

Bridge Report WELLNET CORPORATION (2428)

 Kazuhiro Miyazawa, 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 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	
¥1,340	18,739,842 shares	¥25,111million	16.3%	100 shares	
DPS (Est.)	Dividend Yield (Est.)	EPS (Est.)	PER (Est.)	BPS (actual)	PBR (actual)
¥50.00	3.7%	¥52.80	25.4x	¥447.62	3.0x

* Stock price as of the close on March 16, 2017. 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	37.82	12.50
June 2014	7,600	1,473	1,488	913	46.26	23.50
June 2015	8,888	1,637	1,520	938	48.37	25.00
June 2016	10,529	2,054	2,007	1,350	66.65	40.00
June 2017 Est.	11,100	1,000 ~1,500	950 ~1,450	650 ~1,000	34.31 ~52.80	50.00

*A 2 for 1 stock split was implemented on July 1, 2016. EPS and BPS are calculated retroactively

* Estimates are those of the Company.

We present this Bridge Report on WELLNET CORPORATION reviewing its earnings results for the first half of fiscal year June 2017.

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Key Points

•Sales for the first half of the fiscal year June 2017 were 5.3 billion yen, up 5.1% year on year, thanks to the continuous expansion of the non-face-to-face payment market. Operating profit was 798 million yen, down 27.5% year on year. In addition to the decrease in gross profit because the cost rate increased due to review of the transaction conditions for transactions with the major clients. Selling, general and administrative expenses rose, including capital expenditures at the Sapporo office which plays a role in system development and operation, costs for developing a system to bring the level of human resources up, and costs for promotional activities in the “Bus IT Project” for “Bus Mori! Concierge,” a smartphone app for users. Wellnet propelled cost control, and therefore, both sales and operating profit were nearly equal to the estimated values. As for the written notice of correction dated Apr. 27, 2015 given by the Tokyo Regional Taxation Bureau, Wellnet filed a request for examination to the National Tax Tribunal, and because it was notified through the written notice of decision dated Sept. 8, 2016 that the company would receive a refund, the company booked 88 million yen, the consumption tax of the past fiscal years, as non-operating income and reversed an amount of 39 million yen of the provision for contingent loss.

•Earnings forecast for the fiscal year June 2017 remains unchanged. Sales will grow thanks to the continuing expansion of the non-face-to-face settlement market; however, profit is estimated to decrease due to proactive promotional activities in the “Bus IT Project” for “Bus Mori! Concierge,” a smartphone app for users. 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.

•The financial results till the second quarter are almost as forecasted. Regarding the full-year estimate, although sales were slightly below 50%, operating profit exceeded 50%, seemingly showing a steady growth. Selling, general and administrative expenses, however, were about 80% of the forecast in the first half of the year, which to some extent makes us wonder whether necessary investment was made satisfactorily.

We would like to pay attention to the progress in the Bus IT Project as well as how the company’s business results will change in the third and fourth quarters.

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 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.

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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, Yahoo! 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 the 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

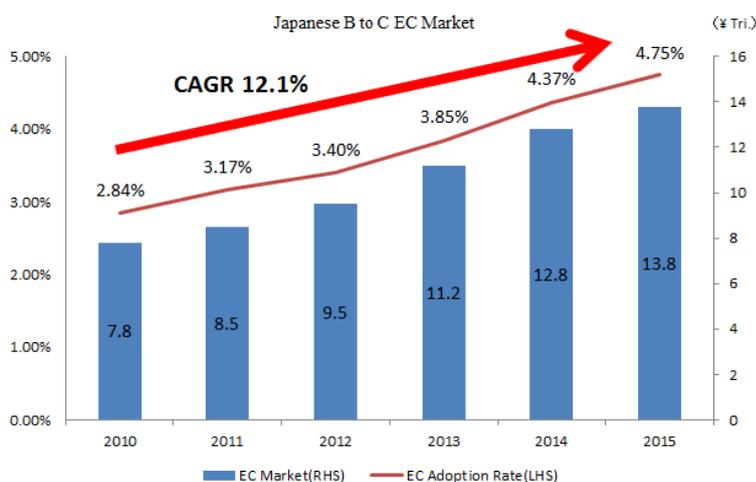
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2013	Jun	Formed a partnership with Seicomart and began provision of multiple payment service to it
	Oct	Began providing “Cash receipt service at Convenience Stores”
	Dec	Began provision of multiple payment service to STORES.jp
2014	Feb	Shares transferred 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.
	Dec	Started offering the Multiple payment service and the Transfer service to West Japan Railway Company and JR Kyushu Railway Company.
2017	Mar	Started offering the “smartphone commutation ticket” service in the “Bus Mori! Concierge” in cooperation with 3 JR bus agencies.

<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 (share of e-commerce transactions 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 (¥100mm)	YY Change (%)	EC Adoption Rate (%)
Sale of goods	Clothing, Accessories	13,839	+7.9	9.04
	Home appliances, AV equipment, 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 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 airlines, 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 handing 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 “Bus IT Project”.

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 2 systems: “Bus Mori! Concierge,” which has been evolved considerably from “Bus Mori! NAVI,” a smartphone app for displaying bus routes in a map and buying a ticket for bus users, 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.

In addition to tickets issued at convenience stores, electronic tickets which are displayed on the screen of smartphones are now available, resulting in significant improvement of user-friendliness because users can buy tickets anywhere and anytime 24 hours a day with their smartphones at hand.

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.

As for the methods for authenticating electronic tickets, in addition to “Bus Mori! MONTA” which is an in-vehicle tablet terminal that has been already released, the company plans to add the function to authenticate tickets with “electronic punching” to “Bus Mori! Concierge” for bus agencies with no “authentication terminal” (scheduled in Dec. 2016). This will cover almost all the bus routes and therefore the number of routes where “electronic tickets” are acceptable will increase.

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.
Several languages are available, including Japanese, English and Chinese (simplified).

【“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>

	Before the installation of MONTA	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! MONTA
Merits for users	<ul style="list-style-type: none"> ◇ The search function of the app is all free of charge. ◇ By using the instant purchase function of the app, it is possible to pay with one touch. ◇ It is possible to display a ticket, cancel it, and receive a refund. ◇ The reminder function for payment deadlines prevents users from forgetting to pay. ◇ It is possible to buy a ticket from the record of previously bought tickets. 	<ul style="list-style-type: none"> ◇ It is possible to get on a bus at a bus stop along the way. ◇ Even after the departure of the first bus stop, it is possible to buy a bus ticket just before getting on a bus. ◇ It is unnecessary to attach a ticket when receiving a refund after cancellation.
Merits for bus agencies	<ul style="list-style-type: none"> ◇ It is possible to secure sales channels via apps. ◇ With contents indicated in various languages (including English and simplified Chinese *not adopted in some cases), it is possible to use the app abroad. 	<ul style="list-style-type: none"> ◇ It is possible to sell tickets even after the departure of the first bus stop. ◇ Span-based sale is possible. ◇ Online sale is possible just before each user gets on a bus. ◇ With QR authentication, it is possible to check the boarding of passengers online. ◇ When a user purchases a ticket in a bus, fares are calculated and displayed.

On Oct. 2, 2016, the FM program “BUSTALGIA” was 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.”

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《SUPER SUB” 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
ROE (%)	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×	2.44x

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, Air China, 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, Tokyu Bus, 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, Seibu Bus, Kokusai Kogyo, Alpico Kotsu, Fuji Kyuko, Konan Bus, Odakyu Hakone Highway Bus, Shimotsui Dentetsu Bus, Ichihata Bus, Shikoku Kosoku Bus, Iyo Railway Bus, Kyushu Sanko Bus, etc.), others
Ferry	Tokai Kisen, Shin Nihonkai Ferry, KYUSYU SHOSEN, Ferry Sunflower
Mail Order, Others	Amazon, Yahoo! Shopping, Yahoo! Auction, Qoo 10, Google, Estore, STORES.jp, Takken Family, R-bies, Aflac, AIU, Mitsui Direct, R-bies INC., Dinos, Sofmap, Jalpak, 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), University entrance examination fees, University admission fees and tuition, entrance examination fees for various universities, Sundai, Disco Corporation, Shizuoka Cultural Foundation, Hanshin Koshien Stadium, Tokyo Metropolitan Symphony Orchestra, Recruit, The New Japan Philharmonic, NHK Symphony Orchestra, Hanshin Koshien Stadium, Dialog in the Dark Japan, Recruit, Trust Bank others
Internet DE Transfer	All Nippon Airways, Peach Aviation, So-net, Sagawa Express, Sumitomo Mitsui Card, YJFX!, Japan Securities Finance, JFX, Hirose Trader, Brother Industries, Future, Recruit, Benesse Corporation, GREE, Vanilla Air, Askul, others
Electronic Authentication	Fujikyū 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 Arete” (which will be described later) seem to be vital to the company’s existence.

2. 1H of Fiscal Year June 2017 Earnings Results

(1) Earning overview (Non-Consolidated)

(Units: Million Yen)

	1H of FY6/16	Share	1H of FY6/17	Share	YY Change	Divergence from Estimates
Sales	5,041	100.0%	5,300	100.0%	+5.1%	-2.8%
Gross Profit	1,481	29.4%	1,427	26.9%	-3.6%	+0.5%
SG&A	379	7.5%	629	11.9%	+66.0%	-23.3%
Operating Profit	1,101	21.8%	798	15.1%	-27.5%	-0.2%
Ordinary Profit	1,110	22.0%	930	17.5%	-16.3%	+19.2%
Net Profit	743	14.7%	634	12.0%	-14.7%	+19.6%

* Divergence from Estimates is the ratio to the upper value in the estimates range.

Sales grew, but profit declined

Sales were 5.3 billion yen, up 5.1% year on year, thanks to the continuous expansion of the non-face-to-face payment market.

Operating profit was 798 million yen, down 27.5% year on year. In addition to the decrease in gross profit because the cost rate increased due to review of the transaction conditions for transactions with the major clients. Selling, general and administrative expenses rose, including capital expenditures at the Sapporo office which plays a role in system development and operation, costs for developing a system to bring the level of human resources up, and costs for promotional activities in the "Bus IT Project" for "Bus Mori! Concierge," a smartphone app for users.

Wellnet propelled cost control, and therefore, both sales and operating profit were nearly equal to the estimated values.

As for the written notice of correction dated Apr. 27, 2015 given by the Tokyo Regional Taxation Bureau, Wellnet filed a request for examination to the National Tax Tribunal, and because it was notified through the written notice of decision dated Sept. 8, 2016 that the company would receive a refund, the company booked 88 million yen, the consumption tax of the past fiscal years, as non-operating income and reversed an amount of 39 million yen of the provision for contingent loss.

(2) Financial Condition and Cash Flow

◎ Summarized Balance Sheet

(Unit: Million Yen)

	End of Jun. 2016	End of Dec. 2016		End of Jun. 2016	End of Dec. 2016
Current Assets	19,416	21,558	Current Liabilities	12,398	14,508
Cash and Deposits	14,458	16,641	Trade Accounts Payable	1,598	1,486
Trade Accounts Receivable	1,055	1,040	Settlement Deposits	9,566	11,944
Securities	2,999	2,999	Fixed Liabilities	221	163
Fixed Assets	1,688	1,575	Long-term Accounts Payable	119	119
Property, Plant, and Equipment	411	427	Net Assets	8,485	8,462
Intangible Fixed Assets	531	705	Retained Earnings	5,263	5,075
Investments, Other	745	442	Treasury Stock	-993	-863
Total Assets	21,104	23,134	Liabilities and Net Assets	21,104	23,134

* 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 ¥2.1 billion from the end of the previous term. Cash and deposits under current assets include an amount of ¥11.9 billion of settlement deposits (which will be sent to the clients in

the following month). Fixed assets dropped ¥100 million from the end of the previous term due to the decreases in investment and other assets. Total assets rose ¥2 billion to ¥23.1 billion.

As for liabilities, current liabilities augmented ¥2.1 billion from the end of the previous term, due to the increase in the amount of settlement deposits, etc. Total liabilities, too, increased ¥2 billion.

As treasury shares decreased ¥100 million from the end of the previous term and retained earnings dropped ¥100 million, net assets were ¥8.4 billion which is almost equal to those in the previous term.

As a result, capital-to-asset ratio declined by 3.7% from 40.0% at the end of the previous term to 36.3%.

(If, however, the above-mentioned settlement deposits are deducted from assets and liabilities, capital-to-asset ratio becomes 75.0%.)

◎ Cash Flow

(Unit: Million Yen)

	1H of FY6/16	1H of FY6/17	Changes
Operating Cash Flow	999	2,888	+1,888
Investing Cash Flow	-85	-36	+49
Free Cash Flow	914	2,851	+1,937
Financing Cash Flow	-1,105	-668	+437
Cash Equivalents	13,102	17,141	+4,038

Operating CF increased further due to the growth in settlement deposits, etc.

The margin of negative investing CF dropped due to the increases in income from the redemption of securities, etc. and free CF grew further. In the current term, because the company did not obtain any treasury shares, although some were acquired in the previous term, the negative margin of financing CF shrank.

The cash position improved.

(3) Topics

◎ Adoption of “Internet DE Transfer Service” in “ZOZOTOWN used designer clothes purchase service” of Crown Jewel, Inc.

In Oct. 2016, “Internet DE Transfer Service” was employed as means of payment of the purchasing amount to the users of the “ZOZOTOWN used designer clothes purchase service” offered by Crown Jewel, Inc. (President: Takahiro Miyazawa, Headquarters: Shibuya-ku, Tokyo).

(Outline of the service)

For the clients, tasks related to wire transfer, which traditionally was managed manually, are streamlined and tasks “to ask returning of a transferred amount” which occurred when a bank account provided by a user was incorrect, etc. can be avoided.

The convenience for users is enhanced, as purchasing amounts will be immediately transferred to their bank accounts on the day on which a purchase order is made at the earliest as long as the order is made within the business hours of banks.

◎ Introduction of “smartphone tickets” by JR bus companies

In Dec. 2016, “Bus Mori! Concierge,” a smartphone app for booking an express bus seat, buying its ticket, and getting on the bus, was introduced by JR Bus Group to its website for express bus seat reservation “Express Bus Net,” enabling users to get on JR buses with “smartphone tickets.”

(Outline of the service)

Traditionally, paper tickets have been used for express buses; however, this service allows users to get on express buses by mere display of smartphone tickets, and it is possible to authenticate a smartphone ticket via the QR code displayed on it with the in-vehicle tablet terminal used by each bus agency. As of March, out of 144 routes which have adopted “Bus Mori! Concierge,” smartphone tickets are accepted on 85 routes.

© Provision of “Multiple payment services” and “Transfer service” was started in the online train booking service of JR West and JR Kyushu.

Provision of the “Multiple payment services” and the “Transfer service” is scheduled to start in the spring of 2017 in the online train booking service offered by West Japan Railway Company and JR Kyushu Railway Company.

This enables not only payment at major convenience stores and banks throughout Japan but also procedures for refund directly via the online train booking service concerning tickets purchased by cash.

The introduction of the services is the first attempt for all the JR railway companies.

(Outline of the services)

Thanks to the introduction of the “Multiple payment services,” “J-WEST online members” of JR West and “JR Kyushu Web members” for shinkansen and limited express trains whose seats can be booked through the respective online train booking services of JR West and JR Kyushu can, besides traditional means of payment by credit card, make payment at convenience stores and banks all over Japan. After completion of payment, users can receive tickets through the ticket machines specified by JR West and JR Kyushu, respectively.

Moreover, regarding cancellation made by a user in the online train booking service, the introduction of the “Transfer service” will reduce the burdens of counter services of railway companies as well as allow expeditious refund when the user chooses refund by bank transfer or at convenience stores.

3. Fiscal Year June 2017 Earnings Estimates

(1) Earning overview (non-consolidated)

(Units: Million Yen)

	FY6/16 Results	Share	FY6/17 Estimates	Share	YY Change	Progress Rate
Sales	10,529	100.0%	11,100	100.0%	+5.4%	47.7%
Gross Profit	3,045	28.9%	2,860	25.8%	-6.1%	49.9%
SG&A	990	9.4%	1,360 ~1,860	12.3% ~16.8%	+37.3% ~+87.8%	33.8%
Operating Profit	2,054	19.5%	1,000 ~1,500	9.1% ~13.5%	-51.3% ~-27.0%	53.2%
Ordinary Profit	2,007	19.1%	950 ~1,450	8.6% ~13.1%	-52.7% ~-27.8%	64.1%
Net Profit	1,350	12.8%	650 ~1,000	5.9% ~9.0%	-51.9% ~-25.9%	63.4%

*The estimated values are from the company. Progress rate is the ratio to the upper value in the estimates range for FY6/17.

Earnings forecast is unchanged. Although sales will increase, profit will drop due to prior investment such as promotional expenses.

Earnings forecast remains unchanged. Sales will grow thanks to the continuing expansion of the non-face-to-face settlement market; however, profit is estimated to decrease due to proactive promotional activities in the “Bus IT Project” for “Bus Mori! Concierge,” a smartphone app for users.

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. Interview with President Miyazawa

Q. “How much progress have you made with the ‘Bus IT Project’?”

A. “We are focusing on promoting ‘Bus Mori! Concierge.’ The number of routes that adopt the service is growing steadily.”

Whether or not this business can be successful depends on how many users download the smartphone app, “Bus Mori! Concierge.” Wellnet, therefore, devotes itself to promotional activities to improve the awareness of the app and itself.

In Oct. 2016, broadcasting of a FM radio program “BUSTALGIA” started. It is a program where a multitude of stories beginning with buses are delivered together with local information, focusing mainly on the bus routes that have employed “Bus Mori! Concierge.”

Furthermore, the company has been engaged in various activities, including broadcasting of commercial messages on the Aurora Vision in front of BUSTA Shinjuku, posters at terminals and offices, and in regular-route buses of each bus agency, and insertion of leaflets.

With the aim of further improvement of user-friendliness for Chinese visitors to Japan, the company plans not only to start expanding its services for inbound tourists this spring, including making the services available in China UnionPay, Alipay, etc., but also to launch the service of electronic ticket punching by this fall.

Meanwhile, it became possible in December 2016 to get on buses that are operated by “JR Bus Group,” the largest bus corporate group in Japan, with smartphone tickets, which indicates a steady growth in the number of bus agencies that have used the service. As of Mar. 2017, 144 bus routes accept boarding via “Bus Mori! Concierge” and we aim to increase the number of bus routes with the service to 200 in the current term.

In order to realize de fact standardization of smartphone tickets, we propel promotion and business activities targeting bus agencies.

Q. “Please tell us about your approaches to the market of university entrance examinations.”

A. “We will continue to make efforts at online application services and enter the field of electronic settlement for admission procedures.”

Online application for university entrance exams is becoming more and more popular rapidly.

According to the survey conducted last September on 533 universities, in the entrance examinations in 2017, about 54% of the universities that have already adopted the online application system said that they would abolish the paper application system and shift completely to the online application one.

Although this field has fallen behind the trend of digitalization, “online application” will be the norm from now onward.

Wellnet actually has a large share in this field because it entered there at an early stage.

While striving on a continuous basis, we will not just stay in the field but focus on the field of electronic settlement for admission procedures after entrance examinations.

In short, we plan to offer a cloud service that provides a one-stop service pertinent to tasks ranging from announcement of examination results to payment of admission fees and tuition.

Three universities, including Tokai University, have already determined to introduce the service, and we will continuously expand the number of universities that use the service sequentially.

Because the need for improving operational efficiency is strong particularly in universities with a large number of students, we will make proactive approaches, targeting national universities.

5. Conclusions

The financial results till the second quarter are almost as forecasted. Regarding the full-year estimate, although sales were slightly below 50%, operating profit exceeded 50%, seemingly showing a steady growth. Selling, general and administrative expenses, however, were about 80% of the forecast in the first half of the year, which to some extent makes us wonder whether necessary investment was made satisfactorily.

We would like to pay attention to the progress in the Bus IT Project as well as how the company's business results will change in the third and fourth quarters.

<Reference 1: 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 Summer 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 time when the 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 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 in August 2016, they released a smartphone app, Bus Mori! Concierge, which is 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.

Bridge Report



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 Cloud Migration

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 Arete” 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.

(Arete in Greek, means “virtue”, “prowess” and “excellence”.)

*** WELLNET Arete**

- Contributing to the society by creating "mechanisms that are convenient to have"
- Proposing and spreading those "mechanisms" throughout the world
- Allocating profit to employees, shareholders and investments in the future

*** WELLNET Employee Arete**

- To avoid the pitfalls of stereotypes. I will think freely.
- Thinking for one's self, proposing the best solution.
- The discussion should be open and the “People who are responsible to decide” will make the decisions, which will be implemented by the organization.
- Promoting open discussions, while clearly defining the factors of “who” will do “what” by “when.”
- Repeating the process of validation and improvement.
- Making honest, accurate and quick reports.
- Conducting business after documenting services to be provided and compensation to be received.
- Non-acceptance of entertainment and gifts.

<Reference 2: 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> <p>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.</p>

<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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