eREX Co.,Ltd

9517 TSE Mothers

29-Sept.-15

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A PPS in the Electricity Retail Business Targeting High Growth Leveraging Full Liberalization of the Electricity Market

eREX <9517> is an independent specified scale electricity provider, known as a power producer and supplier, or PPS, operating an electricity retail business. Leveraging its advantages of a competitive base load power supply and a flexible sales strategy, the Company is targeting high growth toward the full liberalization of the electricity market from 2016 onward.

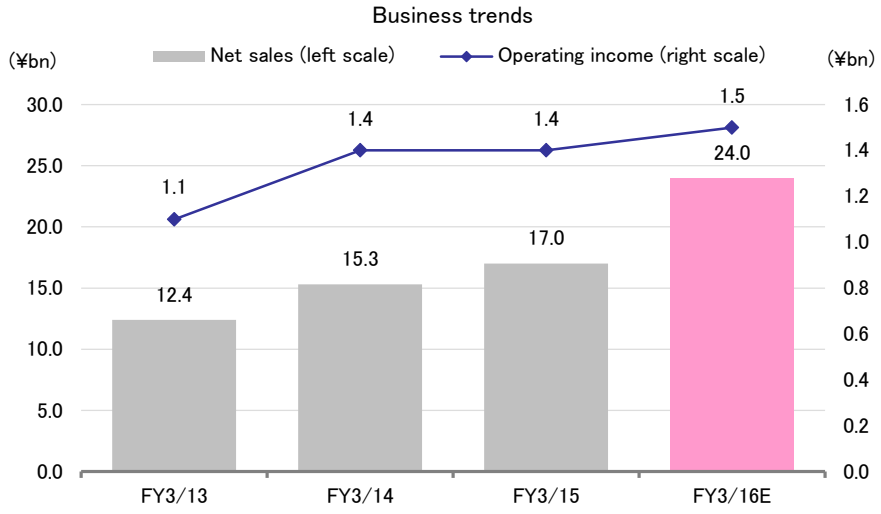
The Company's customers can be broadly categorized into wholesale and retail, and it is currently strengthening the high-margin retail business. On the sales front, the Company is distinctive in that it uses 1,129 sales agents for retail sales. The Company gives these sales agents discretion to set the retail price, which motivates them and stabilizes the sales price for the Company itself. Through the sales agents, the company has acquired over 5,000 customers, mainly in the high-voltage field (all figures are as of July 31, 2015).

The central theme of the Company's growth scenario is the full liberalization of the electricity market, which is scheduled to take effect in April 2016. This change will enable the Company to sell electricity to low-voltage users, such as ordinary households, convenience stores, and shops. The Company has elected to develop operations targeting the liberalization of the low-voltage market in partnership with the highly experienced US company Spark Energy LLC, and the two companies established a joint venture in September 2015. The Company is competing mainly in the high-voltage market at present, and this market harbors significant growth potential for PPSs going forward. The Company will therefore aim to achieve further growth by increasing its customer bases in both high-voltage and low-voltage demand sectors.

The Company's electricity procurement routes are self-generated, external purchase, and exchange traded. One of the Company's distinctive features is biomass generation fueled by palm kernel shells (PKS), which are the shells of palm nuts that remain after oil extraction. This biomass generation is carried out by a consolidated subsidiary. Use of the Feed-In Tariff Scheme makes this operation highly cost competitive, and contributes significantly to securing a low-cost, base load, power generation for the Company. Currently, a similar biomass power station of a larger scale is under construction with operation scheduled to start in autumn of 2016.

Check Point

- Highly profitable biomass power station fueled mainly by PKS
- Target market will effectively double in size with the liberalization of the low-voltage sector
- Start of feasibility study for entry into the Japanese low-voltage market



■ Corporate Outline

Core businesses are wholesale and retail sales of electricity to users

(1) History

The Company was established in 1999 as part of the diversification of Nittan Exco Ltd. Initially named “Nittan Energy Co., Ltd.,” the Company changed to its current name the following year. In response to the creation of the PPS system in 2000, the Company submitted notification to the Ministry of Economy, Trade and Industry of its status as a PPS in January 2001, starting electricity retail businesses servicing the Kyushu region in April of the same year, and the Kanto region in November.

Subsequently, the Company expanded its sales areas one by one into the Tohoku region, the Chubu region, and the Kansai region. Meanwhile, it took steps to secure power supplies through an investment in Goi Coast Energy, Ltd. and the establishment of eREX New Energy Co., Ltd. and eREX New Energy Saiki Co., Ltd.

The Company’s shares have been listed on the Tokyo Stock Exchange Mothers Market since December 2014.

History and Electricity Business Regulatory Reforms

	Systemic reforms	eREX
1995	Entry permit system lifted for wholesale electricity business through IPPs. Became possible for general electric utilities to procure electricity from IPPs through tenders.	
1999		Established Nittan Energy Co., Ltd. to conduct the electricity business as part of the diversification of Nittan Exco Ltd. (Dec.)
2000	PPS system established to enable companies other than general electric utilities to retail electricity to users over 2,000 kW.	
2001		Submitted notification of status as a PPS to Ministry of Economy, Trade and Industry (Jan.) Started electricity retail sales in the Kyushu region (Apr.) Started electricity retail sales in the Kanto region (Nov.)
2003	Promoting distributed power: Became possible to supply power users through own distribution lines, subject to liberalization.	
	Creation of wholesale power exchange: The government authorized the establishment of a market to trade wholesale power through facilities around Japan.	Participated in the establishment of Japan Electric Power Exchange (JEPX), a limited liability intermediate corporation (currently a general incorporated association) as a member (Mar.)
	Liberalization scope expanded: The government liberalized electricity retailing for contracts for sales to power users over 500 kW in April 2004 and over 50 kW in April 2005.	
2004		Goi Power Station (Goi Coast Energy) started commercial operation (June)
2005		Registered as a trading member of JEPX (Apr.)
2010		Started electricity retail sales in the Tohoku region (Feb.)
2012		Established eREX New Energy (consolidated subsidiary) for the power generation business using the Feed-in Tariff Scheme (Apr.)
2013	The Japanese Cabinet decided on the Policy on Electricity System Reform, which led to the policy on full liberalization of the electricity retailing business	Tosa Power Station (eREX New Energy) started commercial operation (June)
2014	The Electricity Business Act was partially amended, leading to the formal decision to fully liberalize power retailing	Started electricity retail sales in the Chubu region (Apr.)
		Established eREX New Energy Saiki (consolidated subsidiary) for the power generation business using the Feed-in Tariff Scheme (July)
		Listed on the Tokyo Stock Exchange Mothers Market (Dec.)
2015		Reached 1,000 sales agents (Mar.) Started electricity retail sales in the Kansai region (Apr.) Plan to start electricity retail sales in the Chugoku region (Oct.)
2016	Started full liberalization of electricity retailing: To enable regular households also to choose electric power companies and rate menus	With full retail electricity liberalization, retail sales slated to start for contracts for sales of less than 50 kW
Around 2018-2020	Legal unbundling of power transmission and distribution sectors and retail fee system to be abolished	

(2) Business Model

The Company operates as a PPS, conducting wholesale sales of electricity as well as retail sales to users. Previously, Tokyo Electric Power Company, Incorporated <9501> and other major electricity providers (known as “General electric utilities” under the scheme) supplied electricity under regional monopolies. However, during the transition toward the liberalization of the electricity market, the PPS scheme was established in 2000, and the Company started operations as the third operator to register under the scheme.

The Company procures electricity through three channels: in-house generation, power producers, and JEPX. It also conducts wholesale sales of electricity through JEPX and retail sales to the already-liberated special high-voltage sector (2,000 kW and above; large-scale plants, offices, etc.) and high-voltage sector (from 50 kW to less than 2,000 kW; small- to medium-sized plants, supermarkets, etc.). Sales to the low-voltage sector (under 50 kW; ordinary households, convenience stores, shops, etc.) are restricted as of 2015; however, sales of electricity to the low-voltage sector are to be liberalized from April 2016, and the Company plans to be ready to conduct sales.

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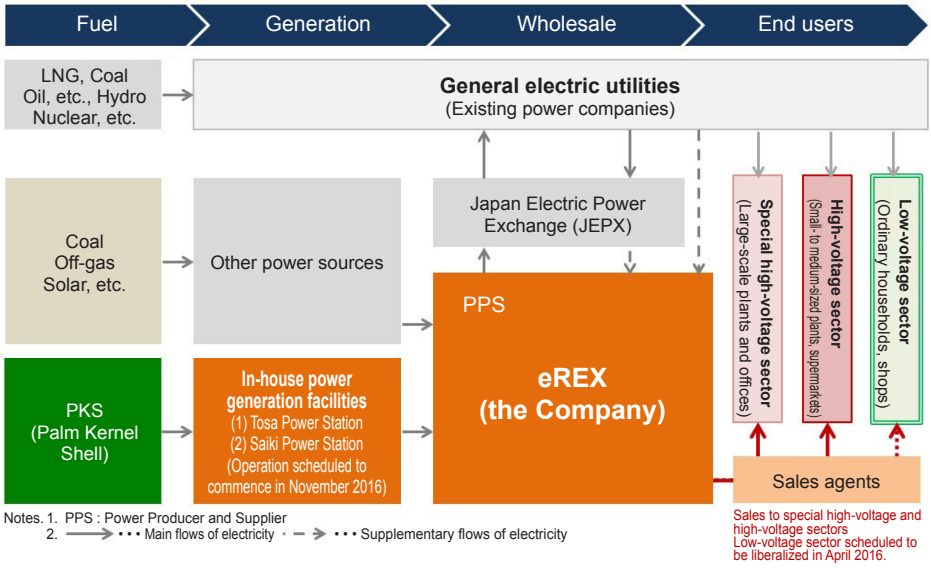
eREX Co.,Ltd
9517 TSE Mothers

29-Sept.-15

The Company has 51 employees on a consolidated basis (as of March 31, 2015) in keeping with a philosophy of having a small but elite team. The secret to enabling such a small team to handle sales activities covering almost all of Japan is the sales agent system. As of July 31, 2015, the Company was using 1,129 sales agents and had acquired 5,159 users. Compared to March 31, 2015, over four months the number of sales agents increased by 112, and the number of users by 1,351.

eREX's Business Model and Electricity Flow



Source: Earnings presentation materials

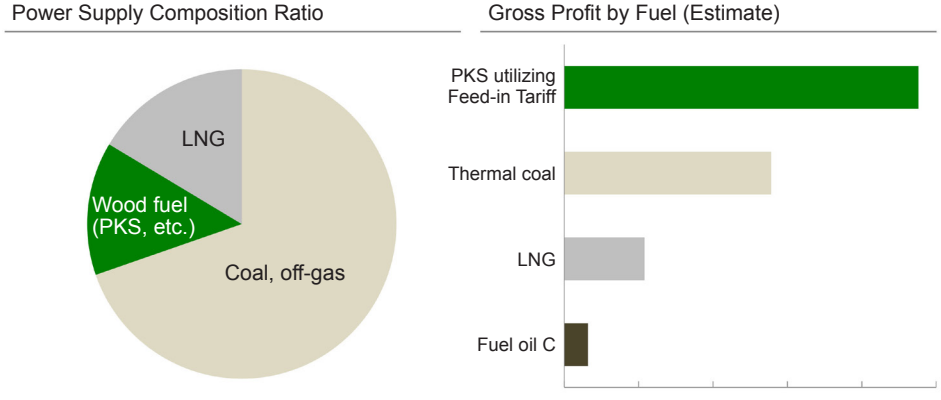
■ eREX Characteristics and Strengths

Highly profitable biomass power station fueled mainly by PKS

(1) A competitive base load power supply

The Company has three power supply procurement channels: procurement through JEPX, purchase from power producers, and in-house generation. The Company's special characteristic and strength is the Tosa Power Station of consolidated subsidiary eREX New Energy. The power station is a biomass power station fueled mainly by PKS. Using the Feed-in Tariff Scheme, it achieves a much higher level of profitability than coal-fired or LNG-fired power facilities.

Power Supply Composition Ratio and Gross Profit by Fuel



Source: Earnings presentation materials

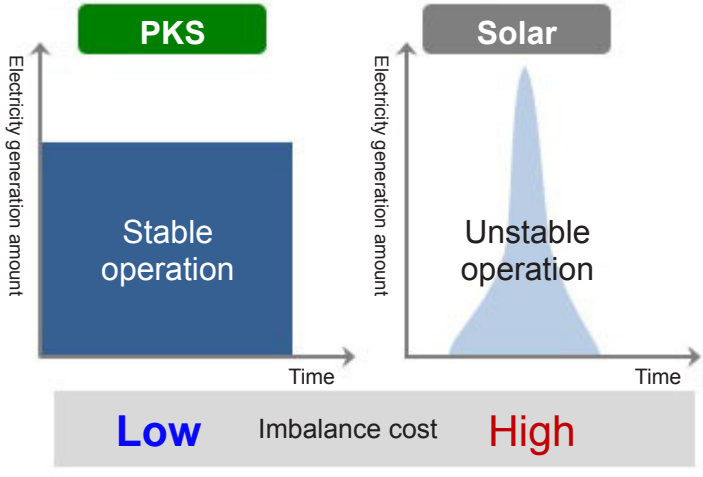
The Tosa Power Station is built on the site of the former Tosa Plant of Taiheiyo Cement Corporation <5233> and provides significant benefits to the Company by making use of the Taiheiyo Cement Corporation's former Tosa Plant infrastructure and personnel (former employees, etc.) Biomass power stations vary depending on their main fuel. The Company's Tosa Power Station uses PKS. It was the first power station in Japan to use PKS biomass, and has the highest power output for a PKS-fueled station in Japan.

Overview of Tosa Power Station

eREX New Energy			
Location	Kochi City, Kochi Prefecture	Fuel	PKS
Method of power generation	Biomass power generation	Output power	Rated output approx. 30,000 kW
Operation start	June 2013		
Features			
Located in former Tosa Plant of Taiheiyo Cement Corporation			
First PKS biomass power generation plant in Japan			
Advantage as a base-load power source due to ability to maintain stable amount of electricity			

The Company's PKS biomass power generation has a lower imbalance cost compared to solar power generation, for example, which is a significant advantage. Electricity demand is constantly fluctuating, creating a large gap between demand at peak and bottom. To cope with this fluctuation, power suppliers have to procure power from other suppliers when needed (through JEPX and other power suppliers). This cost is referred to as imbalance cost. PKS's biomass power generation is able to provide a stable amount of power as long as a fuel supply is secured, in a similar manner to a thermal power plant. This helps to reduce the imbalance cost.

PKS Biomass Power Supply and Solar Power Generation Amount and Imbalance Cost



PKS fuel has favorable properties and a good demand and supply environment. It has high energy density at 3,500 kcal/kg, which is advantageous for power generation fuel. Regarding demand and supply, there is a significant gap with an annual supply of over 10 million tons, mainly from Indonesia and Malaysia, and demand for only 1 million tons per year. With expansion in PKS generation, some are forecasting growth in demand to 3 million tons per year; however, for the time being, supply is projected to continue outstripping demand.

(2) Flexible sales strategy.

The Company's customers for electricity sales can be broadly categorized into retail and wholesale. Retail sales are direct sales to end users; wholesale sales are sales to JEPX. The wholesale price was high in the past and the majority of the Company's electricity sales were wholesale; however, with the decline in wholesale prices, the Company is now increasing the amount of electricity sold in the high-margin retail sector.

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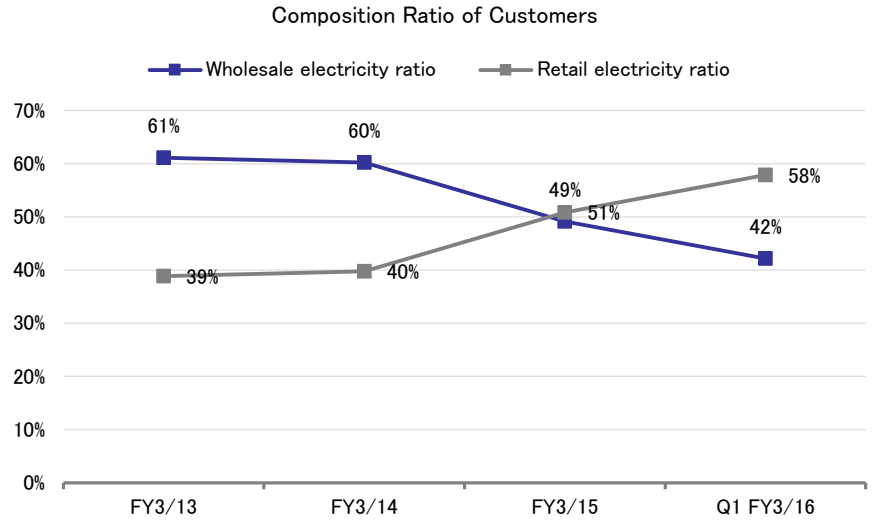
9517 TSE Mothers

29-Sept.-15



Source: Created by the Company based on statistics from the Agency for Natural Resources and Energy

On the sales front, the Company's distinctive feature is its use of a sales agent system in the retail business. As an independent PPS, the Company has always used sales agents, and as of July 31, 2015, the number of sales agents had reached 1,129. The sales agents are basically either companies with licensed electrical engineers, individuals with the same qualifications, or other operating companies.

The Company has built a distinctive sales agent system that provides benefits to both customers and the sales agents.

Specifically, the Company gives the sales agents discretion to set the sales price to customers. For the sales agents, this means the freedom to create proposals for customers leading to a higher rate of successful subscriptions. We see this system acting as an incentive to the sales agents, since the sales agent system is a performance-based fee system.

Moreover, for customers, the system offers them the ability to make a contract at a price after discussion, rather than obliging them to use a set menu. The system therefore seems better able to win customers' approval.

Since the Company is independent, it can use the sales agent system to achieve a sales strategy with a high degree of freedom. We believe the true value of this will become clearer with the liberalization of the retail low-voltage sector from April 2016. An indicator of users' electricity usage is the load factor (total annual electricity usage / electricity contract / 24 hours / 365 days). Small, low-voltage users such as ordinary households, the load factor is generally low. A large proportion of customers with a low load factor pay for the power with a basic charge. Moreover, electricity companies can sell the power that they do not use to another user, generating leeway. This makes such customers highly profitable for electricity companies. The Company's strategy for growth is to use its sales agent network of more than 1,000 agents to develop a customer base among small, low-voltage users such as ordinary households.

Furthermore, the price setting for small, low-voltage users is higher than for large, high-voltage users. The Company's policy is to achieve a high average sales price compared to other companies by increasing the ratio of small, low-voltage users in its customer base.

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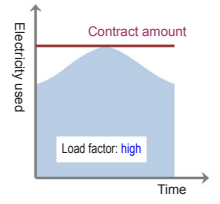
29-Sept.-15

Load Factor and Electricity Charge

Load factor and electricity charge

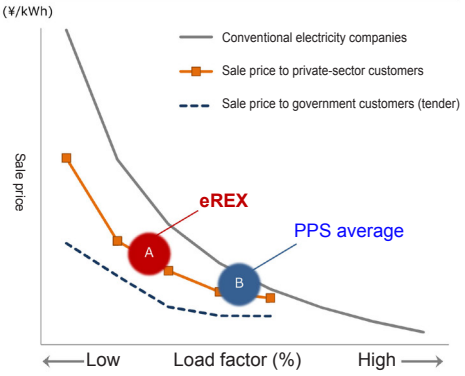


Contract amount	Basic charge
1 kW	¥2,000
Usage amount	Metered charge
400 kWh	¥4,000
Sale price	
(¥2,000 + ¥4,000) / 400 = ¥15/kWh	

Contract amount	Basic charge
1 kW	¥2,000
Usage amount	Metered charge
200 kWh	¥2,000
Sale price	
(¥2,000 + ¥2,000) / 200 = ¥20/kWh	

(Note) Load factor = Annual electricity usage / electricity contract × 24 hours × 365 days

Load Factor and Sale Price



Source: Earnings presentation materials

■ Medium-Term Business Plan and Growth Strategy

A period to prepare for growth to net sales of ¥50.0bn

(1) Outline of medium-term business plan

The Company has a three-year medium-term business plan covering the period from FY3/16 to FY3/18. With the core concept of “Challenge,” the plan period has been positioned as a time for preparing for growth in net sales to ¥50.0bn and net income to ¥4.0bn and to be entering the low-voltage household market following the full liberalization of the electricity market.

The Company has set the following medium-term numerical targets for FY3/18, the final year of the plan: net sales of ¥45.6bn, operating income of ¥3.8bn, ordinary income of ¥3.6bn, net income of ¥2.5bn. Moreover, beyond this time, the Company’s management targets are to achieve net sales of ¥50.0bn, ROE of 20% and a dividend payout ratio of 20%.

Challenge 500

-Aiming for Net Sales of ¥50.0bn-

(¥bn)

Challenge 500	FY3/16		FY3/17		FY3/18	
	Amount	% of sales	Amount	% of sales	Amount	% of sales
Net sales	24.0	100.00%	32.0	100.00%	46.0	100.00%
Operating income	1.5	6.30%	2.0	6.30%	3.5	7.60%
Net income	0.9	3.80%	1.0	3.10%	2.5	5.40%

The Company’s basic strategies under the medium-term plan follow two main themes: 1) In sales, enter the small, low-voltage user market, centered on households; 2) In electricity procurement, the main strategies are to develop in-house power generation and to strengthen electricity trading expertise through JEPX and procurement capacity. An important point to note is that the Company is strengthening these aspects through its partnership with Spark Energy LLC of the United States, where electricity liberalization is well advanced. (Further details follow below.)

Basic Strategies of the Medium-Term Business Plan

(1) Establish retail sales structure as the priority strategic business
a) Enter the ¥6.9tn low-voltage household user market that will be opened up in April 2016 and maintain a highly profitable structure.
b) When entering the low-voltage household user market, make full use of the sales agent system.
c) Aim to strengthen relationships with US companies that have pioneered and succeeded under free competition.
d) In line with response to expansion of the liberalized sales sectors, expand sales areas after sufficient investigation and discussion.
(2) Expand supply system and focus on fuel strategy
a) Secure the largest biomass power generation capacity in Japan for the Company’s in-house power generation.
b) With regard to biomass fuels, secure stable supply and pursue lower and more competitive fuel prices.
c) With regard to expertise in trading on the exchange, which is expected to become increasingly active, enhance procurement capabilities by deepening relationships with leading US companies.

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29-Sept.-15

Target market will effectively double in size with the liberalization of the low-voltage sector

(2) Growth strategy points

a) Sales: participation in small, low-voltage market

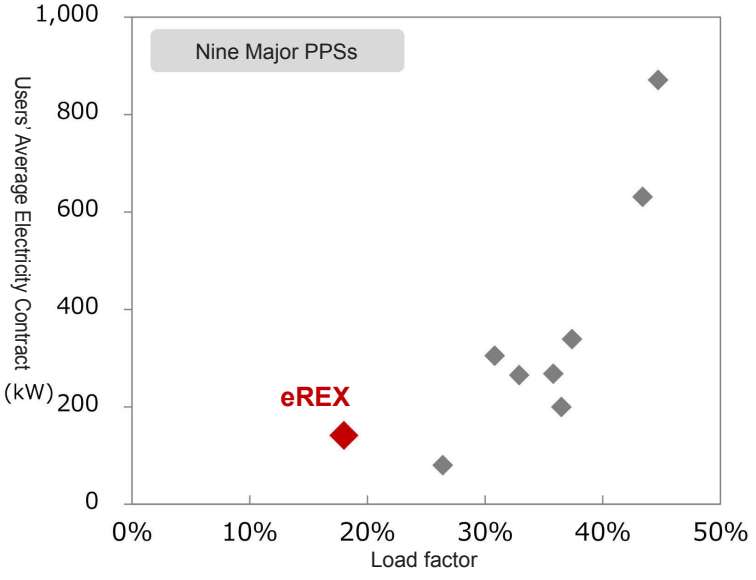
The low-voltage sector, which mainly comprises small users such as ordinary households and shops, makes up 40% of total electricity demand, representing a market scale of ¥6.9tn. Only the special high-voltage and high-voltage sectors have been opened up to PPSs. Since the majority of the Company's customers are in the high-voltage sector (around 35% of total electricity demand), the liberalization of the low-voltage sector in April 2016 will effectively double the size of the Company's target market.

List of Electricity Markets by Scale

	Special high voltage	High voltage	Low voltage
Ratio of electricity demand	Approx. 25%	Approx. 35%	Approx. 40%
Market status	Able to sell	Able to sell	Unable to sell
Timing of market liberalization	Apr. 2000	Apr. 2004	Apr. 2016
Main users	Large-scale plants and offices	Small- to medium-sized plants, supermarkets	Ordinary households, convenience stores and shops
Supply voltage	20,000 V or above	6,000 V or above	100-200 V
Demand scale	2,000 kW or above	50 kW to 2,000 kW	Up to 50 kW

As mentioned above, customers in the low-voltage sector have low load factors, offering higher profitability compared to customers in the high-voltage sector. The Company sells electricity through the sales agent system, and its strategy is to continue using the system to sell power for low-voltage sector customers after the sector has been liberalized. A characteristic of the Company's customers is that their average electricity contracts (representing their scale) and load factors are among the lowest compared with other companies. We believe this point suggests that the Company's sales system will be able to respond smoothly to the small, low-voltage sector. Furthermore, as noted, the Company has used the sales agents to win customers' trust up to this point, and this method is also likely to be effective for users in the low-voltage sector.

Load Factor and Customer Scale



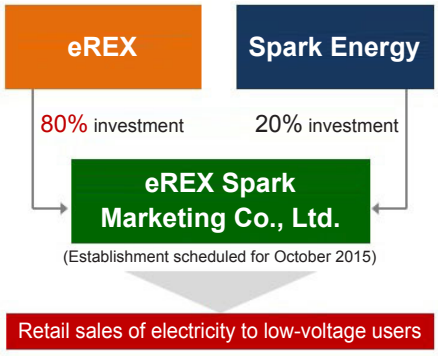
Source: Earnings presentation materials

A notable initiative toward entering the low-voltage sector is the Company's partnership with US company Spark Energy LLC (NASDAQ <SPKE>). On September 4, 2015, the Company announced the establishment of a joint venture together with Spark Energy LLC, called eREX Spark Marketing Co., Ltd. ("ESM"). The joint venture will conduct retail electricity business for low-voltage users.

ESM was established with 80% investment by eREX and 20% by Spark Energy LLC. For administration reasons, the company was established on September 1 and will start operations from October 1. Spark Energy LLC supplies electricity and gas to household and commercial users in 16 states in the United States, and has strong expertise and knowledge in sales in the low-voltage sector. These assets have been the basis for the joint venture. Looking ahead, the Company plans to make use of Spark Energy LLCs expertise not only in selling low-voltage electricity for households, but also in supply diversification utilizing the so-called wholesale market.

Overview of Joint Venture Scheme and Spark Energy LLC

Overview of Joint Venture

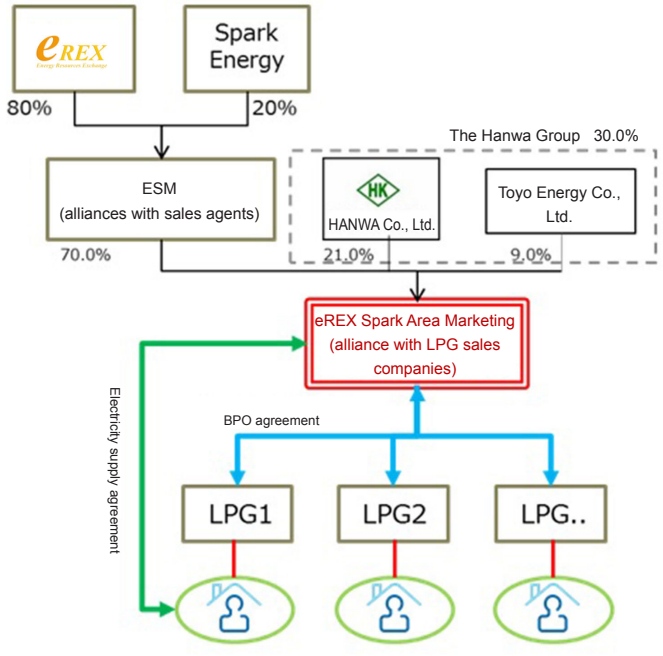


Overview of Spark Energy

Name	Spark Energy, Inc. (NASDAQ: SPKE)
Location	Houston, State of Texas, United States
Founded	1999
Representative	Nathan Kroeker
Business activities	Electricity and gas supply service
Number of employees	150
Features	Spark Energy LLC supplies electricity and gas to households and commercial users across 16 states in the United States, and has rich knowledge and experience in sales in the low-voltage sector

To operate in electricity retail for low-voltage users it is necessary to register as a “retail electricity provider” with the Ministry of Economy, Trade and Industry. ESM will develop a multilayered sales network, also using the sales agent system to foster demand among ordinary households while at the same time forming alliances with LPG sales companies and establishing a joint venture to sell electricity in the same way.

ESM’s Household Electricity Retail Scheme

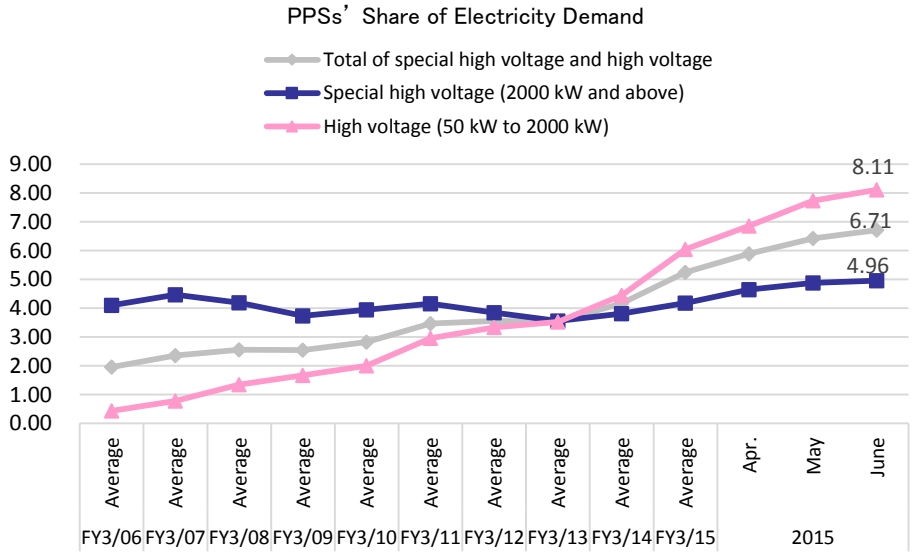


Source: eREX material published Sept. 15, 2015

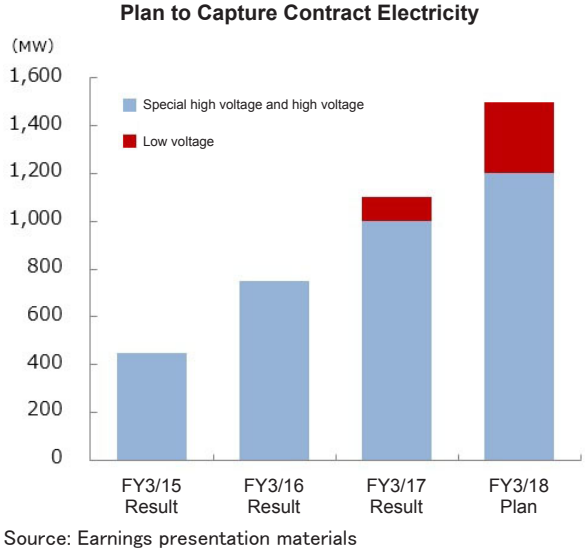
On September 15, 2015, ESM announced the first step in its business development. The announcement detailed the establishment of a joint venture called eREX Spark Area Marketing Co., Ltd. with the steel trading company HANWA Co., Ltd. and its wholly owned subsidiary, Toyo Energy Co., Ltd., a petroleum product and LPG sales company. The joint venture will undertake retail electricity sales in the low-voltage sector. Toyo Energy Co., Ltd. is headquartered in Osaka and has developed strong expertise in energy sales and a powerful customer network through its operational history of over 40 years. The new joint venture is expected to concentrate the respective strengths of eREX, Spark Energy LLC, HANWA Co., Ltd., and Toyo Energy Co., Ltd., and use them to expand the electricity retail business in the low-voltage sector.

It is important to bear in mind that the Company does not intend to realize all of its growth from 2016 onward in the small, low-voltage sector alone. It plans to continue growing as before in the high-voltage sector as well. PPSs' electricity charges are lower than those of conventional electricity companies; however, since the absolute amounts are small in the case of ordinary households, it is difficult to feel the difference, which could hinder efforts to attract new customers. From this perspective, the high-voltage sector demand, with its large absolute amounts, is probably easier to appeal to. As noted, the number of customers in the high-voltage sector has risen rapidly in the four months between March 31 and July 31, 2015, climbing from 3,808 by 1,351, or 35%, to 5,159.

These trends are clear from the statistical data. Looking at PPSs' share of electricity demand, the overall share for PPSs as of June 2015 stood at 6.71%, and it is the high-voltage sector that is driving growth. Although the special high-voltage sector represents special demand such as large-scale plants, increasing market share in this sector appears to be plateauing. By contrast, the share of the high-voltage sector, which represents supermarkets, offices, and so forth, continues to climb steadily. Our analysis is that this reflects the easier acceptance of price appeal in this sector, as we have described. The high-voltage sector represents the user segment where the Company has the greatest strengths; it is still a blue ocean market for the Company and an important source of growth.



Source: Created by FISCO based on statistics from the Ministry of Economy, Trade and Industry



Source: Earnings presentation materials

b) Procurement: In-house electricity generation

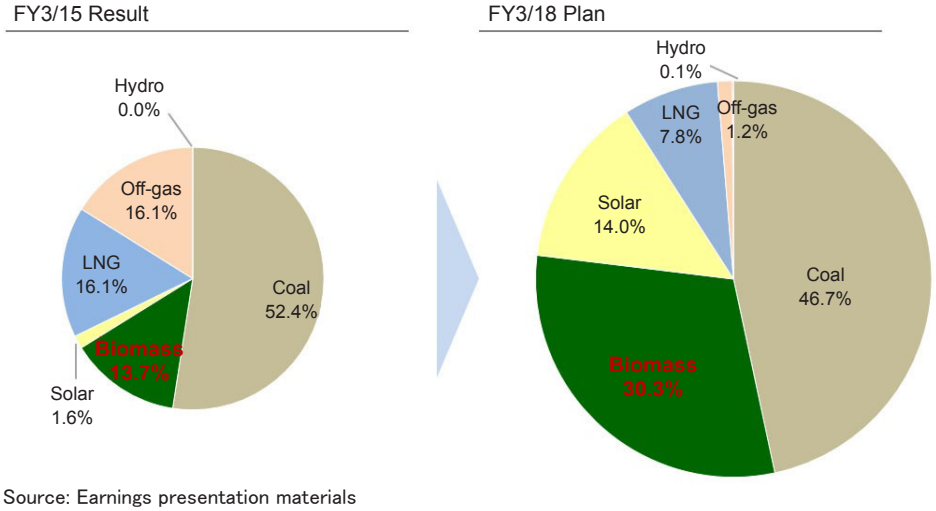
The liberalization of the low-voltage sector in April 2016 will double the size of the Company's target market in one stroke. Electricity procurement is a vital issue underpinning expansion of the customer base.

The Company established eREX New Energy Saiki in July 2014, and is currently constructing a new PKS biomass power station in Saiki City, Oita Prefecture. The facility has a rated power output of 50,000 kW, approximately 70% higher than Tosa Power Station, and is scheduled to start operation in autumn of 2016. In FY3/18, when Saiki Power Station is operating, the power supply composition ratio is expected to have a ratio of biomass generation up to around 30%, strengthening the Company's low-cost base load power supply. Moreover, with the addition of renewables and other sources, the power supply is also expected to become even more diversified.

Overview of eREX New Energy Saiki

eREX New Energy Saiki Co., Ltd.			
Location	Saiki City, Oita Prefecture	Fuel	PKS
Method of power generation	Biomass power generation	Output power	Rated output 50,000 kW
Operation start	Autumn 2016		
Features			
Located on the former Saiki Plant site, Oita Factory of Taiheiyo Cement Corporation			
Received expertise in operation and fuel procurement from eREX New Energy's Tosa Power Station			
Stable operation with fuel procurement using the PKS Center			
Planned return on investment of IRR 15% or above			

Power Supply Composition Plan



Source: Earnings presentation materials

■ Financial Results

Start of feasibility study for entry into the Japanese low-voltage market

(1) Most recent financial results and full-year forecast for FY3/16

a) Most recent financial results

For FY3/15, the Company recorded steady increases in both sales and profits year on year (YoY), with consolidated net sales of ¥17.0bn, up 11.5%, operating income of ¥1.4bn, up 4.9%, ordinary income of ¥1.1bn, down 18.6%, and net income of ¥0.9bn, up 13.2%.

Net sales made steady gains atop an increase in customers associated with an increase in the number of sales agents and the effect of price increases attendant on the shift from wholesale to retail sales. Operating income increased as controls on selling, general and administrative (SG&A) expenses absorbed a YoY decline in gross profit due to an increase in electricity procurement. Ordinary income declined, partly reflecting the payment of an arrangement fee by a consolidate subsidiary.

For Q1 FY3/16, consolidated net sales were ¥4.8bn, operating income was ¥0.1bn, ordinary income was ¥0.1bn, and net income was ¥0.1bn. These results were mostly in line with the plan, as the shift to retail sales effectively increased the average sale price for electricity, absorbing the effects of a continued decline in wholesale prices on the exchange since FY3/15.

In developments on the operating front, the Company started retail electricity sales in the Kansai region in April 2015, and during Q1 FY3/16 began a feasibility study with the aforementioned US company Spark Energy LLC regarding entry into the Japanese low-voltage market. This resulted in the establishment of a joint venture on September 1, which has prepared the way for a full-scale start of business from April 2016 with the full liberalization of the retail electricity market.

Overview of Most Recent Financial Results

(¥bn)

	FY3/14	FY3/15			FY3/16E		
	Full year	Plan	Result	vs Plan	Q1	Progress rate	Full year (E)
Net sales	15.3	16.8	17.0	1.0%	4.8	20.3%	24.0
YoY	23.2%	10.4%	11.5%	-	-	-	41.1%
Operating income	1.4	1.5	1.4	-3.6%	0.1	11.5%	1.5
YoY	21.4%	8.7%	4.9%	-	-	-	2.4%
Operating income margin	9.2%	9.1%	8.6%	-	-	-	6.3%
Ordinary income	1.3	1.3	1.1	-13.1%	0.1	10.2%	1.4
YoY	19.4%	-6.3%	-18.6%	-	-	-	24.1%
Net income	0.8	0.9	0.9	0.7%	0.1	10.7%	0.9
YoY	19.9%	12.4%	13.2%	-	-	-	1.5%

b) Financial forecasts for FY3/16

For FY3/16, eREX is forecasting net sales of ¥24.0bn up 41.1% YoY; operating income of ¥1.5bn, up 2.4% YoY, ordinary income of ¥1.4bn up 24.1% YoY, and net income of ¥0.9bn up 1.5% YoY. eREX has not revised its initial forecasts.

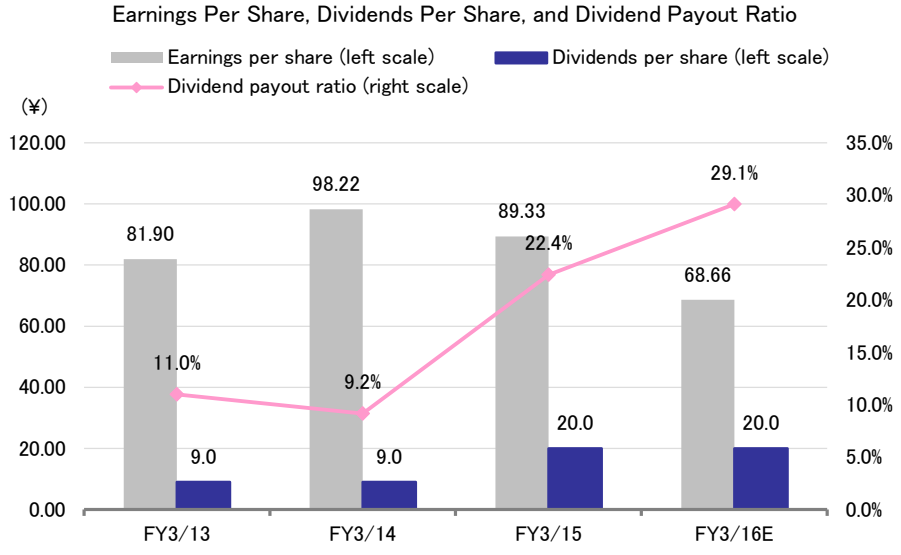
Net sales are expected to increase, reflecting the continuing increase in the number of sales agents and an increase in customers with the start of electricity retail services in the Chugoku region in October. On the profit front, operating income growth is expected to be only 2.4% due to plans for periodic repairs at eREX New Energy's Tosa Power Station. Apart from this, there has basically been no change in the business environment, and the Company intends to increase the pace of its shift from wholesale to retail by expanding the customer base and to focus on improving profitability.

■ Shareholder Returns

Dividend more than doubled in FY3/15

The Company basically makes returns to shareholders in the form of dividends. The level of dividend is based on a targeted dividend payout ratio of 20% under the medium-term business plan.

For FY3/15, the Company paid an ordinary dividend of ¥10 plus a commemorative dividend of ¥10, for a total of ¥20. This represented an increase of more than double the dividend of ¥9 (adjusting for a stock split) paid in FY3/14. For FY3/16, the Company plans to hold the dividend at the same level of ¥20. However, this dividend will comprise an ordinary dividend of ¥20, representing an increase on an ordinary dividend basis. The dividend payout ratio is 29.1% on the projected earnings per share of ¥68.66 for FY3/16, a step up from 22.4% for FY3/15. As noted, the Company's dividend payout ratio target is 20%, and the dividend is expected to increase further in line with profit growth going forward.



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