

## Bridge Report WELLNET CORPORATION (2428)

|  |                      |  |   |
|--|----------------------|--|---|
| <br>Kazuhiro Miyazawa,<br>President | Company              | WELLNET CORPORATION  |  |
|  | Code No.             | 2428   |   |
|  | Exchange             | TSE 1st  |   |
|  | Industry             | Service  |   |
|  | President            | Kazuhiro Miyazawa  |   |
|  | HQ Address           | 1-1-7 Uchisaiwaicho, Chiyoda-ku, Tokyo   |   |
|  | Business Description | WELLNET is a major convenience store consigned payments settlement company, which also provides prepaid digital money, electronic ticket and authentication services. It began provision of “Busmori ! ®”, Bus IT Promotion Solution |   |
|  | Year-end             | June   |   |
|  | URL                  | http://www.well-net.jp/  |   |

### Stock Information

| Share Price | Shares Outstanding    | Market Cap.    | ROE (actual) | Trading Unit |              |
|-------------|-----------------------|----------------|--------------|--------------|--------------|
| ¥1,309      | 18,630,042 shares     | ¥24,386million | 16.3%        | 100 shares   |              |
| DPS (Est.)  | Dividend Yield (Est.) | EPS (Est.)     | PER (Est.)   | BPS (actual) | PBR (actual) |
| ¥50.00      | 3.8%                  | ¥53.23         | 24.6x        | ¥453.37      | 2.9x         |

\* Stock price as of the close on September 15, 2016. Number of shares outstanding at the end of the most recent quarter excludes treasury shares. EPS is the upper value in estimated range in FY June 2017. ROE and BPS are from the previous year.

### Non-Consolidated Earnings Trend

(Units: Million Yen)

| Fiscal Year    | Net Sales | Operating Profit | Current Profit | Net Profit    | EPS             | Dividend (¥) |
|----------------|-----------|------------------|----------------|---------------|-----------------|--------------|
| June 2013      | 6,866     | 1,393            | 1,420          | 759           | 75.64           | 12.50        |
| June 2014      | 7,600     | 1,473            | 1,488          | 913           | 92.52           | 23.50        |
| June 2015      | 8,888     | 1,637            | 1,520          | 938           | 96.74           | 25.00        |
| June 2016      | 10,529    | 2,054            | 2,007          | 1,350         | 66.65           | 40.00        |
| June 2017 Est. | 11,100    | 1,000<br>~1,500  | 950<br>~1,450  | 650<br>~1,000 | 34.60<br>~53.23 | 50.00        |

\* Estimates are those of the Company. A 2 for 1 stock split was implemented on July 1, 2016.

EPS and BPS are calculated retroactively

We present this Bridge Report on WELLNET CORPORATION reviewing its earnings results for fiscal year June 2016.

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## Key Points

• Sales for the fiscal year ended Jun. 2016 rose by 18.5% year-over-year to ¥10.5 billion, thanks to the expansion of the non-face-to-face payment market and the C-to-C market, including auctions, the increase of online applications to college, etc. Operating profit increased 25.5% year on year to ¥2 billion, due to the decreases in sales promotion costs related to PIN and POSA, the expense for getting listed in the first section of Tokyo Stock Exchange, the remunerations for executives, etc. Both the sales and profit were larger than the estimated values.

• The earnings forecast for the term ending Jun. 2017, which is the first fiscal year in the new 5-year mid-term plan, is disclosed in the range format, because there is a possibility that performance will fluctuate according to the progress of new projects. As sales are expected to keep growing due to the expansion of the non-face-to-face payment market, the company will actively promote the smartphone apps “Bus Mori! Concierge” and “Shiharai-Hisho,” and so profit is projected to decline. As for dividends, payout ratio is set at 50% or over while considering the stock split, and even if dividend per share is less than ¥50, the company plans to increase it by ¥10/share to ¥50/share.

• During the period of the new 5-year mid-term plan, FinTech is forecasted to grow rapidly and be put into practice, and IoT is expected to be utilized, bringing significant changes to the business environment surrounding WELLNET. The company will conduct active investment for seizing new business chances through these changes, and aims to achieve an operating profit of ¥3 billion in the term ending Jun. 2019 and an operating profit of ¥5 billion in the term ending Jun. 2021, which is the last fiscal year of the mid-term plan.

• The 5 years of the new mid-term managerial plan will be totally different from the previous 3-year mid-term plan and important 5 years. In the field of non-face-to-face cash settlement, WELLNET exudes an overwhelming presence, but the advent of electronic money will produce a different competitive environment and new competitors will emerge. In these circumstances, we would like to pay attention to the number of downloads, to see the outcome of the promotion, which decreases profit this term. Investors should keep watching WELLNET, which values long-term investors, from the long-term viewpoint.

## 1. Company Overview

WELLNET provides electronic payment settlement system for sales business operators selling various products and services.

With the key concepts of “real time” and “one stop,” WELLNET offers a “convenient direct sales platform” to provide (1) its customers (i.e. the purchaser of service and goods) with the convenience of purchasing whatever they want at any time and from any place, and (2) its sales business operators (i.e. WELLNET’s direct customers) with the their capability of “maximizing sales opportunities” in selling products and services over the Internet.

The multiple payment service, which is WELLNET’s core business, has been implemented by a wide range of clientele including major Japanese airlines and express bus companies, in addition to major mail-order businesses. Ever since its inception, WELLNET has endeavored to maintain the spirit of taking on new challenges which is engrained in its corporate DNA.

### <Corporate History>

WELLNET CORPORATION got its start as a subsidiary of a gas and fuel merchant called Ichitaka Takahashi Co., Ltd. in Hokkaido for the purpose of developing new businesses.

At the time of its inception, utility bill payment services at convenience stores had already begun. However the Company began preparations for the expansion of payment settlement services to include mail order catalog sales.

WELLNET developed an integrated seamless “convenience store consigned bill payment settlement service” that included the functions of printing and mailing of invoices, and bill payment information processing which could be used 24 hours a day, 365 days a year. This system quickly spread amongst product and service merchants because it was distributed free of charge and enabled them to dispense with making large outlays to develop their own payment settlement systems.

Furthermore, WELLNET developed a system that allows customers to avoid having to print out paper copies of invoices and allows for customers to make real time connections for electronic invoices and payments, which is the system currently used widely. The system’s ability to eliminate development costs and to allow customers make electronic payment settlement connections with convenience stores and other payment outlets without the need to sign agreements has contributed to its strong reception and numerous implementations by airlines and bus companies, in addition to boosting WELLNET’s earnings. In 2004, the Company listed its shares on the JASDAQ market.

Thereafter, WELLNET has expanded the provision of its “multiple payment service” to include large companies such as Amazon, Yahoo! Shopping, Rakuten Auction, and low cost carrier (LCC) airlines. In addition, the Company has also focused its attention upon developing applications for the rapidly growing electronic ticket service market including a cellphone ticketing service, which has many good track records.

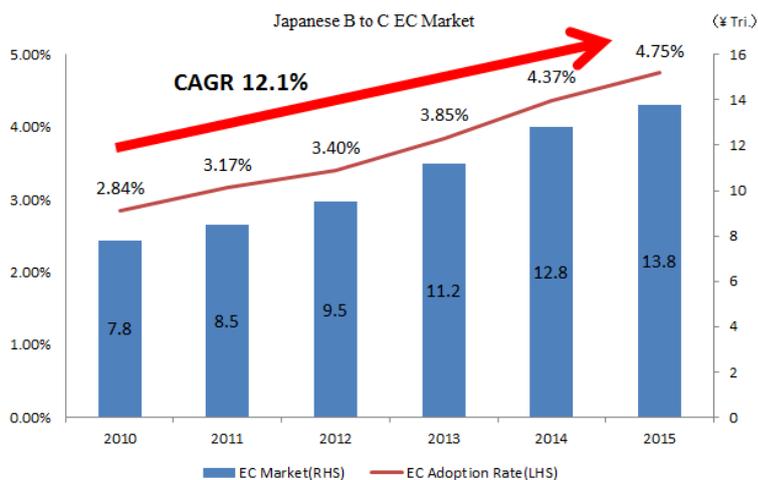
|      |     |  |
|------|-----|--|
| 1983 | Apr | Established to develop electronic payment settlement systems for Ichitaka Takahashi Co., Ltd.  |
| 1996 | Jul | The company name WELLNET CORPORATION was adopted   |
| 1997 | Apr | Start of consigned invoice issuance, convenience store bill payment services   |
| 1998 | Mar | “Convenience store bill payment system” was officially certified by the Ministry of International Trade and Industry to be in compliance with the new business law   |
| 2000 | May | Development of a KIOSK terminal capable of paperless and real time cash payment settlement (Currently known as the multiple payment service) was completed and was put into use at nationwide Lawson convenience stores. |
|      | Jul | Began provision of an airline ticket “cashless ticket service” using KIOSK terminals to Japan Airlines, All Nippon Airways, and Japan Air System   |
| 2001 | Mar | Started a “express bus ticket consigned payment settlement and ticket issuance service” using KIOSK terminals  |
|      | Apr | Payment settlement service using KIOSK terminals expanded to Family Mart   |
| 2002 | Jul | Cellular telephone ticket (Later renamed to “electronic authentication”) service was used for a concert at the Nippon Budokan to an audience of 13,000 people  |
| 2003 | Jan | “Paperless and real time cash payment settlement system” connected with Mizuho Bank ATMs   |
| 2004 | Jan | Multiple payment service fortified, connections with Internet banking, mobile banking formed   |
|      | Dec | Shares listed on the JASDAQ market   |
| 2005 | Feb | Multiple payment service expanded to Seven-Eleven  |
| 2006 | Apr | Began provision of multiple payment service to Amazon  |
| 2008 | May | Started providing game attendance record system (One Touch Pass) electronic authentication system to all the J-League soccer games   |
|      | Aug | Began provision of settlement services to Rakuten Auction  |
|      | Dec | Started provision of ticketless entrance authentication system and cellular telephone ticket service to the Sapporo Dome   |
| 2009 | Jan | Started “Cash transfer service to the bank account”  |
|      | Jun | Ichitaka Takahashi Co., Ltd. turned into a fully owned subsidiary through exchange of shares   |
| 2011 | Jul | Business alliance formed with E-Store  |
| 2012 | Jan | Began provision of multiple payment service to the LCC Peach Aviation  |
|      | Jun | Provision of “SUPER SUB” service integrating functions ranging from reservations to electronic authentication has been started   |



|      |      |   |
|------|------|---|
| 2013 | Jun  | Formed a partnership with Seicomart and began provision of multiple payment service to it                 |
|      | Oct  | Began providing “Cash receipt service at Convenience Stores”  |
|      | Dec  | Began provision of multiple payment service to STORES.jp  |
| 2014 | Feb  | Shares transferred from JASDAQ to Tokyo Stock Exchange Second Section                                     |
|      | Dec  | Shares transferred from TSE Second Section to TSE First Section   |
|      | Dec  | Began provision of “Busmori ! ®”, Bus IT Promotion Solution   |
| 2015 | June | Began "Doshin Mirai-kun WELLNET Scholarship," supporting students of four technical colleges in Hokkaido. |
| 2016 | Jun  | Additional donation to “Doshin Mirai-kun – WELLNET Scholarship”   |
|      | Jun  | Announced a 5-year mid-term managerial plan.  |
|      | Aug  | Started the “Bus Mori! Concierge” service.  |

<Market Conditions>

According to the Ministry of Economy, Trade and Industry’s report entitled FY 2015 Research on Infrastructure Development in Japan’s Information-based Economy Society (E-Commerce Market Survey) issued on June 14, 2016), the Japanese electronic commerce market (B to C) for consumers rose by 7.6% year-over-year to ¥13.8 trillion in 2015. Compound average growth rate (CAGR) from 2010 to 2015 is 12.1%.



(Source: The chart made by Investment Bridge based on the data above from the Ministry of Economy, Trade and Industry)

The rate of EC adoption (What is the share of e-commerce amongst all the transactions?) is still only 4.75% for the sale of goods, but it is growing steadily.

## <B to C EC Market Scale by Industry (2015)>

| Industry      |   | EC Market<br>(¥100mm) | YY Change<br>(%) | EC Adoption<br>Rate<br>(%) |
|---------------|---|-----------------------|------------------|----------------------------|
| Sale of goods | Clothing, Accessories                                     | 13,839                | +7.9             | 9.04                       |
|               | Home appliances, AV equipment,<br>Computers & Peripherals | 13,103                | +3.1             | 28.34                      |
|               | Food, Beverages, Alcohol                                  | 13,162                | +10.5            | 2.03                       |
| Services      | Travel services   | 26,304                | +9.7             | -                          |
|               | Financial services  | 6,318                 | -2.0             | -                          |
|               | Ticketing   | 3,300                 | +13.6            | -                          |
| Digital       | Online games  | 12,647                | +5.0             | -                          |
|               | E-publishing (digital books/magazines)                    | 1,771                 | +38.8            | -                          |
|               | Paid video streaming                                      | 471                   | +3.2             | -                          |

(Source: The chart made by Investment Bridge based on the data above from the Ministry of Economy, Trade and Industry)

### <Business Description>

With the key concepts of “real time” and “one stop,” WELLNET offers a “convenient direct sales platform” to provide (1) its customers (i.e. the purchaser of service and goods) with **the convenience** of purchasing whatever they want at any time and from any place, and (2) its sales business operators (i.e. WELLNET’s direct customers) with the their capability of “**maximizing sales opportunities**” in selling products and services over the Internet.

The business segment to be reported is only “payment settlement and authentication business.” Till the term before the previous term, the business of WELLNET had been classified into “multi-payment,” “online business,” and “electronic authentication,” and the sales of each segment had been disclosed. However, the announcement based on these segments has a risk of misleading investors, while the company’s core business is the “payment settlement” and it is enriching peripheral services. Therefore, the company no longer uses these segments when disclosing sales.

The following section will introduce the primary services of WELLNET.

### «Multi-payment service»

It becomes possible to electronically charge and settle payment on a real-time basis without using any written bills, just by creating a connection with WELLNET.

Business operators do not need to develop systems for connecting to various payment receiving institutions, such as convenience stores, banks, and post offices, or sign individual contracts.

### <Advantages and Characteristics>

- ◇ Business operators only have to offer data to WELLNET, after settlement transactions of purchasers and users. WELLNET explains payment methods to purchasers and users.
- ◇ Since it is possible to electronically charge and obtain receipt information on a real-time basis without using any written bills, business operators can use the system instantly.
- ◇ Even if purchase contents (amounts) are changed, the payment of the changed amount can be settled.
- ◇ WELLNET provides modules for receiving information free of charge, and so system connection is easy.
- ◇ WELLNET develops and operates cutting-edge settlement systems, and so business operators do not need to develop systems.
- ◇ The service was launched in July 2000, and has been adopted by all of Japanese airliners, major express buses, major mail-order companies, etc.
- ◇ The operation center offers payment settlement services 24 hours a day, every day, with the 24-hour manned monitoring system.
- ◇ For paperless settlement, WELLNET has developed the largest infrastructure network in Japan.

## 《Cash transfer service》

### ① Cash transfer service to the bank account

This service allows merchants to use the Internet to efficiently make payments to customers for reasons such as refunds for cancellations. WELLNET operates a dedicated website that allows consumers to use an ID received from the merchant and to input their own bank account information for merchants to make payments to.

#### <Advantages and Characteristics>

- ◇ The ability of consumers to input their own bank account information and automatic processing of this information allows merchants to reduce their work load by eliminating the need to input account information.
- ◇ Increase customer satisfaction by allowing merchants to make payment of refunds within the same day.
- ◇ Eliminates the need for merchants to develop their own refund systems.
- ◇ Eliminates the need to retain bank account information of customers and reduces the risk of leakage of personal information.

### ② Cash receipt (Transfer) service at Convenience Stores

As with the Cash transfer service to the bank account, this service concerns refunds when consumers cancel an order from a merchant. Unlike the Cash transfer service to the bank account, this service requires no bank account.

The consumer inputs a cash pickup number and ID (provided by the merchant) into a Lawson convenience store “Loppi” multimedia terminal, which issues a cash exchange ticket, and this cash exchange ticket can be exchanged for cash at the register.

#### <Advantages and Characteristics>

- ◇ Merchants can avoid risks related to possessing customer bank account data
- ◇ Cost reduction due to no handling charges of postal transfers or bank transfers
- ◇ Smooth refunds with no risk of errors in handling bank account information

## 《Billing (Payment/Invoices at Convenience Stores) Services》

### ① Convenience store bill payment service

WELLNET’s bar code payment invoice issuance system and accounts receivable recovery via convenience store consigned bill payment service. WELLNET’s bar code payment invoice system available at convenience stores and post offices uses an internally developed payment receipt issuance and payment information processing software called “ConPay Kun” to allow merchants to easily print out invoices and receipts, easily process payment information and make ledger notes of payment receipt.

Payment information is transmitted on the next business day after the payment is made (For payment at post offices, two business days), and automatically makes ledger notes of the payment.

Currently, bills for mail order sales, fuel expenses, various membership fees, etc. can be paid in arrears using this system.

#### <Advantages and Characteristics>

- ◇ Payments can be made 24 hours a day, 365 days a year at nationwide convenience stores (Available at 14 different convenience store chains as of December 2014), relieving bill paying customers from the need to rush to post offices and banks during normal business hours.
- ◇ The packaged software “ConPay Kun” is provided free of charge, allowing merchants to begin operating the payment systems within short time after application.
- ◇ Merchants can print out their own bill payment receipts, and avoid leakage of customer information because the payment information is based on numeric bar code information only.

### ② Consigned Invoice Issuance Service

WELLNET provides total comprehensive bill payment issuance and payment settlement support services including consigned bar code invoice payment printing and mailing functions, payment confirmation, and payment ledger note.

In particular, its bill payment services are used commonly for payment of services that do not entail shipment of goods (gas bills, various membership fees).

In addition, automatic payment and other information receipt services (Invoice issuance, payment service packaged software “Tokoro Kun”) are also provided.

## 《Bus IT solution “Bus Mori!®”》

In Mar. 2001, WELLNET launched the service of enabling customers to buy a booked ticket for an inter-city express bus anytime 24 hours a day at a convenience store, for the first time in Japan. Since then, the company has concluded a contract with over 100 bus agencies, and issued bus tickets for several hundred routes. In the field of electronic tickets, the company has achieved some results and accumulated know-how to issue and authenticate electronic air tickets for cell phones and then tickets at Sapporo Dome, etc.

The culmination of the know-how is the bus IT solution “Bus Mori!®.”

This is an innovative service that can considerably improve the convenience for both bus agencies and users. While users can search for and book a bus service to reach a destination at ease without fail, bus agencies manage inventory efficiently on a real-time basis, increase selling opportunities, and settlement payment without fail.

This service is composed of the three systems: “Bus Mori! Concierge,” Japan’s first smartphone app for searching for and booking an express bus seat, buying its ticket, and getting on the bus, which increases the convenience of inter-city express buses, “Bus Mori! NAVI,” a smartphone app for displaying bus routes in a map and buying a ticket, and “Bus Mori! MONTA,” a service of the real-time management of data on express bus reservations for bus agencies that use tablet terminals.

### 【“Bus Mori! Concierge,” Japan’s first smartphone app for searching for and booking an express bus seat, buying its ticket, and getting on the bus, which increases the convenience of inter-city express buses】

As for express bus tickets, it was common to book and buy tickets via the website of each bus agency or by telephone, but this service enabled customers to book and purchase an express bus ticket (while choosing a seat for some routes), change plans, and receive a refund, with simple operation.

Users can receive the latest news about express buses and push notifications when a deadline for payment draws near, while bus agencies can send directions to reach a bus stop.

#### Outline of the functions of “Bus Mori! Concierge”

|  |
|--|
| A smartphone suffices for completing all procedures.   |
| With a smartphone only, customers can easily purchase any of tickets for inter-city express buses and airport shuttle buses for over 100 routes handled by WELLNET.                |
| When a frequently used ticket is registered in “Instant Purchase,” it becomes possible to buy the ticket with one click.   |
| For a ticket bought under the “Instant Purchase” mode, it is possible to change it to the ticket for the next bus with one click. (The use for an airport or the like is assumed.) |
| It is also possible to buy a ticket from the list of previously purchased tickets.   |
| A smartphone suffices for completing the procedures for cancellation.  |

### 【“Bus Mori! NAVI,” a smartphone app for displaying bus routes in a map and buying a ticket】

Users can use the search function of the app all free of charge. It is now possible to display the walking routes from the present location of a user to a bus stop or destination, and purchase an express bus ticket from search results. With this service, buses, which have been physically seen, become more “visible,” and this is expected to increase bus passengers. In addition to tickets issued by convenience stores, electronic tickets displayed on smartphones are now available, and customers can buy a ticket with their smartphones anytime 24 hours a day. The convenience for users has improved considerably.

As for the methods for authenticating electronic tickets, in addition to “Bus Mori! MONTA,” an in-vehicle tablet terminal that has been already released, the company plans to add the function to authenticate tickets with “electronic punching” when there are no “authentication terminals” to “Bus Mori! Concierge” in Dec. 2016. Since these services will cover almost all bus routes, the target routes of “electronic tickets” will expand.



**【“Bus Mori! MONTA,” a service of the real-time management of data on express bus reservations for bus agencies】**

“Bus Mori! MONTA,” which can manage inventory on a real-time basis based on mobile data communications, is characterized by the following functions. It would reduce the burdens on drivers and maximize selling opportunities.

- ① Electronic seat chart: User can check the reservations and vacant seats of buses currently in operation.
- ② Ticket sale: If a user who has not yet paid the fare gets on a bus, the fare for the user can be displayed.
- ③ Ticket confirmation and authentication: User can authenticate the tickets of users, handle them online, and update reservation information.

<Improvements and merits that would be brought by installation>

|                     | Present   | After the installation of MONTA   | Improvements and merits   |
|---------------------|---|---|---|
| Selling period      | The selling period ends before departure.   | The selling period continues till the last bus stop.*   | It is possible to get on a bus at a bus stop along the way.   |
| Span-based sale     | Difficult   | Possible  | Selling opportunities are maximized.  |
| Measures for delays | Once user book a bus, user cannot get on a preceding bus that is delayed due to traffic congestion. | After seeing vacant seats, user can change booked seats. The previously booked seat becomes available to others.  | It is possible to cope with “traffic congestion,” which is one of the reasons why passengers refrain from using a bus. It will improve customer satisfaction level. |
| Seat change         | It is impossible to changed booked seats, even if there are vacant seats.                           | Since seat information is available on a real-time basis, users can change seats as they want. No double-booking. | It will improve the satisfaction level of users. The number of vacant seats due to cancellation just before departure will decrease.                                |
| Fare calculation    | Drivers calculate fares.  | MONTA calculates fares.   | There will be no calculation mistakes. The burden on drivers will decrease.   |
| Refunds             | To receive a refund after cancelling a bus ticket, it is necessary to send the ticket by mail.      | Immediately refundable*   | The frustration of users will be dispelled.   |

The services with \* are under development, and depend on the judgment of bus agencies.

Through the installation of “Bus Mori!®,” users and bus agencies can receive the following merits.

|                  | Bus Mori! Concierge  | Bus Mori! NAVI   | Bus Mori! NAVI MONTA  |
|------------------|--|--|---|
| Merits for users | <ul style="list-style-type: none"> <li>◇ The search function of the app is all free of charge.</li> <li>◇ By using the instant purchase function of the app, it is possible to pay with one touch.</li> <li>◇ It is possible to display a ticket, cancel it, and receive a refund.</li> <li>◇ The reminder function for payment deadlines prevents users from forgetting to pay.</li> <li>◇ It is possible to buy a ticket from the record of previously bought tickets.</li> <li>◇</li> </ul> | <ul style="list-style-type: none"> <li>◇ The search function of the app is all free of charge.</li> <li>◇ The app displays walking routes to a bus stop or destination (user will not get lost, even in a strange area.)</li> <li>◇ With the search function, it is possible to buy an express bus ticket. (It is possible to buy a ticket instantly after research.)</li> </ul> | <ul style="list-style-type: none"> <li>◇ It is possible to get on a bus at a bus stop along the way.</li> <li>◇ Even after the departure of the first bus stop, it is possible to buy a bus ticket just before getting on a bus.</li> <li>◇ It is unnecessary to attach a ticket when receiving a refund after cancellation.</li> </ul> |



|                         |  |  |   |
|-------------------------|--|--|---|
| Merits for bus agencies | <ul style="list-style-type: none"> <li>◇ It is possible to secure sales channels via apps.</li> <li>◇ With contents indicated in various languages (including English and simplified Chinese *not adopted in some cases), it is possible to use the app abroad.</li> </ul> | <ul style="list-style-type: none"> <li>◇ Sales channels via smartphone apps can be secured.</li> </ul> | <ul style="list-style-type: none"> <li>◇ It is possible to sell tickets even after the departure of the first bus stop .</li> <li>◇ Span-based sale is possible.</li> <li>◇ Online sale is possible just before each user gets on a bus.</li> <li>◇ With QR authentication, it is possible to check the boarding of passengers online.</li> <li>◇ When a user purchases a ticket in a bus, fares are calculated and displayed.</li> </ul> |
|-------------------------|--|--|---|

On Oct. 2, 2016, the FM program “BUSTALGIA” will be started for the purpose of promoting Bus Mori! Concierge via 38 JFN stations with the key station being Tokyo FM. This program spotlights little-known places rather than sightseeing spots, introduces towns visited by bus with poems, and aims to motivate viewers to “visit the places by bus.”

**«SUPERSUB” Service»**

An online ticket solution that provides one-stop, comprehensive services ranging from ticket issuance, payment, and authentication functions.

This system eliminates the need for merchants to develop individual systems that connect to servers, allowing for easy use by not only merchants but also individuals holding events.

This system was launched in June 2012 aiming at increasing the number of customers, in addition to the existing large clients such as airlines and bus companies, based on its efficient and low-cost strategy.

**<Advantages and Characteristics>**

- ◇ Event organizers can create web pages for their events as to their ticket reservation, application and sales, simply by entering basic information relating to the events such as ticket pricing, location, date of the event, etc. into the registration page (Currently only available to PCs).
- ◇ Simply linking the above web pages to the organizer’s event page will enable the launch of ticket sales.
- ◇ Customers seeking to participate in an event can purchase tickets via PCs, smartphones, and cellular telephones.
- ◇ Both e-tickets and paper tickets printed at convenience stores can be used. The tickets use QR codes and special applications will be used for authentication of these codes for entry to events. The system allows for smooth operations at events through accurate authentication. It is also possible to use just paper tickets, in which case the authentication application is unnecessary.
  
- ◇ Similar to multiple payment services, this service provides a multitude of various payment settlement methods.
- ◇ The system can be launched within three weeks from application for ticket through installment of the system to the sales of tickets.
- ◇ There are no initial costs or basic monthly fees. In exchange, a commission of 5% of ticket sales is collected to help keep operational costs extremely low.

Not only for permanent facilities, this system is suitable for limited time events, concerts, lectures, seminars, regional events, parties, reunions and other events that range from 10 to 5,000 attendants.

## <ROE Analysis>

|                         | FY6/13     | FY6/14     | FY6/15     | FY6/16     |
|-------------------------|------------|------------|------------|------------|
| <b>ROE (%)</b>          | 9.8        | 11.3       | 11.5       | 16.3       |
| Net Profit Ratio Margin | 11.06%     | 12.01%     | 10.55%     | 12.83%     |
| Total Asset Turnover    | 0.36 times | 0.36 times | 0.43 times | 0.52 times |
| Leverage                | 2.43×      | 2.58×      | 2.50×      | 2.44×      |

The ROE of WELLNET is over 8%, which is the general target for Japanese companies. With leverage over 2 times (capital ratio of 38.2% previous year), this may appear to be the reason, but in the case of WELLNET, it is because deposits received as a payment agent are cross posted as cash and deposits and current liabilities. Considering this, the financial situation is extremely stable, and that high net profit margin is the main reason for the high ROE.

## <Characteristics and Strengths>

### ① Strong Track Record of Implementations, Strong Customer Base

WELLNET's multiple payment service has developed a highly favorable reputation for its ability to eliminate development expenses at the time of their implementation and the need to form contracts with each payment institution.

WELLNET's service has been introduced to the leading companies in each industry as described below.

One of WELLNET's largest assets is the highly favorable reputation received from airlines and bus companies for their system's real time capabilities.

It is this strong customer base that lies at the core of its highly favorable reputation, which is considered to be an important "invisible asset".

|                           |  |
|---------------------------|--|
| Airlines                  | All Nippon Airways, Japan Air Lines, Air Do, Star Flyer, Solaseed Air, Oriental Air Bridge, Jetstar, Peach Aviation, Korean Air, Air Asia X, others  |
| Buses                     | Over 500 Japanese bus lines from over 100 bus-operating companies including: Kousoku Bus Net (JR Bus Kanto, Nishi Nihon, Tokai, Chugoku, Shikoku, Kyushu, etc.), Highwaybus.com (Keio Electric Railways, Nagoya Railroad, etc.), @ Bus-de (Nishi-Nippon Railroad [Kyushu 14-company confederation including Nishi-Nippon Railroad]), Keihin Kyuko Bus, Airport Limousine (Airport Transport Service), Net-de-bus (Ryobi Bus), Hassha All Right Net (Hankyu Bus, Nankai Bus, Kintetsu Bus, Shinki Bus, Meitetsu Bus, Konan Bus, Alpico Kotsu, Fuji Kyuko, Odakyu Hakone Highway Bus, Shimotsui Dentetsu Bus, Ichihata Bus, Shikoku Kosoku Bus, Iyo Railway Bus, Kyushu Sanko Bus, etc.), others   |
| Ferry                     | MOL Ferry, Tokai Kisen, Shin Nihonkai Ferry, KYUSYU SHOSEN, Ferry Sunflower  |
| Mail Order, Others        | Amazon, Yahoo! Japan (Yahoo! Shopping, Yahoo! Auction), Google, Estore, STORES.jp, Takken Family, R-bies, Aflac, AIU, Mitsui Direct, Dinos, Sofmap, Jalpak (e-travel), ANA Sales, MOL Ferry, Sony Music Artists, Hankyu Department Store, Tokyu Department Store, Kintetsu Department Store, Saikaya, Kansai Electric Power, Chugoku Electric Power, Chubu Electric Power, Kyushu Electric Power, KDDI, Toyo Keiki (e-gas tickets), entrance examination fees for various universities (Ritsumeikan University, Kwansei Gakuin University, Kyoto Sangyo University, Kansai University, etc.), Sundai, Disco Corporation, Shizuoka Cultural Foundation, Hanshin Koshien Stadium, Tokyo Metropolitan Symphony Orchestra, Recruit, The New Japan Philharmonic, NHK Symphony Orchestra, Dialog in the Dark Japan, others |
| Internet DE Transfer      | All Nippon Airways, Peach Aviation, So-net, Sagawa Express, Sumitomo Mitsui Card, YJFX! (Yahoo! Japan), Japan Securities Finance, JFX, Hirose Trader, Brother Industries, Future, Recruit, Benesse Corporation, GREE, Vanilla Air, Askul, others   |
| Electronic Authentication | Fujikyuu Highland, Huis Ten Bosch, others  |

## ② Corporate DNA: Always Taking on New Challenges

E-Billing Service, Billing Service, various money transfer services, cellular telephone ticket service and other services and systems developed by WELLNET, in almost all the cases, represent the first applications of their kind to be commercialized within Japan.

Furthermore, the above implementation examples of systems are validation of their superiority. As WELLNET is not an affiliate or subsidiary of a large company, it started out without large amounts of business resources, including money, people and assets.

Despite this fact, the spirit of “always taking on new challenges” engrained in the corporate DNA of WELLNET allowed it to become the “de facto standard setter” in electronic bill payments.

President Miyazawa believes that the meaning and appeal of business is “to continue to believe in your own ability, to envision and take on the risk of developing mechanisms that would be convenient to have, and to provide them in tangible, readily available forms.”

Moreover, in our interview, Mr. Miyazawa also said that “the reason for our Company to exist is to come up with systems that only we can create.”

Since WELLNET is a small company with less than 100 employees, keeping up the spirit of taking on new challenges engrained in its corporate DNA and the ideal represented in its corporate principle of “WELLNET Alete” (which will be described below) seem to be vital to the company’s existence.

## 2. Fiscal Year June 2016 Earnings Results

### (1) Earning overview (Non-Consolidated)

(Units: Million Yen)

|                  | FY6/15 | Share  | FY6/16 | Share  | YY Change | Divergence from Estimates |
|------------------|--------|--------|--------|--------|-----------|---------------------------|
| Sales            | 8,888  | 100.0% | 10,529 | 100.0% | +18.5%    | +9.7%                     |
| Gross Profit     | 2,688  | 30.2%  | 3,045  | 28.9%  | +13.3%    | +8.0%                     |
| SG&A             | 1,050  | 11.8%  | 990    | 9.4%   | -5.7%     | +20.7%                    |
| Operating Profit | 1,637  | 18.4%  | 2,054  | 19.5%  | +25.5%    | +2.7%                     |
| Ordinary Profit  | 1,520  | 17.1%  | 2,007  | 19.1%  | +32.0%    | +4.5%                     |
| Net Profit       | 938    | 10.6%  | 1,350  | 12.8%  | +44.0%    | +7.1%                     |

### Sales and profit grew, exceeding the estimates.

Sales were ¥10.5 billion, up 18.5% year on year, thanks to the expansion of the non-face-to-face payment market and the C-to-C market, including auctions, the increase of online applications to college, etc.

Gross profit grew by double digits. Operating profit increased 25.5% year on year to ¥2 billion, due to the decreases in sales promotion costs related to PIN and POSA, the expense for getting listed in the first section of Tokyo Stock Exchange, the remunerations for executives, etc. Both the sales and profit were larger than the estimated values.

## (2) Financial Condition and Cash Flow

### ◎ Summarized Balance Sheet

(Unit: Million Yen)

|   | End of Jun.<br>2015 | End of Jun.<br>2016 |                                       | End of Jun.<br>2015 | End of Jun.<br>2016 |
|---|---------------------|---------------------|---------------------------------------|---------------------|---------------------|
| <b>Current Assets</b>                     | 17,990              | 19,416              | <b>Current Liabilities</b>            | 11,285              | 12,398              |
| <b>Cash and Deposits</b>                  | 13,293              | 14,458              | <b>Trade Accounts Payable</b>         | 1,790               | 1,598               |
| <b>Trade Accounts Receivable</b>          | 1,190               | 1,055               | <b>Settlement Deposits</b>            | 8,732               | 9,566               |
| <b>Securities</b>                         | 2,999               | 2,999               | <b>Fixed Liabilities</b>              | 164                 | 221                 |
| <b>Fixed Assets</b>                       | 1,676               | 1,688               | <b>Long-term<br/>Accounts Payable</b> | 119                 | 119                 |
| <b>Property, Plant, and<br/>Equipment</b> | 437                 | 411                 | <b>Net Assets</b>                     | 8,218               | 8,485               |
| <b>Intangible Fixed Assets</b>            | 433                 | 531                 | <b>Retained Earnings</b>              | 4,651               | 5,263               |
| <b>Investments, Other</b>                 | 805                 | 745                 | <b>Treasury Stock</b>                 | -650                | -993                |
| <b>Total Assets</b>                       | 19,667              | 21,104              | <b>Liabilities and Net Assets</b>     | 19,667              | 21,104              |

\* Trade accounts receivable is the total of accounts receivable and operating earnings receivable. Trade accounts payable is the total of book debt and operating expenses payable.

Due to the increase in cash and deposits, current assets grew ¥1.4 billion from the end of the previous term. Cash and deposits under current assets include an amount of ¥9.5 billion of settlement deposits (which will be sent to the clients in the following month). Fixed assets were nearly equal to those in the previous term. Total assets rose ¥1.4 billion to ¥21.1 billion.

As for liabilities, current liabilities augmented ¥1.1 billion from the end of the previous term, due to the increase in the amount of settlement deposits, etc. Total liabilities, too, increased ¥1.1 billion.

As treasury shares increased ¥300 million and retained earnings rose ¥600 million, net assets grew ¥200 million from the end of the previous term.

As a result, capital-to-asset ratio declined by 1.6% from 41.6% to 40.0%.

(If the above-mentioned settlement deposits are deducted from assets and liabilities, capital-to-asset ratio becomes 74.8% at the end of the previous term and 70.9% at the end of the current term.)

### ◎ Cash Flow

(Unit: Million Yen)

|                     | FY6/15 | FY6/16 | Changes |
|---------------------|--------|--------|---------|
| Operating Cash Flow | -712   | 2,554  | +3,266  |
| Investing Cash Flow | -762   | 218    | +980    |
| Free Cash Flow      | -1,474 | 2,772  | +4,246  |
| Financing Cash Flow | -933   | -1,108 | -175    |
| Cash Equivalents    | 13,293 | 14,958 | +1,665  |

Operating CF became positive, as the settlement deposits, which had increased ¥1.7 billion in the previous year, dropped in the current term.

Investing and free CFs became positive, due to the increases in income from the redemption of securities, the withdrawal of fixed-term deposits, etc.

Financing CF decreased further, due to the augmentation of treasury shares.

The cash position improved.

### (3) Topics

#### ◎Termination of anti-takeover measures

WELLNET continued its anti-takeover measures till the end of the 34<sup>th</sup> annual meeting of shareholders in Sep. 2016. Since the company actively implemented the measures specified in the “3-year mid-term plan (Jul. 2013 to Jun. 2016),” it achieved the numerical goals: “an operating profit of ¥2 billion” and “an ROE of 15%” in the last fiscal year. As a result, market cap has grown considerably over the past 3 years, improving the corporate value.

On the other hand, the regulations on the acquisition of a large amount pursuant to the Financial Instruments and Exchange Act were developed, and this somewhat satisfied the purpose of the anti-takeover measures, that is, to secure necessary information and time for shareholders’ judgment. Then, the company concluded that the necessity to continue the measures degraded. At the meeting of the board of directors on Aug. 18, they resolved to terminate the anti-takeover measures at the end of the 34<sup>th</sup> annual meeting of shareholders.

## 3. Fiscal Year June 2017 Earnings Estimates

### (1) Earning overview (non-consolidated)

(Units: Million Yen)

|                  | FY6/16<br>Results | Share  | FY6/17<br>Estimates | Share           | YY Change         |
|------------------|-------------------|--------|---------------------|-----------------|-------------------|
| Sales            | 10,529            | 100.0% | 11,100              | 100.0%          | +5.4%             |
| Gross Profit     | 3,045             | 28.9%  | 2,860               | 25.8%           | -6.1%             |
| SG&A             | 990               | 9.4%   | 1,360<br>~1,860     | 12.3%<br>~16.8% | +37.3%<br>~+87.8% |
| Operating Profit | 2,054             | 19.5%  | 1,000<br>~1,500     | 9.1%<br>~13.5%  | -51.3%<br>~-27.0% |
| Ordinary Profit  | 2,007             | 19.1%  | 950<br>~1,450       | 8.6%<br>~13.1%  | -52.7%<br>~-27.8% |
| Net Profit       | 1,350             | 12.8%  | 650<br>~1,000       | 5.9%<br>~9.0%   | -51.9%<br>~-25.9% |

\*The estimated values are from the company.

### Sales estimated to grow, but profit to decline due to upfront investments, including promotion

The earnings forecast for the current term, which is the first fiscal year in the new 5-year mid-term plan, is disclosed in the range format, because there is a possibility that performance will fluctuate according to the progress of new projects.

As sales are expected to keep growing due to the expansion of the non-face-to-face payment market, the company will actively promote the smartphone app “Bus Mori! Concierge” in “Bus IT Project,” and so profit is projected to decline.

As for dividends, payout ratio is set at 50% or over while considering the stock split in Jul. 2016, and even if dividend per share is less than ¥50, the company plans to increase it by ¥10/share to ¥50/share.

## 4. Reviewing the 3-year mid-term managerial plan and the outline of the new 5-year managerial plan

### ① Reviewing the 3-year mid-term managerial plan

#### **【Discussion on each initiative】**

#### **A. Establishing a business scheme that will lead the next generation**

##### **(1) Bus IT Project**

In the Bus IT Project, WELLNET, which developed Japan's first service of issuing the tickets for intercity express buses at a convenience store in March 2001 and has offered this service to over 100 bus agencies in Japan, aims to establish a platform for improving the convenience for bus agencies and users by using the latest technology based on its systems and foundations for operation and sales.

Utilizing smartphones and tablet terminals, which could connect to the internet and saw rapid proliferation, the company released the following services.

- ◇ A service where users can search for buses that go to their destinations, and subsequently can book it with their smartphone.
- ◇ A system where bus tickets can be bought even after the first bus has departed the bus stop, in other words, where sales opportunities can be maximized.
- ◇ A system that can be used on cheap tablet terminals, mounted on express buses, which utilizes electronic verification know-how nurtured through aviation and J.League.

WELLNET has developed a scheme that would not be cost-effective for bus agencies if they developed them by themselves, and by providing this universal platform to bus agencies, the company allows bus agencies to change their costs into variable costs.

The foundation has been completed, and the proliferation and expansion will be forthcoming. WELLNET believes that it is promising.

##### **(2) Developing and providing a consumer-oriented service**

WELLNET has been developing a smartphone application with a convenient concierge function for payers in addition to the bill collection of companies, which is the core of the settlement service. Development has been slower than initially scheduled, however the prospects for the release in the present term seem optimistic (Details will be mentioned later).

#### **B. Kaizen (upgrading functions/improving stable system operation and cost performance: building the corporate structure into a lean machine)**

##### **(1) Upgrading the functions in the value transfer platform (expanding existing services)**

WELLNET has launched services to enable receiving payment via Amazon gift vouchers and cash at convenience stores, in addition to the conventional agent payment service and online banking system.

Additionally, WELLNET has made efforts to seize business opportunities which can be seen in the present term, such as upgrading the electronic payment services for university entrance exams, the Paperless Project which enables companies to reduce cost by digitalizing invoices without developing a system for it by themselves, etc.

##### **(2) Stable system operation/improving cost performance**

WELLNET has worked on the stable operation of the company's own system, which the company considers part of social infrastructure, as a major mission.

However, due to traffic increasing beyond expectations, the company was unable to reinforce the system and corporate structure in time, and large scale failures occurred in October 2015.

As a response, the company drastically retrained the employees, accelerated efforts to improve the system to cope with the traffic that continued to further increase, and improved corporate structure.

Meanwhile, beyond anything else, stable operation was considered a matter of utmost priority, and so, the utilization of the Cost Composition Analysis System, which was scheduled to be worked on simultaneously, has been left as an issue for the future.

### **C. Activities contributing to the community**

The WELLNET Scholarship of 100 million yen was founded for students of a technical college in Hokkaido. As of the end of March 2016, 7 million yen has been provided to assist approximately 30 students.

Many letters of gratitude from the students have arrived, and WELLNET was able to build a deep relationship of trust with the school.

The continuity of activities contributing to society is considered important, and thus, the company has further increased the amount by 60 million yen in the term ended June 2016. The company will continue the contributions to local communities.

### **【Target Value】**

The goal for the term ended June 2016 was an operating profit of 2 billion yen and an ROE of 15%, and both were reached with 2.05 billion yen (47.5% increase from the term ended June 2013) and 16.3%, respectively.

In addition, the payout ratio for shareholder returns was 50%, and the remaining amount after the payment of dividends for after-tax income was allocated to augmenting and retiring treasury shares, giving a 100% return to shareholders.

## **② Outline of the new 5-year mid-term managerial plan**

### **【Outline】**

WELLNET has made non-face-to-face settlements and related services the domain of the business, and with the know-how and outcomes accumulated in that domain, the company has expanded the business results. The non-face-to-face settlement market is expecting some level of growth, and so the company aims to continue developing and maintaining the current business scheme.

During the new 5-year mid-term managerial plan, the business environment surrounding WELLNET is expected to have massive changes, with the rapid development of FinTech and its implementation in addition to the beginning of the use and application of IoT. WELLNET has made active investments for turning this change into a new business opportunity, and aims to achieve an operating profit of ¥3 billion in the term ending Jun. 2019 and an operating profit of ¥5 billion in the term ending Jun. 2021, which is the last fiscal year of the mid-term plan.

### **【Individual Projects】**

#### **A. FinTech Service - Shiharai-Hisho**

The mainstay of the WELLNET's current revenue is its real-time cash settlement, however seeing great potential in further expanding digital money and cashless settlements in the future, the company formulated the concept in 2011, and since then has worked on defining requirements and developing the digital money service, Shiharai-Hisho, which is scheduled to be released in March 2017.

Shiharai-Hisho, a smartphone app, controls digital money on a server, and has the following functions.

- ① Users can add electronic money from any of allied banks. It is also possible to add money from other payment receiving agencies.
- ② Automatic reminder function, so business operators do not need to remind people to pay via mail.
- ③ The reminder function of "Hisho" will prevent users from "forgetting to pay inadvertently," which leads to improvements in money collection rate.

From the viewpoint of business operators who provide services and products, they will not miss out on a sales opportunity because payment is settled the instant purchase is made.

In addition, multiple small payments can now be made for digital content and other material, which have not been cost-efficient until now. Likewise, one-click payment, in which there has been a growing need for, is also possible. Furthermore, business operators in the domain of deferred payment will be able to cut costs for issuing invoices due to conventional paper invoices being switched to digital invoices.

Regarding the distribution of Shiharai-Hisho, the company will proceed with the following promotions and make major efforts to expand and spread the app.

- ① Appealing to business operators who have already installed WELLNET's settlement system.
- ② Joint operations with allied banks.
- ③ A new settlement method will appear on the payment method window (provided by WELLNET) used by consumers 8 million times a month.
- ④ Active consumer-oriented promotion.

## **B. Bus IT Project**

The company will actively develop, release, and promote "Bus Mori! Series," which is the core of the Bus IT Project. The company released Bus Mori! MONTA, an in-vehicle terminal for authentication for intercity express buses, and Bus Mori! NAVI, a smartphone app which enables users to purchase tickets directly after searching on the map. Besides these, in August 2016, they released a smartphone app, Bus Mori! Concierge, which was a heavily improved version of Bus Mori! NAVI.

Since the increase of consumers who know, download and use this application is an important factor in turning a profit, they actively promote Bus Mori! Concierge.

## **C. Open Innovation**

The domain of WELLNET's business and related business has been undergoing a massive revolution with IoT, FinTech, etc., and at the same time there are growing business opportunities.

The company intends to implement measures to seize those opportunities.

Concretely, the company will strengthen the ties with universities, business entities and firms that possess expertise and technology to appropriately respond to these business opportunities.

- ① WELLNET has started collaborative research with Hokkaido University to develop and provide a platform that is safe and low-cost, utilizing blockchain technology. From now on, the company will deepen the relationship and produce concrete results. Moreover, once the company completes products that would become social infrastructure, such as the platform utilizing blockchain, the company will have a system where other firms and entities can openly participate, and have a role in contributing to society.
- ② Promote joint research which will contribute to bus businesses and community revitalization via the use and application of IT with the National Institute of Informatics and stimulate demand via big data utilization, yield management\* and the visualization of route buses.
- ③ Make efforts in collaborating with enterprises which develop and maintain a peripheral settlement platform.
- ④ Security and Cost Performance are both important especially in financial services. An enormous sum of R&D expenditure is required to solve those issues, and so the company launched CVC, WELLNET Venture Capital, with the aim of making such investments.

## \*Yield Management

Yield management is a sales strategy to maximize revenue per unit for hotels and airline companies (bus agencies in the WELLNET's case). It was introduced in Europe and the United States first, then made it to Japan in the latter half of the 1990s. By giving a massive discount rate for guest rooms and bus fare in order to just increase the occupancy and passenger rates, the yield (revenue) inevitably decreases. On the other hand, giving little discounts when demand is scarce leads to unsold seats. Thus, in order to secure maximum yield, it is necessary to look at past sales data and demand trends in detail to manage unit selling price and seat numbers offered.

## **D. Upgrading the Sapporo office which is in charge of the system foundation**

After reflecting on the large-scale failure that occurred in the previous term, WELLNET has improved the system of the Sapporo office. The company will make investments into it with the purpose of further making dynamic upgrades to it from this period onwards. The details are as follows.

### ① Upgrading skills

To improve the skills of employees at the Sapporo office by using aid from companies that have high technological capabilities and expertise.

To have 10 or more highly skilled engineers stationed in the Sapporo office, and establish a full-fledged quality management division. To implement practical training with WELLNET employees as one team, ranging from system development to infrastructure design and operations.

### ② Improving the infrastructure

The president held the position of managing director as well in the Sapporo office until the previous period, however he invited personnel with high technological capabilities, expertise and experience, increasing the number of executive members from one to three. Moreover, having consultants with adequate knowledge will ensure definite improvements and stable operation.

### ③ Shift to the Cloud

Considering that the conventional infrastructure development procedure is unable to cope with surges in traffic, in the 3-year plan, WELLNET will shift its focus to the Cloud which can offer flexible scale increase and carry out decentralized processing. In doing so, the company will aim for stable operation and the best cost performance.

## **E. Governance – conducting proper corporate activities**

WELLNET has established the following WELLNET Areti for representing company significance and behavioral policies for employees to aim for effective governance. Even if products change, the action philosophy that forms the foundation of the company will pass onto the employees.

(Areti is Greek, meaning “virtue”, “prowess” and “excellence”.)

|   |
|---|
| <p><b>* WELLNET Alete</b></p> <ul style="list-style-type: none"> <li>➤ Contributing to the society by creating "mechanisms that are convenient to have"</li> <li>➤ Proposing and spreading those "mechanisms" throughout the world</li> <li>➤ Allocating profit to employees, shareholders and investments in the future</li> </ul>   |
| <p><b>* WELLNET Employee Alete</b></p> <ul style="list-style-type: none"> <li>➤ To avoid the pitfalls of stereotypes. I will think freely.</li> <li>➤ Thinking for one's self, proposing the best solution.</li> <li>➤ Promoting open discussions, while clearly defining the factors of “who” will do “what” by “when.”</li> <li>➤ Repeating the process of validation and improvement.</li> <li>➤ Making honest, accurate and quick reports.</li> <li>➤ Conducting business after documenting services to be provided and compensation to be received.</li> <li>➤ Non-acceptance of entertainment and gifts.</li> </ul> |

## 5. Interview with President Miyazawa: “Taking better care of our long-term investors than ever before.”

**Q: “What are the key points of your new 5-year medium-term management plan?”**

**A: “Taking a first step towards creating a new WELLNET, including the foray into the e-money market.”**

- We have some great strengths in the market of non-face-to-face cash settlements. This market will likely continue to expand in the future.
- On the other hand, however, the cashless, e-money market is expected to expand, so in order for us to accomplish significant growth, we must engage with the e-money market. As represented by “Shiharai-Hisho,” our new medium-term plan aims to create new markets related to e-money.
- I believe that our *raison d'être* is to push something only we can do into the world, and if we can't do that, there's no reason for us to exist as a company. I am always saying that to employees.
- In that spirit, these will be an important five years to “Create a new WELLNET.”

**Q: “Forecasts show increasing revenues this year as well, but the growth rate is in the single digit. What could be behind that?”**

**A: “The reasons include a decrease in the unit settlement price, the narrowing down of OEM clients, and decreases in PIN and POSA.”**

- The number of uses of our “Long-distance Bus Ticket Payment Collection and Ticket Issuing Service” is increasing, but the unit settlement price is decreasing. A big reason is that night bus routes – which charge relatively high fares – are being replaced by LCC (low-cost carrier airlines), so the number of trips is decreasing.
- In addition, Amazon has relaxed its conditions for free shipping, so the value of individual purchases is going down, and it's becoming difficult to negotiate prices.
- When it comes to supplying OEM systems, there are cases where we are unable to foresee significant future growth with a client, so we have no choice but to cut ties.
- In addition, due to its merger with Family Mart, we expect substantial closures among one of our connected collection agencies Circle K Sunkus. This is also one of the big, opaque factors.

**Q: “Please tell us what you have in store for Shiharai-Hisho and Bus IT Project.”**

**A: “For both of these, we will focus first on promotion.”**

- The success or failure of these businesses depends on how many users we can get to download the smart phone apps for “Bus Mori! Concierge” and “Shiharai-Hisho.” To that end, it will be vital to increase awareness of both these apps and our company.
- To begin with, just as we did when we released “Bus Mori! NAVI,” we will create leaflets for “Bus Mori! Concierge” and distribute them at bus companies, as well as carry out wrapping advertising on buses.
- As a new initiative, starting in October we will broadcast a 30-minute program on JFM\* on Sunday mornings. First we will promote our company name and image, and after that we will increase exposure to both of the apps, thereby increasing awareness.

**\*JFM**

**A commercial radio broadcasting network in Japan. Its predecessor was a radio network established in May 1981 by the first four commercial FM broadcasters (FM Tokyo, FM Osaka, FM Aichi, FM Fukuoka). FM Tokyo serves as the key channel.**

**Q: “What message do you have for investors?”**

**A: “We will take better care of our long-term investors than ever before.”**

- In addition to achieving the goals we had set in our previous medium-term plan, we received favorable assessments of our shareholder return measures. Furthermore, having gotten ourselves listed in the First Section of the Tokyo Stock Exchange, many investors became our shareholders, especially foreign and domestic institutional investors running pension funds.
- From now on, we will run our business with a stronger awareness of and further importance placed on such mid-and-long-term investors. Moreover, I firmly believe that we cannot allow anything to happen that would damage the pension assets that are important assets of the people.
- In the midst of significant changes to the environment, we will continue to take on challenges to effect a transformation and bring about a “new WELLNET.” We hope you will support us with a long-term perspective.

## 6. Conclusions

The 5 years of the new mid-term managerial plan will be totally different from the previous 3-year mid-term plan and important 5 years. In the field of non-face-to-face cash settlement, WELLNET exudes an overwhelming presence, but the advent of electronic money will produce a different competitive environment and new competitors will emerge.

In these circumstances, we would like to pay attention to the number of downloads, to see the outcome of the promotion, which decreases profit this term. Investors should keep watching WELLNET, which values long-term investors, from the long-term viewpoint.

<Reference: Regarding corporate governance>

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

|                   |  |
|-------------------|--|
| Organization type | Company with audit and supervisory board |
| Directors         | 5 directors, including 1 external one    |
| Auditors          | 3 auditors, including 3 external ones    |

### ◎ Corporate Governance Report

The company submitted a latest corporate governance report on September 27, 2016.

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

| Principles   | Reasons for not implementing the principles   |
|--|---|
| <Principle 4-8 Effective utilization of independent outside directors> | <p>The board of directors of WELLNET is composed of 4 full-time directors, 1 outside director, and 3 outside auditors, that is, a total of 8 executives. The executives, excluding 4 full-time directors, are all registered as independent executives. Therefore, independent executives occupy 50% of the board of directors, and their attendance rate in the past one year is 100%. They discuss necessary items at each monthly meeting.</p> <p>Although the number of outside directors is 1, the outside director exchanges opinions with other directors, auditors, the management, and others from the viewpoint of an independent lawyer, fulfilling the duties as an independent outside director of WELLNET to a sufficient degree. In addition, the board of auditors, which is composed of 3 outside auditors, conducts meticulous auditing tasks from a unique viewpoint. We think that the 4 outside executives can oversee and supervise business administration sufficiently, and that it is still unnecessary to increase outside directors.</p> |

# Bridge Report



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|--|--|
|  | However, there is a possibility that it will become necessary to increase outside directors as the environment surrounding WELLNET will change, and we will discuss it when necessary. |
|--|--|

<Disclosure Based on the Principles of the Corporate Governance Code>

In “Corporate Governance” of the corporate profile in the website of WELLNET, “the policy for the corporate governance code” is disclosed.

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| <p>This report is intended solely for information purposes, and is not intended as a solicitation to invest in the shares of this company. The information and opinions contained within this report are based on data made publicly available by the Company, and comes from sources that we judge to be reliable. However we cannot guarantee the accuracy or completeness of the data. This report is not a guarantee of the accuracy, completeness or validity of said information and or opinions, nor do we bear any responsibility for the same. All rights pertaining to this report belong to Investment Bridge Co., Ltd., which may change the contents thereof at any time without prior notice. All investment decisions are the responsibility of the individual and should be made only after proper consideration.</p> |
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