

BRIDGE REPORT



Chairman & CEO Hiroshi Iida

I.K Co., Ltd. (2722)



Company Information

Market	Tokyo stock exchange 2nd section and Nagoya stock exchange 2nd
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
¥858	7,808,000 shares		¥6,699 million	14.0%	100 shares
DPS Est	Dividend yield Est.	EPS Est.	PER Est.	BPS Act.	PBR Act.
¥12.00	1.4%	¥51.69	16.6x	¥385.34	2.2x

*The share price is the closing price on July 20. Each figure was taken from the brief report on results for the term ended May 2020.

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.	19,268	659	661	375	51.69	12.00

*Unit: million 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 fiscal year ended May 2020 and many more about I.K Co., Ltd. will be described.

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Key Points

- The sales for the fiscal year ended May 2020 were 18,483 million yen, up 4.9% year on year, and marked a record high. The sales from stores dropped significantly due to the spread of the novel coronavirus, but the B-to-C business, led by TV shopping, achieved double-digit growth in sales. Sales also increased in the B-to-B-to-C business and other segments. Gross profit rate improved, and gross profit also rose 11.6% year on year through the growth of the B-to-C business. SGA, mainly advertisement costs, expanded, but the increase was offset, and operating income and other incomes grew largely. Sales, operating income and ordinary income exceeded the initial estimates.
- Both sales and profit are expected to increase for the fiscal year ending May 2021. Sales are estimated to be 19,268 million yen, up 4.2% year on year, and operating income is projected to be 659 million yen, up 11.6% year on year. Sales are expected to mark a record high. The B-to-B-to-C business will be the driving force for this term. Sales are forecasted to hit a record high for consecutive years. The dividend is to be 12.00 yen/share, unchanged from the previous term. The estimated payout ratio is 23.2%.
- The company's sales in the fourth quarter (March to May), in which a nationwide state of emergency was declared, increased 10% year on year and operating income rose 25% year on year. Also, the media ration (MR) of TV shopping for the same period was 2.7, well above 2.2 two terms ago and 2.0 in the previous term. Not only the fact that the company was able to tap into the demand for so-called "stay-at-home consumption," but also the synergistic effects of its ability as a "marketing manufacturer" to create hit products on its own and its marketing skills to accurately promote its products through TV shopping contributed to favorable results.
- The company aims to become a full-fledged "marketing manufacturer," a business model that is one of a kind in the world, but it considers the attainment degree to be only 60% since its own products account for 60% of the company's total. We would like to pay attention to how speedily the degree will improve to 70%, 80%, and to 90%.

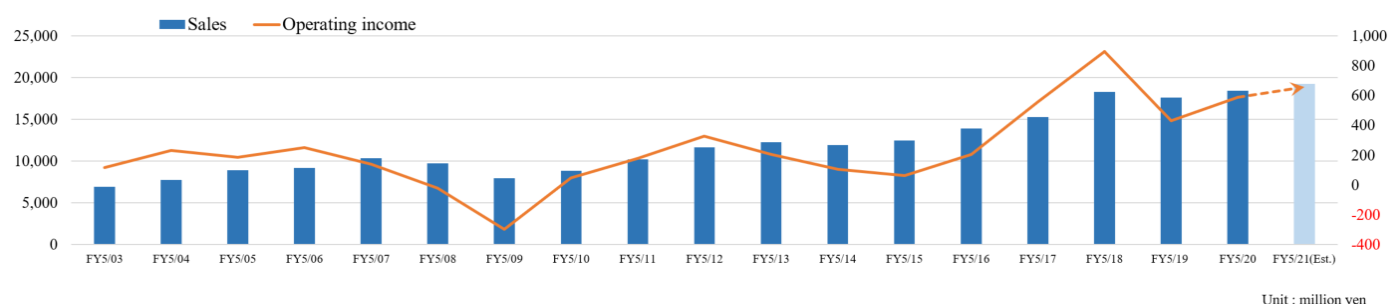
1. Company Overview

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.

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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

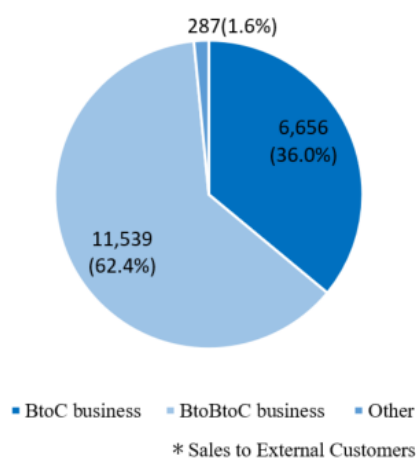
(1) segments

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 will change the business segment to “B to C Business,” “B to B to C Business,” and “Other.”

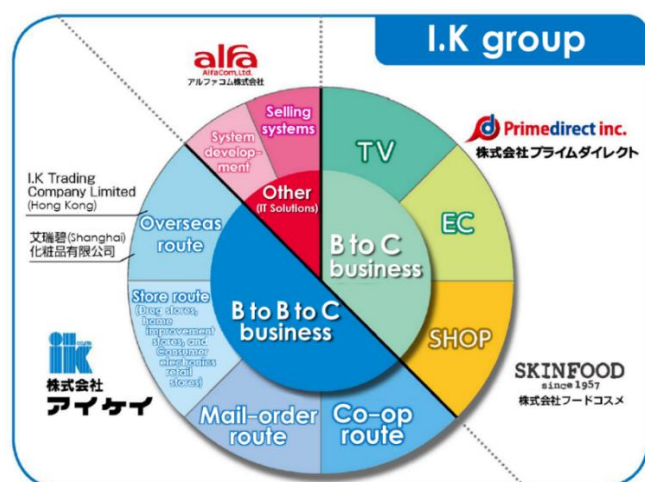
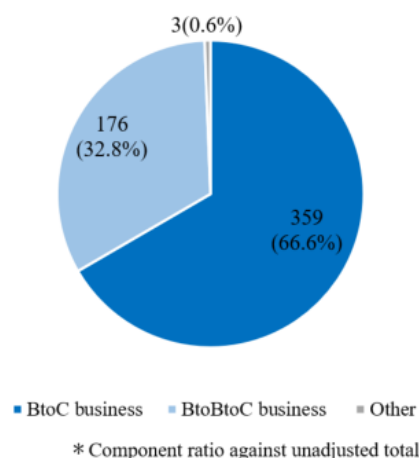
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Sales Composition (FY May 2020 Unit: million yen)



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



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 May 2020 was 25, including 22 directly managed shops and 3 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., Yomiuri Agency, Shogakukan-Shueisha

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	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., Kokumin Co., Ltd., Create SD Co., Ltd., Ain Pharmaciez Co., Ltd., Sundrug Co., Ltd., Sugi Holdings Co., Ltd., cocokara fine Holdings Inc., AEON Retail Co., Ltd., AMANO Corporation, Daikoku Corporation, etc.
	Home Center type	Komeri Co., Ltd., Cainz Co., Ltd., Nafco Co., Ltd., etc.
	Home appliance type	Yamada Denki Co., Ltd., Biccamera Co., Ltd., Yodobashi Camera Co., Ltd., etc.
Overseas route	New Zealand, the U.S., China, Taiwan, Hong Kong, South Korea, Singapore, Malaysia, Thailand, the Philippines, Australia, Vietnam, and Cambodia	

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.

(2) Main Products Developed by the Company

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

<<cosmetics>>



< LB >



< B!FREE+ >



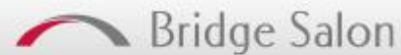
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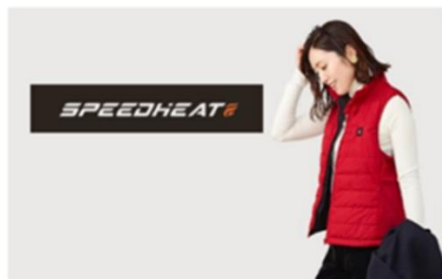
< SKINFOOD >

(Source: the company)

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<< Sundries >>



<Speed heat vest>

< LOCOX >



<STEP 8>

<AIR YAWN>

(Source: the company)

<<Food Products>>



<Aged black garlic>

<tear grass extract>



<Lowcalo Life>

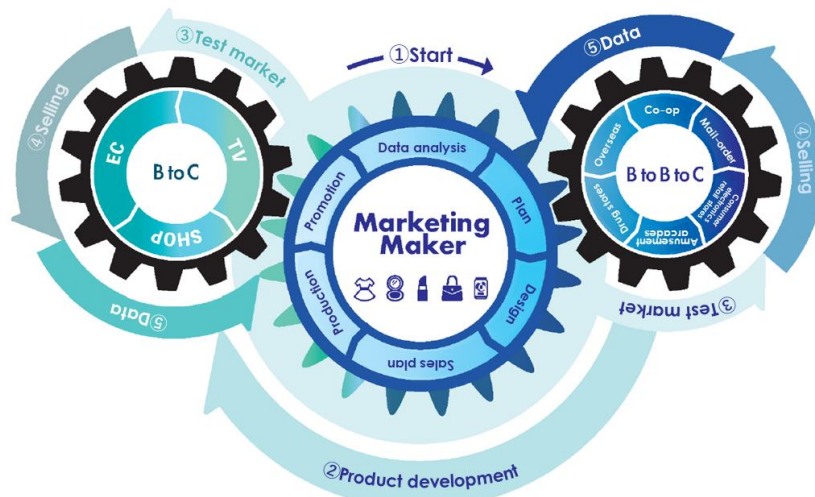
<Prussia 8>

(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 this term is forecasted to decline slightly from the previous term to 1.95%.

2. Fiscal Year ended May 2020 Earnings Results

(1) Consolidated Business Results

	FY 5/19	Ratio to sales	FY 5/20	Ratio to sales	YY change	Compared with the initial forecasts
Sales	17,614	100.0%	18,483	100.0%	+4.9%	+9.1%
Gross profit	7,974	45.3%	8,898	48.1%	+11.6%	-
SG&A	7,543	42.8%	8,307	44.9%	+10.1%	-
Operating Income	431	2.5%	590	3.2%	+36.9%	+2.4%
Ordinary Income	437	2.5%	623	3.4%	+42.5%	+6.6%
Net Income	238	1.4%	384	2.1%	+61.2%	-4.5%

*Unit: million yen

*Net income is profit attributable to owners of parent.

Sales and profits increased. Sales marked a record high.

The sales were 18,483 million yen, up 4.9% year on year, and marked a record high. The sales from stores dropped significantly due to the spread of the novel coronavirus, but the B-to-C business, led by TV shopping, achieved double-digit growth in sales. Sales also increased in the B-to-B-to-C business and other segments. Gross profit rate improved, and gross profit also rose 11.6% year on year through the growth of the B-to-C business. SGA, mainly advertisement costs, expanded, but the increase was offset, and operating income and other incomes grew largely. Sales, operating income and ordinary income exceeded the initial estimates.

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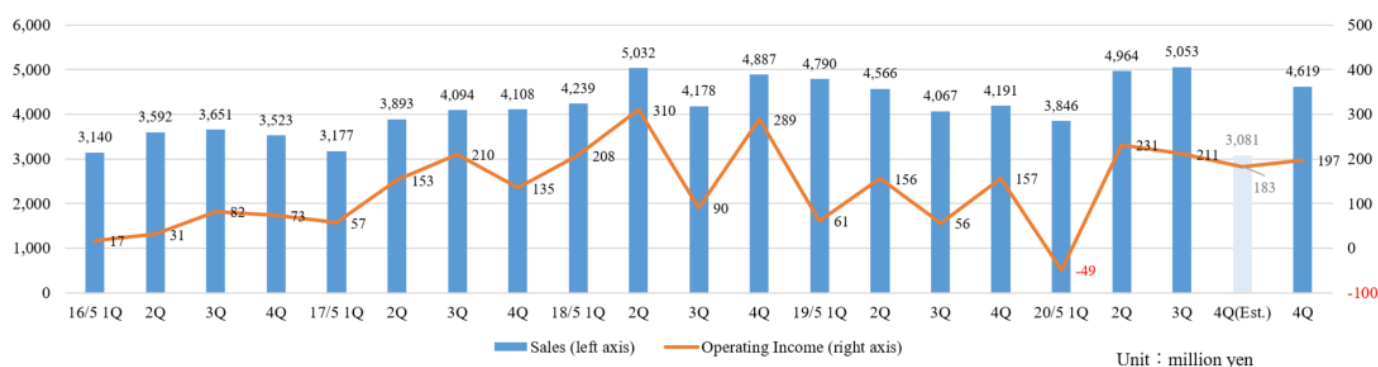
(Variation in Selling, General and Administrative Expenses)

	FY 5/19	Ratio to sales	FY 5/20	Ratio to sales	YY change
Labor cost	1,416	8.0%	1,479	8.0%	+4.4%
Advertising cost	3,286	18.7%	3,544	19.2%	+7.9%
Packing and freight expenses	1,124	6.4%	1,368	7.4%	+21.7%
Total SGA	7,543	42.8%	8,307	44.9%	+10.1%

*Unit: million yen

Advertising cost rose 7.9% from the previous term with the expansion of slots for TV shopping and promotions in China. Packing and freight expenses also augmented 21.7% year on year due to higher shipping costs and increased individual delivery. The SG&A ratio rose 2.1 points from the previous term.

◎Quarterly Earnings



* Figures in 4Q(Est.) is calculated by subtraction accumulated 3Q results from full year forecast.

Sales in the fourth quarter (March to May), in which the state of emergency was declared, exceeded the sales in the same period last year and were higher than the expectation at the end of the third quarter, as growth in sales from unstaffed stores offset the decline in sales from staffed stores.

(2) Trend of each segment

	FY 5/19	Ratio to sales	FY 5/20	Ratio to sales	YY change	Compared with the initial forecasts
Sales						
B to C Business	5,991	34.0%	6,656	36.0%	+11.1%	+44.5%
B to B to C Business	11,354	64.5%	11,539	62.4%	+1.6%	-4.0%
Other	268	1.5%	287	1.6%	+6.8%	-10.3%
Total	17,614	100.0%	18,483	100.0%	+4.9%	+9.1%
Operating Income						
B to C Business	61	1.0%	359	5.4%	+482.3%	-
B to B to C Business	349	3.1%	176	1.5%	-49.4%	-
Other	3	1.1%	3	1.2%	-2.4%	-
Adjustments	16	-	50	-	-	-
Total	431	2.4%	590	3.2%	+36.9%	-

*Unit: million yen. Composition ratio of operating income is operating income margin. The classification of segments to be reported was changed in the first quarter of FY 5/20, and the figures in FY 5/19 are those of the revised segments.

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① B to C business

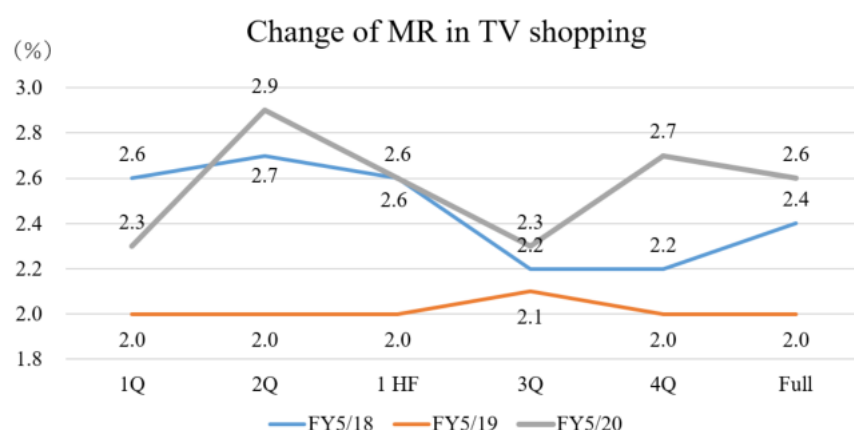
Sales and profit increased.

Sales dropped considerably as a result of the temporary closure of all 25 SKINFOOD shops due to the impact of the novel coronavirus, but sales from TV shopping made a significant contribution.

In addition to the steady sales from TV shopping, sales efficiency (media ration: MR) remained at a high level in the second half of the term, being 2.6 points, up 0.6 points from the previous term.

The top selling products included Step 8, Speed Heat, and Ashitsura Night. The sales of Step 8 exceeded two billion yen.

The total number of SKINFOOD shops as of the end of May 2020 was 25, including 22 directly managed shops (20 shops at the end of the previous term) and 3 franchised ones (2 shops at the end of the previous term).



② B to B to C business

Sales increased, but profit dropped.

The sales from the co-op wholesale, store wholesale, and overseas wholesale routes grew. Overall sales improved, but profit declined as SGA ratio rose 1.6 points due to the increased advertising cost and higher packing and freight expenses.

③ Other

Sales increased, but profit dropped.

The sales of M-Talk, which is a chat system and a core product of the company, were healthy.

As for profit, gross profit rate decreased because the sales of M-Talk, whose profit rate is low, increased, so operating profit decreased slightly.

(3) Financial condition and cash flow

◎Main BS

	End of May 2019	End of May 2020		End of May 2019	End of May 2020
Current Assets	5,741	6,268	Current liabilities	3,123	3,082
Cash	410	670	Payables	1,094	1,154
Receivables	2,766	3,176	LT Interest Bearing Liabilities	1,143	809
Inventories	2,054	1,852	Noncurrent liabilities	1,006	1,477
Noncurrent Assets	1,077	1,100	ST Interest Bearing Liabilities	742	1,175
Tangible Assets	364	380	Total Liabilities	4,129	4,559
Intangible Assets	121	163	Net Assets	2,688	2,809
Investment, Others	590	556	retained earnings	1,917	2,166
Total assets	6,818	7,369	Total Liabilities and Net Assets	6,818	7,369

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Balance of debts	1,885	1,984
Equity ratio	39.4%	38.0%

*Unit: million yen

Total assets increased 550 million yen from the end of the previous term to 7,369 million yen, due to the rise in cash, trade receivable, etc. Total liabilities augmented 430 million yen to 4,559 million yen due to the increase in borrowing, etc. Net assets grew 120 million yen to 2,809 million yen due to the increase in retained earnings, etc. Equity ratio dropped 1.4% from the end of the previous term to 38.0%.

◎Cash Flow

	FY 5/19	FY 5/20	Increase/decrease
Operating Cash Flow	-722	712	+1,435
Investing Cash Flow	-275	-374	-98
Free Cash Flow	-998	338	+1,336
Financing Cash Flow	852	-139	-992
Term End Cash and Equivalents	542	802	+260

*Unit: million yen

Operating and free CFs turned positive, due to the increase in net income before taxes and other adjustments, the decrease in inventory assets, etc.

Financing CF turned negative because of the drop in short-term borrowings and the acquisition of treasury shares. The cash position improved.

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%	19,268	100.0%	+4.2%
Operating Income	590	3.3%	659	3.4%	+11.6%
Ordinary Income	623	3.4%	661	3.4%	+6.0%
Net Income	384	2.1%	375	1.9%	-2.3%

*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 estimated to be 19,268 million yen, up 4.2% year on year, and operating income is projected to be 659 million yen, up 11.6% year on year. Sales are expected to mark a record high. The B-to-B-to-C business will be the driving force for this term. Sales are forecasted to hit a record high for consecutive years. The dividend is to be 12.00 yen/share, unchanged from the previous term. The estimated payout ratio is 23.2%.

(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%	6,630	34.4%	-0.4%
B to B to C business	11,539	62.4%	12,317	63.9%	+6.7%
Other	287	1.6%	320	1.7%	+11.4%
Total	18,483	100.0%	19,268	100.0%	+4.2%

*Unit: million yen

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 sales 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 To control the three inventory elements (cost ratio, manufacturing lead time, and manufacturing lot)

As a manufacturer, the company will focus on the above three elements to secure appropriate inventory, reduce lost opportunities, and improve profit margin.

③ To export Japan Beauty overseas

The company’s immediate goal is the penetration of LB products in the Chinese market.

④ To enhance e-commerce

The steady sales from unstaffed stores amid the coronavirus crisis reminded the company of the importance of e-commerce. The company will train and scout for specialists in managing e-commerce websites.

(2) Strategies for each segment

① B to C business

◎ TV shopping

The company has been able to create two or three top-selling items as a result of test marketing for 10-12 items annually.

This will allow the company to always have 5-6 top-selling items and optimize TV slots based on their product attributes for stable expansion and growth.

◎ E-commerce website

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

In addition, the company plans to launch new products in this fall and thereafter in order to establish a recurring-revenue type business in the e-commerce.

◎ Store route

The company will carry out measures including the distribution of sample coupons to increase the ratio of repeat customers for SKINFOOD cosmetics stores.

Also, it will prepare to open a Korean cosmetics store with a wide range of Korean cosmetics.

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 partnership for 37 years and introduce its own products it has developed as a marketing manufacturer.

◎ Retail store route

The company aims to supply LB cosmetics and egg cosmetics to 3,000 stores, mainly in drug and variety stores, and is considering launching new brand cosmetics. It will invest its promotional costs intensively in social networking sites such as Instagram and YouTube.

◎ Overseas route

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

5. Conclusions

The company's sales in the fourth quarter (March to May), in which a nationwide state of emergency was declared, increased 10% year on year and operating income rose 25% year on year. Also, the media ratio (MR) of TV shopping for the same period was 2.7, well above 2.2 two terms ago and 2.0 in the previous term. Not only the fact that the company was able to tap into the demand for so-called "stay-at-home consumption," but also the synergistic effects of its ability as a "marketing manufacturer" to create hit products on its own and its marketing skills to accurately promote its products through TV shopping contributed to favorable results.

The company aims to become a full-fledged "marketing manufacturer," a business model that is one of a kind in the world, but it considers the attainment degree to be only 60% since its own products account for 60% of the company's total. We would like to pay attention to how speedily the degree will improve to 70%, 80%, and to 90%.

<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, 2019

<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.

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

Principles	Disclosure contents
Principle 1-4 So-called Strategically-held Shares	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

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	<p>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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