen)



Operating income Composition (FY May 2020 Unit: million yen)



(Source: The company)

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**①B to C business**

The subsidiary, Primedirect Inc. offers products directly to consumers via websites and TV shopping slots, while the subsidiary Food Cosmetic Co., Ltd. sells SKINFOOD, which is the food cosmetic of a South Korean cosmetic brand, at shops. The total number of shops as of the end of November 2020 was 26, including 22 directly managed shops and 4 franchised ones, which are located mainly in station buildings of major cities in Japan.

②B to B to C business

The cosmetics, apparel goods, shoes, bags, products related to beauty and health, etc. designed and developed by the company as a manufacturer are offered to consumers through various routes, including co-op stores, mail-order companies, shops, and overseas channels.

(Major Sales Routes)

Co-op route	Co-op Sapporo, Co-op Tohoku, Co-opdeli Consumer's Co-operative Union, Palsystem Consumer's Co-operative Union, Tohto Co-op, U Co-op, Tokai Co-op Business Union, Co-op Kinki Business Union, Co-op Kobe, Co-op CS Net, Co-op Hokuriku Business Union, Green Co-op Business Union, Co-op Kyushu Business Union, All School Co-operative Unions in Japan, Aichi Co-op Union, Japan Consumer's Co-operative Union, etc.	
Mail-order route	Takashimaya Co., Ltd., Tokyu Department Store Co., Ltd., Dinos Cecile Co., Ltd., Belluna Co. Ltd., Senshukai Co., Ltd., Nissen Co., Ltd., Aeon Retail Co., Ltd., au Commerce & Life, Inc., ABC Media Communications, JAF Service, JALUX Inc., East Japan Railway Trading Co., Ltd., Shogakukan-Shueisha Productions Co., Ltd., QVC Japan, Inc., Ropping Life, Nihon Bunka Center Co., Ltd., Zenkokutsuhan Co., Ltd., Japan Green Stamp Co., Ltd., Shaddy Co., Ltd., Television Shopping Kenkyujo Co., Ltd., Yamachu Co., Ltd., LightUp Shopping Club Inc., TV Tokyo Direct Inc., Credit Saison Co., Ltd., Japan Post Trading Service Co., Ltd., etc.	
Store route	Variety type	Don Quijote Co., Ltd., Nagasakiya Co., Ltd., UD Retail Co., Ltd., Loft Co., Ltd., cosme next Co., Ltd., Tokyo Dome Co., Ltd., Izumi Co., Ltd., TokyuHands Co., Ltd., etc.
	Drug store type	Matsumoto Kiyoshi Co., Ltd., Tsuruha Holdings Co., Ltd., Create SD Co., Ltd., Ain Pharmaciez Co., Ltd., Sundrug Co., Ltd., Sugi Holdings Co., Ltd., cocokarafine Healthcare Inc., AEON Retail Co., Ltd., AMANO Corporation, Daikoku Corporation, etc.
	Home Center type	Komeri Co., Ltd., Cainz Co., Ltd., etc.
	Home appliance type	Yamada Denki Co., Ltd., Biccamera Co., Ltd., Yodobashi Camera Co., Ltd, etc.
Overseas route	China, Taiwan, Hong Kong, South Korea, Singapore, Vietnam, and the U.S. etc.	

③Other

The subsidiary AlfaCom, Ltd. sells systems for the establishment of contact centers, such as the voice call recording system "Voistore," the business version of LINE "LINE WORKS," the chat system "M-Talk," etc.

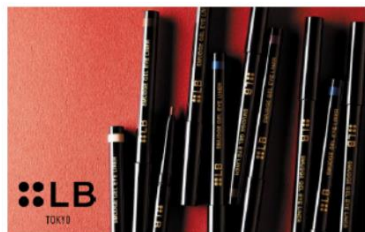
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(2) Main Products Developed by the Company

As a marketing manufacturer, the company develops products in various genres in house.

<<Cosmetics>>



< LB >



< CAWAIDEA >



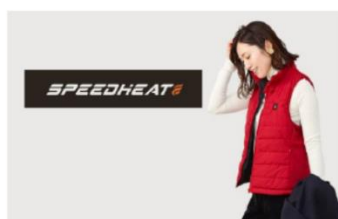
<Egg Cosmetics>



< SKINFOOD >

(Source: The company)

<< Sundries >>



< Speed Heat Vest >



< AIR YAWN >



< VOLZAC >



< STEP 8 >

(Source: The company)

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<<Food Products>>



< Aged black garlic >



< Tear grass extract >



< Low calo Life >



< Mother's Market >

(Source: The company)

<<Others>>



Soup with many side dishes



La Seeks Deep color treatment



Soft Sliced Lemons



Medicated Stain Care Peeling Essence



Manuka Honey in Ginger Syrup



LUXER medicinal DEEP LINE WHITE SERUM



LOCOX Active Walker



BEFREE+

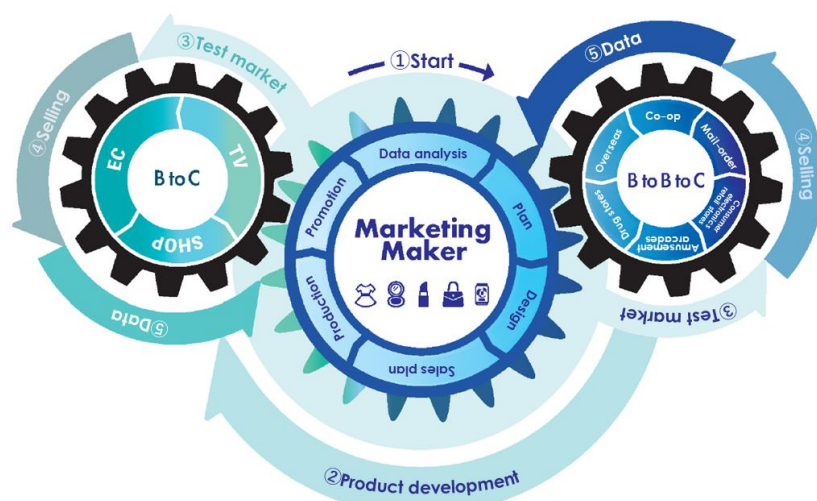


Atelier Okada

(Source: The company)

1-4 Characteristics and strengths: Business model as a marketing manufacturer

The primary point characterizing the company is a business model as a "marketing manufacturer" which conducts integrated business activities including planning, manufacturing, sales, and distribution of products on its own with a unique promotion strategy. The company's business model is composed of the following 3 functions.



I.K Co., Ltd. is a “marketing manufacturer,” which conducts integrated business activities including **product planning, manufacturing, selling and distribution** through its original promotion strategy.

(1) Powerful product development, discovery, and procurement

The company is developing, discovering and procuring attractive products by taking advantage of information gained from a wide range of sales channels and experiences cultivated over 30 years. The "Development Approval Conference" is held once a week, and three teams of cosmetics, sundries and food with 7 to 8 members in each team, propose new products to officers and people in charge of sales. In their company where challenges are valued, each team proposes an average of 10 or more items each month based on freewheeling ideas, but not everything is approved.

The company has set "10 rules for development," which stipulates "emphasis on originality" and "thorough differentiation" regarding product development, and the proposed product is strictly criticized based on them, and homework is given out sometimes. However, these processes train the staff members in charge of development and are leading to further enhancement of product development capabilities.

(2) High marketing ability

“High marketing ability” is playing a major role in developing a hit product.

Test marketing is conducted using various sales channels to check whether candidate products actually sell well. By making innovations in various aspects such as package, timing, target and price and conducting new promotions, the company has been creating many hit products.

(3) Various sales channels

Rather than just proposing products to the various sales outlets mentioned above, they propose the best ways of selling and showcasing in other sales channels together with successful stories of those channels.

They blend ideas unique to I.K co., Ltd. with the needs and feedbacks of customers and brush them up daily.

It is a major feature of the company that it provides all solutions, which fit the sales channels, to customers including product selection, catalog and medium creation, quality control, order reception, logistics and customer service.

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Solutions	Outline
Creation	Create a flyer/catalogue sized paper tailored to the project
Order reception	They have a flexible core system that can handle all order reception styles such as calls, emails, FAX and post cards with which it performs order receiving work faster and more accurately.
Quality control	In addition to preparing for compliance, they set voluntary standards for each product category, and they check the products to prevent complaints.
Logistics	They provide individual delivery service from their own distribution center to the end user, keeping in mind the five keywords: sorting, setting in order, cleaning, hygiene, discipline.
Customer Service	In-house staff members provide one-stop services such as responding to inquiries about products, delivery and exchange, and after sales services at the call center.

While many other companies in the same industry specialize in planning and marketing of products, have only stores as their sales channels, and outsource manufacturing and distribution work to other companies, the company can execute a unique promotion strategy that they cannot imitate as the company can respond flexibly with the system and know-how.

1-5 ROE Analysis

	FY 5/13	FY 5/14	FY 5/15	FY 5/16	FY 5/17	FY 5/18	FY 5/19	FY 5/20
ROE (%)	4.2	-2.3	-3.4	4.9	25.0	29.0	9.1	14.0
Net income margin (%)	0.51	-0.29	-0.40	0.53	2.79	3.50	1.35	2.08
Total asset turnover [times]	2.81	2.74	2.75	2.93	3.04	3.19	2.69	2.61
Leverage [times] (x)	2.89	2.91	3.07	3.18	2.95	2.60	2.51	2.59

Particularly, ROE was recovered to be double-digit due to the increase in net income margin. Net income margin for the fiscal year May 2021 is forecasted to increase from the previous term to 2.91%.

2. Second quarter of Fiscal Year ending May 2021 Earnings Results

(1) Consolidated Business Results

	2Q of FY 5/20	Ratio to Sales	2Q of FY 5/21	Ratio to Sales	YY change
Sales	8,810	100.0%	11,091	100.0%	+25.9%
Gross Profit	4,199	47.7%	5,835	52.6%	+39.0%
SG&A	4,017	45.6%	5,301	47.8%	+32.0%
Operating Income	182	2.1%	534	4.8%	+193.4%
Ordinary Income	180	2.1%	534	4.8%	+195.3%
Net Income	109	1.2%	323	2.9%	+194.6%

*Unit: million yen. Net income is profit attributable to owners of parent.

Sales and operating income increased significantly.

Sales were 11,091 million yen, up 25.9% year on year. Sales of SKINFOOD stores struggled due to the impact of the novel coronavirus. However, TV shopping suited for meeting the demand of people staying home and the sales of food products through the co-op and mail-order routes, which allow customers to purchase products without going out, contributed significantly. Gross profit margin rose due to the increase in sales of TV shopping and co-op routes, and gross profit increased 39.0% year on year. Also, SG&A expenses, mainly the advertising expenses, augmented, but it was offset, and operating income and other profits grew considerably.

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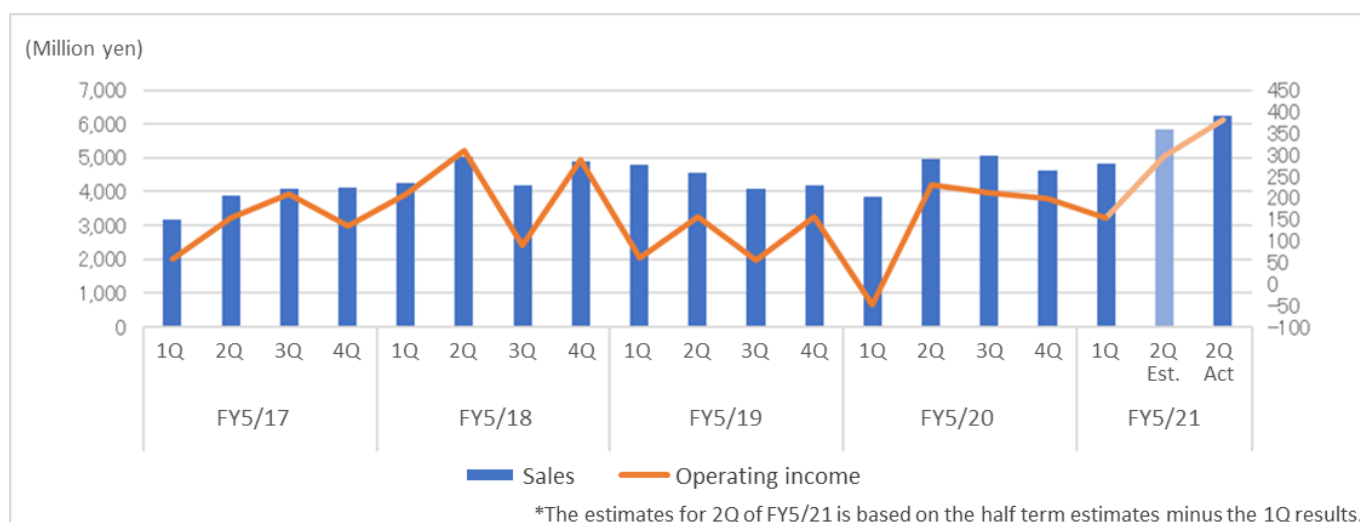
(Variation in Selling, General and Administrative Expenses)

	2Q of FY 5/20	Ratio to sales	2Q of FY 5/21	Ratio to sales	YY change
Labor cost	740	8.4%	760	6.9%	+2.7%
Advertising cost	1,692	19.2%	2,455	22.1%	+45.1%
Packing and freight expenses	609	6.9%	898	8.1%	+47.5%
Total SGA	4,017	45.6%	5,301	47.8%	+32.0%

*Unit: million yen

Advertising expense ratio rose 2.9 points year on year due to the increase of TV shopping slots etc. Packing and freight costs also augmented 1.2 points year on year due to the rise in costs of goods delivery and shipping at distribution centers. On the other hand, SG&A ratio was up only 2.2 points due to the improvement of labor costs by 1.5 points year on year.

◎Quarterly Earnings



(2) Trend of each segment

	2Q of FY 5/20	Ratio to Sales	2Q of FY 5/21	Ratio to Sales	YY change
Sales					
B to C Business	3,222	36.6%	4,989	45.0%	+54.8%
B to B to C Business	5,470	62.1%	5,920	53.4%	+8.2%
Other	117	1.3%	181	1.6%	+54.7%
Total	8,810	100.0%	11,091	100.0%	+25.9%
Operating Income					
B to C Business	203	6.3%	364	7.3%	+79.2%
B to B to C Business	-24	-	132	2.2%	-
Other	-12	-	17	9.6%	-
Adjustments	16	-	20	-	-
Total	182	2.1%	534	4.8%	+193.4%

*Unit: million yen. Composition ratio of operating income is operating income margin.

① B to C business

Sales and profit increased.

The considerable improvement in sales of the top-selling products, Speed Heat, Air Yawn, and Step 8 via TV shopping made up for the decrease in sales at SKINFOOD stores, resulting in an overall increase of 1,766 million yen in sales.

The overall operating income for the B-to-C business was 364 million yen. This improvement was attributed to the rise in MR

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(sales/media costs) by 0.2 points year on year, the improved TV shopping sales, and the increase in the gross profit margin by 4.2 points.

② B to B to C business

Sales increased, and operating income turned positive.

Sales of wholesale of cosmetics to drug stores decreased. However, sales of food products through the co-op route and the mail-order route were up 42.4% and 65.9%, respectively. Therefore, overall sales increased 450 million yen to 5,920 million yen. As a result of the increase in sales and the SG&A ratio going down by 2.0 points, operating income increased 157 million yen, turning positive.

③ Other

Sales increased, and operating income turned positive.

The acquisition of new customers for the company's main product, M-Talk (chat system), and the sales of Voisore (call recording system) were behind the increase in sales. In terms of profits, operating income turned positive thanks to M-Talk's strong sales and a 16.8 point drop in the SG&A ratio.

(3) Financial condition and cash flow

◎Main BS

	End of May 2020	End of November 2020		End of May 2020	End of November 2020
Current Assets	6,268	6,988	Current Liabilities	3,082	3,736
Cash	670	644	Payables	1,154	1,233
Receivables	3,176	3,499	ST Interest Bearing Liabilities	809	1,150
Inventories	1,852	2,257	Noncurrent liabilities	1,477	1,229
Noncurrent Assets	1,100	1,034	LT Interest Bearing Liabilities	1,175	920
Tangible Assets	380	368	Total Liabilities	4,559	4,966
Intangible Assets	163	157	Net Assets	2,809	3,056
Investment, Others	556	508	Retained Earnings	2,166	2,402
Total Assets	7,369	8,022	Total Liabilities and Net Assets	7,369	8,022
			Balance of Debts	1,985	2,071
			Equity Ratio	38.0%	37.9%

*Unit: million yen

Total assets increased 653 million yen from the end of the previous fiscal year to 8,022 million yen due to a rise in trade receivables and inventories. Total liabilities augmented by 406 million yen year on year to 4,966 million yen due to an increase in borrowings. Net assets were 3,056 million yen, up 246 million yen year on year due to an increase in retained earnings. The equity ratio fell 0.1% from the end of the previous fiscal year to 37.9%.

3. Fiscal Year ending May 2021 Earnings Forecasts

(1) Full-year earnings forecast

	FY 5/20	Ratio to Sales	FY 5/21 Est.	Ratio to Sales	YY change
Sales	18,483	100.0%	19,846	100.0%	+7.4%
Operating Income	590	3.2%	804	4.1%	+36.3%
Ordinary Income	623	3.4%	810	4.1%	+30.0%
Net Income	384	2.1%	506	2.5%	+31.8%

*Unit: million yen. The estimated values are those announced by the Company.

Sales and profit are estimated to increase. Sales are expected to mark a record high.

Sales are expected to be 19,846 million yen, up 7.4% year on year, and operating income is projected to be 804 million yen, up 36.3% year on year.

On November 10, 2020, the company upwardly revised its earnings forecast for the fiscal year ending May 2021. According to the previous forecast, sales were estimated to be 10,690 million yen in the second quarter, and operating income was projected to be 451 million yen, but the actual numbers exceeded the estimate for both of them. Nonetheless, sales and operating income estimates in the full-year forecasts have been left unchanged at 19,846 million yen and 804 million yen, respectively. The dividend is unchanged at 12.00 yen/share. The expected payout ratio is 17.2%.

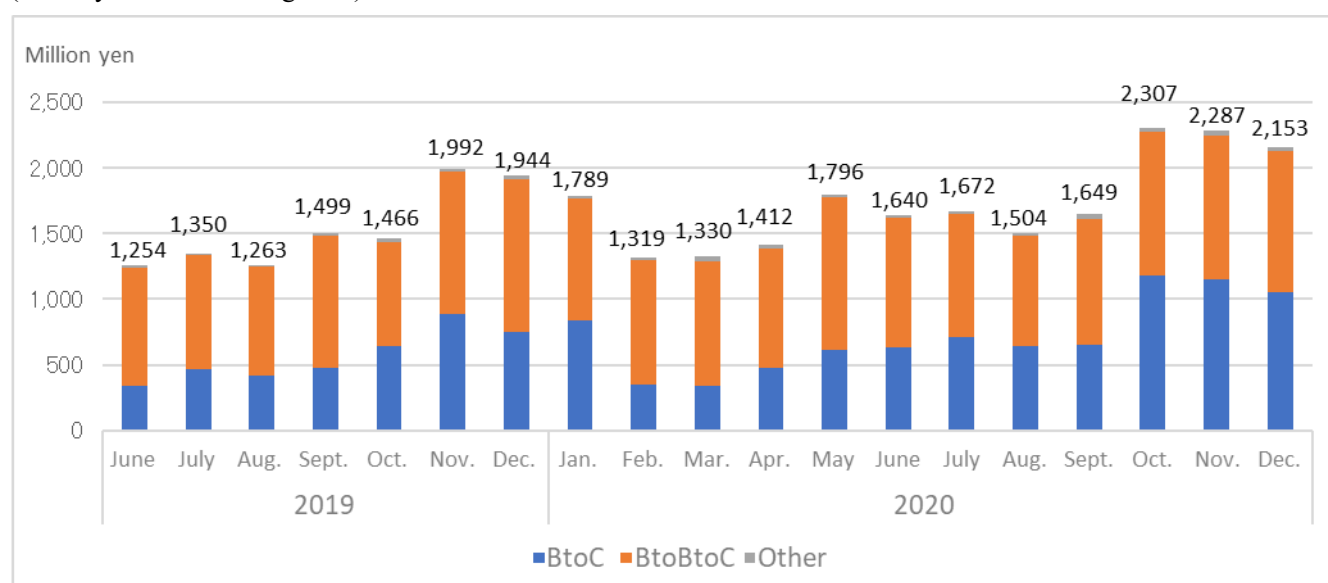
(2) Trend of each segment

(Sales forecast for each segment.)

	FY 5/20	Ratio to Sales	FY 5/21 Est.	Ratio to Sales	YY change
B to C business	6,656	36.0%	-	-	-
B to B to C business	11,539	62.4%	-	-	-
Other	287	1.6%	-	-	-
Total	18,483	100.0%	19,846	100.0%	+7.4%

*Unit: million yen

(Monthly sales for each segment.)



4. Future Strategy

(1) Company-wide Strategy

The following are the four company-wide initiatives.

① To become a full-fledged “marketing manufacturer,” a business model that is one of a kind in the world

In order to become the world’s one and only “marketing manufacturer,” the company pursues a system in which TV shopping ignites the market and seamlessly leads to increased profits in each sales channel.

The company needs to strengthen its marketing, product development, and sales capabilities to achieve the above, and thus, it will actively invest its management resources.

② Efforts to improve e-commerce

The company will train and scout for specialists in managing e-commerce websites or resort to M&A.

③ To export Japan Beauty overseas

The company’s immediate goal is to focus on the Chinese market.

④ Logistical reforms

The company aims to increase work productivity in warehouses by implementing a new system.

(2) Strategies for each segment

① B to C business

◎ TV shopping

The company will broadcast the existing top-selling products, Step 8, Air Yawn, and Aged Black Garlic.

It will launch VOLZAC Mineral Station in January.

It will conduct a test marketing for three items (the new series of Step 8, etc.) between March and May.

This will allow the company to always have 5-6 top-selling items and optimize TV slots. In addition, the company will aim to expand TV slots and achieve stable expansion and growth.

◎ E-commerce website

The company will optimize the website as a tool to receive orders through TV shopping.

The company will also make a full-scale entry into the subscription-type business following cosmetics (LUXER).

◎ Shopping

The company will enhance the online sales of SKINFOOD cosmetics.

It will increase the number of pop-up stores of OLIVE YOUNG and launch an official website for it.

② B to B to C business

◎ To cultivate the co-op market in depth

The company will maintain and expand the relationship of trust that it has built through successful partnerships in the co-op and mail order routes and introduce its own products it has developed as a marketing manufacturer. By doing so, it will expand sales mainly in food planning, which is performing well. The company will also implement sales reforms suitable to the new lifestyles in order to improve productivity.

◎ Retail store route

The company will supply LB cosmetics and egg cosmetics to more stores, mainly drug and variety stores. It will also invest its promotional costs intensively in social networking sites such as Instagram and YouTube.

◎ Overseas route

The company strives to thoroughly capture the Chinese market with LB cosmetics, egg cosmetics, and B! FREE series cosmetics.

5. Conclusions

As we face the second and third waves of the novel coronavirus and the state of emergency has been declared for the second time, mainly in large cities, no one can tell when the pandemic will subside. Under these circumstances, it is crucial to continue to meet the demand of people staying home, which is the driving force behind the current business performance. We have great hopes for the synergistic effects of the company's ability as a "marketing manufacturer" to create hit products on its own and its marketing skills to accurately promote its products through TV shopping.

Moreover, the company aims to become a full-fledged "marketing manufacturer," a business model that is one of a kind in the world. Currently, the percentage of the in-house developed products is 68% of the company's total products. We want to see how quickly the company can change this percentage from 68% to 100%.

<Reference: Regarding Corporate Governance>

◎ Organization type, and the composition of directors and auditors

Organization type	Company with audit and supervisory committee
Directors	7 directors, including 3 outside ones

◎ Corporate Governance Report

Last updated: December 17, 2020

<Basic Policy>

While corporate governance is expected to function effectively, the company strives to become a reliable firm by improving its management foundation, maintaining high ethics and increasing the transparency of the management further in order to fulfil the social mission and responsibility as a listed company.

Also, the company considers the establishment of a management structure that can respond to the changes in the business environment fast and accurately as one of the important business challenges, and it is making efforts in information sharing from many sides by holding a regular meeting of Board of Directors (once/month), an extraordinary meeting of Board of Directors (as per the need), an in-house officers meeting (once/week) with regular directors (including directors serving as audit and supervisory committee members) and executive officers, and a top meeting (once/week) composed of people from team managers post or above.

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

Principles	Reasons for not implementing the principles
Supplementary Principle 1-2. (4) Electronic exercise of voting rights, English translation of convocation notices	The company does not use an online voting platform or provide English translation of convocation notices for ordinary general meetings of shareholders, but it will take the shareholders' convenience into account based on the composition of shareholders such as institutional investors and foreign investors, and discuss them as necessary.
Supplementary Principle 4-1. (2) Explanation of a medium-term management plan	The company has its medium-term plan, and it makes efforts to allow shared recognition with shareholders and investors through medium-term vision. The medium-term profit plan is not disclosed, but the company will consider disclosing it in future.

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

Principles	Disclosure contents
Principle 1-4 So-called Strategically-held Shares	<p>The company owns strategically held shares in order to maintain and strengthen a continuous, stable and good business relation with its clients. However, it will conduct tests regularly from a medium-to-long term perspective based on returns, risks, etc., and it will recommend the sale of shares in case there is no longer necessity. Regarding the concerned shares, the board of directors verifies the holding purpose, reasonability and the status of dividend income, compares the acquisition price and current price, and checks the need for holding the shares every year.</p> <p>Furthermore, since the company makes its decision regarding the exercise of voting rights by comprehensively considering strengthening and maintenance of business relation, circumstances of the company concerned, etc., it does not have external standards.</p>
Principle 5-1 Policy to have Constructive Dialogue with Shareholders	<p>In the company, the management team/general affairs group are designated as the IR department, and they respond to the requests for dialogue by the shareholders within reasonable range in order to contribute to sustainable growth of the company and improvement of corporate value over medium-to-long term.</p> <p>The company's chairman holds the financial results briefing twice a year for shareholders and institutional investors. Further, the company upload videos and handouts of the briefing on its website for shareholders and investors who are not able to attend the briefing.</p>

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