

GLOBERIDE, Inc.

7990

Tokyo Stock Exchange First Section

27-Jul.-2017

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FISCO Ltd.

<http://www.fisco.co.jp>

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Summary

Roughly met goals from the medium-term business plan that lasted through FY3/17

GLOBERIDE, Inc. <7990> (hereafter, also “the Company”) became the global leader in fishing product sales (under the DAIWA global brand) in 1976. It has consistently led the industry since then with numerous innovations, revolutionary products based on unique technologies, and new proposals for fishing lifestyle. DAIWA is a universally known presence in the fishing world. GLOBERIDE also sells products for golf, tennis, and cycling sports worldwide. It generated 73.6% of sales in Japan and 26.4% from other countries in FY3/17 and has steadily solidified positions in the Americas, Europe, and Asia and Oceania. Growth in sales to Asia has stood out recently. GLOBERIDE manufactures almost all of its products, except for some luxury items, in China, Vietnam, Thailand, and other overseas sites. Sales ratios by products are fishing, the main business, at 84.0%, golf at 6.6%, racquet sports at 8.5% and others including cycling sports at 0.9%.

The Company renamed itself from Daiwa Seiko Corporation to GLOBERIDE on October 1, 2009. It continues to use the DAIWA brand for fishing products and is steadily growing this business. Income fluctuates with trends in economic activity because the Company sells products for hobbies. However, GLOBERIDE possesses a strong brand presence, and a key point is the extent to which it can expand in areas besides fishing products. GLOBERIDE hopes to stimulate the global market by developing innovative new products that create market opportunities.

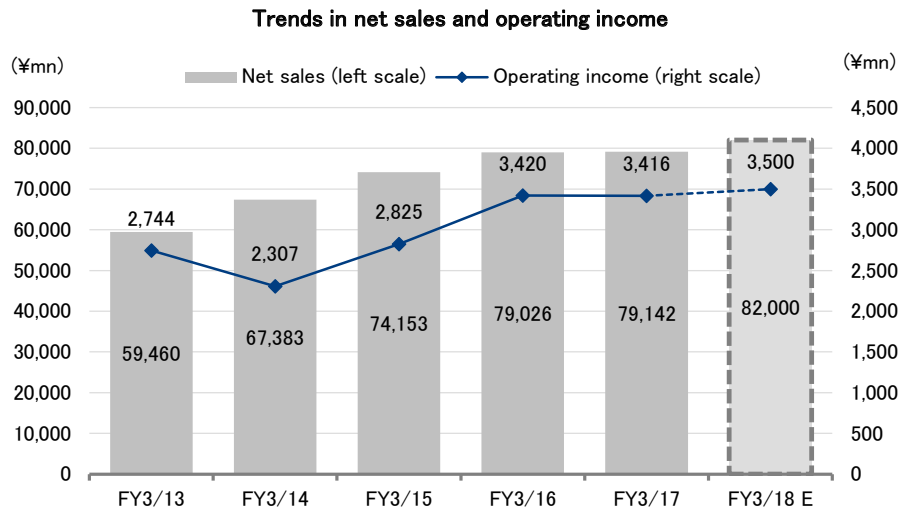
GLOBERIDE largely realized goals of “20% increase in sales, 30% rise in profits, and 40% dividend hike” from the medium-term business plan that started in FY3/15 and lasted through FY3/17. It is currently preparing a new medium-term plan that extends through FY3/21 with an aim of further advances through “higher sales, profits, and dividends.” GLOBERIDE hopes to present the full content of the plan as soon as within the year and no later than spring 2018. It is on the verge of reaching its near-term target of ¥80,000mn after many years of patience and expects to surpass the all-time high of ¥80,652mn, which was recorded in FY3/93, in FY3/18.

For shareholder returns, GLOBERIDE plans to increase the dividend by ¥5 from FY3/17’s ¥50 to ¥55 in FY3/18. The target works out to a dividend payout ratio of 33.3%. GLOBERIDE also has a shareholder gift program that is helping to expand the number of shareholders. We have a favorable view of proactive shareholder returns while striking a balance with retained earnings to fund R&D and capital investments needed to create innovative products.

Key Points

- Net sales and operating profit roughly flat in FY3/17 consolidated results
- Aiming for higher operating profit and all-time high net sales in FY3/18
- Steadily raised the dividend for seven straight years, targeting ¥55 in FY3/18

Summary



Source: Prepared by FISCO from the Company's financial results

Business details and history

Started as a manufacturer of fishing reels for export, DAIWA brand captured the hearts of fishing fans

The Company was established in 1955. It was initially named Matsui Manufacturing and mainly manufactured fishing reels for export. It established Daiwa Seiko Corporation in Yamatocho, Nakano Ward, Tokyo in 1958, built a plant for reel production at the site of the current headquarters in 1960, and also moved the headquarters two years later. It launched overseas operations with the establishment of Daiwa Corporation in Los Angeles, US in 1966. The Company revised its company name in Japanese (still Daiwa Seiko in English) in 1969 and listed shares on the Second Section of the Tokyo Stock Exchange in 1970. It switched to the First Section in 1976.

The Company began as a specialty manufacturer of fishing products, but started to diversify by adding golf products in Japan in 1972. It moved into tennis products in 1980 and cycling sports products in 1990. It adopted a new name as GLOBERIDE in 2009.

The Company has a corporate motto of “being a lifetime sports company that enriches life,” and its main fishing business is a universally known presence in the fishing world. The brand is very highly regarded, and the Company has captured the hearts of fishing fans by steadily advancing the concept of fishing goods by consistently delivering innovative products to the market. The DAIWA brand mark receives robust consumer support as a symbol of “challenge, originality, and innovation.” Support for the DAIWA brand is extensive not only in Japan, but also worldwide.

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Business details and history

DAIWA brand mark



Source: Materials supplied by the Company

In fishing products, the Company proposed an out-spool mechanism for reels ahead of the industry, and this created the template of the modern spinning reel. The Company focuses on more than just reels, rods, and other core products and offers an extensive line-up of related products including lures, strings, and other small items. It also handles cooler boxes and rain gear and is a comprehensive supplier of fishing-related items. In Japan, the Company covers from large chain stores to local specialty shops and “DAIWA fishing goods” is a familiar sign. Much of product supply goes through direct sales to retailers, and this format keeps the Company in touch with consumer needs. The Company actively pursues a variety of measures to expand the market, including cooperation in the TV production of “The Fishing,” the most popular fishing program, and the well-known “Fishing Fool’s Diary” movie series (seen in reruns on TV).

GLOBERIDE has five sales locations in Japan – Sapporo, Toyama, Tokyo, Osaka, and Fukuoka. Outside of Japan, it operates Daiwa Corporation in the US and has sales offices in the UK, France, Germany, Italy, Australia, China, Hong Kong, South Korea, Taiwan, Singapore, and Malaysia. The Company manufactures most of the products at overseas sites, including Thailand, China, and Vietnam.

DAIWA



Source: Materials supplied by the Company

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Business details and history

In the golf business, meanwhile, the Company delivers two popular brands – ONOFF that proposes products for refined golfing with reliable quality and FOURTEEN known for superior golf philosophy and excellent performance. GLOBERIDE does not strive aggressively for higher sales in this business and instead focuses on selling high-end products and services to customers with emphasis on brands by building membership organizations and conducting a fitting service that provides clubs best suited to individual customers. It also has contracts with professionals such as Shingo Katayama, Ryuji Imada, Ji-hee Lee, and Akane Iijima. Success by these top professionals attests to the excellent reliability of club performance and enhance the brand image.

GLOBERIDE is the sales distributor for PRINCE in Japan for tennis and other racquet sports. It proposes a tennis lifestyle for adults that covers activities both on and off the court and has carefully cultivated the brand for racquets as well as tennis wear and other related products. GLOBERIDE handles a wide range of products beyond tennis, including badminton that attracted interest with strong performances by Japanese athletes in the Olympics and squash. GLOBERIDE promotes CORRATEC, FOCUS, and BOTTECCHIA brands for cycling sports. It has also recently launched D-VEC, a new apparel brand that combines functionality and fashion. We expect further new proposals as a “lifetime sports company.”

ONOFF



Source: Materials supplied by the Company

FOURTEEN



Source: Materials supplied by the Company

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Business details and history

PRINCE



Source: Materials supplied by the Company

CORRATEC



Source: Materials supplied by the Company

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Business details and history

History

Year	Main events
1955	Started manufacturing fishing reels (mainly for export) (Company name: Matsui Manufacturing)
1958	Established Daiwa Seiko Corporation in Nakano, Tokyo
1960	Built a reel manufacturing plant where the headquarters is currently located
1962	Started domestic reel sales and moved headquarters to the current location
1964	Built a rod manufacturing plant
1966	Established Daiwa Corporation in Los Angeles, US
1969	Changed the Company name in Japanese
1970	Built the Hiroshima and Tochigi plants as domestic manufacturing sites (consolidated at the headquarters in 2000) Listed shares on the Second Section of the Tokyo Stock Exchange
1971	Established Daiwa Seiko (Taiwan) Co., Ltd. in Kaohsiung, Taiwan (liquidated in 2007) Established Daiwa Golf Inc. at the current location (absorbed by headquarters in 1995)
1972	Started domestic sales of gold products
1973	Established Daiwa Whitehall Pty. Limited in Sydney, Australia (now Daiwa (Australia) Pty. Ltd.)
1976	Listed shares on the First Section of the Tokyo Stock Exchange
1977	Established Daiwa Sports Limited in Wishaw, Scotland, UK
1980	Acquired Fishing Nakamura Inc. (now, World Sports Co., Ltd.), a Fukuoka-based fishing goods retailer, as a subsidiary Entered the tennis business Established Nasu Daiwa Corporation to manufacture and sell fishing goods in Kurobane, Nasu, Tochigi
1984	Established Daiwa France S.A. (now, Daiwa France S.A.S.) in Rouen, France Established Daiwa Sogo Services Corporation (now Desco Inc.), which handles welfare services, at the current location
1985	Acquired Ooyagi Shoten Inc. (now, World Sports Co., Ltd.), a Tokyo-based fishing goods retailers, as a subsidiary
1990	Established Daiwa-Cormoran Sportartikel Vertrieb GmbH in the suburbs of Munich, Germany Entered the cycling sports business
1995	Established Daiwa Seiko (Thailand) Co., Ltd. in Bangkok, Thailand
2002	Established Daiwa Seiko Limited in Taichung, Taiwan
2004	Established Daiwa Seiko (Hong Kong) Co., Ltd. in Hong Kong
2005	Established Daiwa Seiko (South Korea) Co., Ltd. in the suburbs of Seoul (Korea). Acquired Casting Limited., a Tokyo-based fishing goods retailers, as a subsidiary Established Zhongshan Daiwa Sporting Goods Limited in China Established Daiwa Vietnam Limited in Da Nang, Vietnam
2008	Acquired Windsor Corporation, a Kanagawa-based sports goods retailer, as a subsidiary Acquired Fourteen Co., Ltd., a Gunma-based company which manufactures and sells golf clubs, as a subsidiary Spun off the fishing goods after-service business and established Sports Life Planets, Inc.
2009	Changed the Company name to Globeride, Inc. Retained DAIWA as the brand name for the fishing business
2012	Established Singapore Daiwa Pte. Ltd. in Singapore
2013	Established Dongguan Daiwa Sporting Goods Limited in China Acquired Daiwa Logistics Services Inc. (now, LOGISPO.Inc), a Tokyo-based warehouse logistics firm, as a subsidiary
2014	Established Daiwa Italy S.r.l in Italy
2016	Established Daiwa Sports (M) SDN.BHD. in Malaysia

Source: Prepared by FISCO from the Company's website

■ Performance trends

Net sales and operating profit roughly flat in FY3/17 consolidated results

1. Review of FY3/17 results

GLOBERIDE reported FY3/17 results on May 12, 2017 of flat sales and operating profit with ¥79,142mn in net sales (up 0.1% YoY), ¥3,416mn in operating income (down 0.1%), ¥2,447mn in ordinary income (down 15.2%), and ¥2,184mn in net income attributable to owners of the parent (up 31.6%).

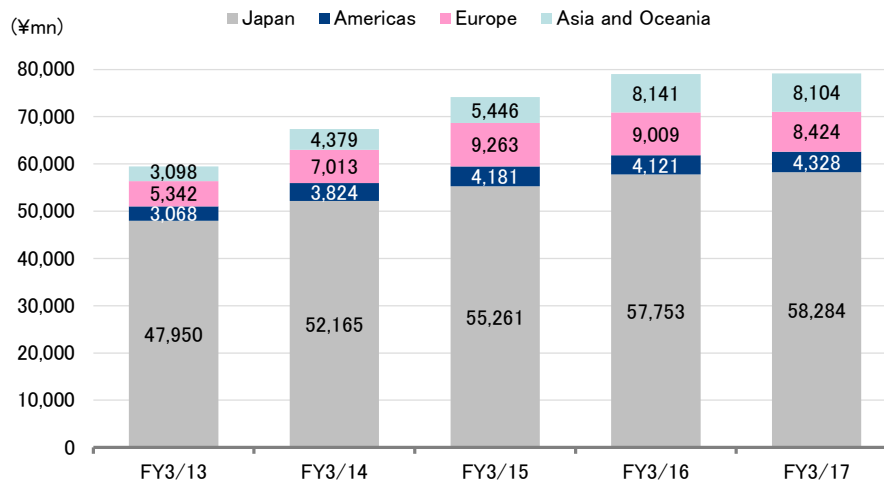
Consumption sentiment remains weak in Japan, and this creates a difficult environment for GLOBERIDE's products that are not daily essentials. However, the Company has been steadily increasing sales in fishing, golf, and racquet sports by delivering innovative products that capture the interest of people who enjoy these sports.

In fishing, the Japanese fishing market is still only growing at a moderate pace, but GLOBERIDE sales increased 3.5%, outpacing the market average of 1.7%, as its products gained wider support from consumers. While GLOBERIDE faced tough conditions in 1H because of the impact of inclement weather from August, sales picked up in 2017 with support from fishing shows and other events in January and February and stimulation of the market mainly with new products.

Golf sales missed the year-ago level, despite healthy activity for flagship brands, such as ONOFF. Racquet sports business slowed due to the "Nishikori effect" coming to a full circle that had fueled a tennis boom and shrinkage of inbound demand.

In overseas business, fishing sales expanded at a healthy pace. While the outdoors market in the US and Europe is not that vibrant, GLOBERIDE's efforts to strengthen overseas capabilities in the past few years delivered results. The Asian market was upbeat as well thanks to rising incomes. Sales rose 15% in the Americas, 8% in Europe, and 13% in Asia and Oceania YoY. However, yen appreciation during the period led to a 2% decline in sales on a yen basis, despite an 11% gain on a local-currency basis. Golf sales, meanwhile, were sluggish because of reduced buying in Korea, the main export market. Looking at total global sales, robust domestic fishing offset the decline in overseas sales.

Performance trends

Trends in sales by region


Source: Prepared by FISCO from the Company's financial results

In earnings, while yen appreciation lowered raw material costs and other expenses, the strong-yen shift weakened non-operating income. GLOBERIDE booked a ¥258mn forex loss. There was also an impact from booking ¥329mn in lawsuit-related costs as non-operating expenses. Lawsuit-related costs increased from ¥90mn in FY3/17. However, these costs take the initiative in dealing with patent infringement issues and other areas and can be viewed as a type of investment.

Capital investments totaled ¥2,714mn as GLOBERIDE invested in the upper ¥2bn range for a fourth straight year. It had invested in the ¥1,200-1,300mn range through FY3/13. Aggressive investments in the past three years were related to boosting the output capacity of fishing-related products to enable realization of the ¥80,000mn sales goal from the "Medium-Term Plan 2016" started in FY3/15.

Aiming for higher operating profit and all-time high net sales in FY3/18

2. Outlook for FY3/18

GLOBERIDE guides for ¥82,000mn in net sales (+3.6% YoY), ¥3,500mn in operating profit (+2.4%), ¥3,000mn in recurring profit (+22.6%), and ¥1,900mn in net profit attributable to owners of the parent (-13.0%) in FY3/18. This outlook targets all-time high net sales, exceeding the current record of ¥80,652mn.

The Company intends to pursue sales growth in the mainstay fishing goods business at a faster pace than the market in Japan by continuing to release innovative products. Its plan focuses on drawing customers to retail stores by aggressively stimulating the market through events, sales promotions, and other efforts.

Performance trends

DAIWA's waterproofing and durability technologies



Source: Materials supplied by the Company

Response to the growing EC market is a key point. While real-world stores, which handle products, are likely to continue as the main channel for supplies, reels, fishing rods, and other higher-priced items are shifting to Internet sales and GLOBERIDE needs to bolster its support for the EC market. EC business involves sales through distributors, and World Sports, Co., Ltd., a subsidiary that handles retail business, is building omni-channel operations. In overseas business, while forex trends are an uncertainty, we expect sales to expand on a local-currency basis. GLOBERIDE intends to continue appealing to customers interested in high value-added products, mainly in China where sales expanded by over 30% in FY3/17.

For golf business, GLOBERIDE focuses on steady sales growth with provision of high-end products and services to “fan” customers while carefully preserving its brands. It utilizes test hitting opportunities and other events as member perks for ONOFF, FOURTEEN, and other fan clubs to improve brand value and also highlight product features. Increase in golf sales volume generally overlaps with the timing of new product releases. We expect rebound in FY3/18 sales due to rollouts of new products for ONOFF LADY this summer and the ONOFF Red Series in spring 2018. GLOBERIDE seeks to bolster sales in racquet sports, despite headwind in the income environment from decline in the player population, by continuing to strengthen the PRINCE brand.

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Performance trends

ONOFF LADY



Source: Materials supplied by the Company

PRINCE



Source: Materials supplied by the Company

The Company plans to continue increasing upfront investment expense, though it expects a rise in operating income with sales and cost reduction offsetting the expense. It assumes about ¥3,000mn in capital investments for the year.

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Performance trends

On the financial front, however, interest-bearing debt increased in the past three years because of ramp-up in capital investments. Inventories are growing along with rising sales. GLOBERIDE wants to reinforce equity to lift the equity ratio further from the current 27.7% level. Yet we do not see any issues with the current financial position from the standpoint of repayment capacity if the Company generates profits as planned.

Past results and forecasts

	(¥mn)			
	FY3/15	FY3/16	FY3/17	FY3/18 (E)
Net sales	74,153	79,026	79,142	82,000
YoY	10.0%	6.6%	0.1%	3.6%
Operating income	2,825	3,420	3,416	3,500
YoY	22.5%	21.1%	-0.1%	2.4%
Ordinary income	2,918	2,885	2,447	3,000
YoY	66.7%	-1.1%	-15.2%	22.6%
Net income attributable to owners of the parent	1,603	1,659	2,184	1,900
YoY	-44.3%	3.5%	31.6%	-13.0%
EPS (¥)	13.94	144.39	190.08	165.36
Dividend (¥)	4.00	45.00	50.00	55.00

Note: Conducted a reverse stock split of 10 shares to one share on October 1, 2015; post-split EPS and dividend from FY3/16
 Source: Prepared by FISCO from the Company's financial results

■ Outlook and strategy

Currently formulating a new medium-term business plan that lasts through FY3/21

● Medium-term business plan

GLOBERIDE finished the medium-term business plan lasting through FY3/17 that had final-year goals of ¥80,000mn in consolidated sales (+18% versus FY3/14), ¥3bn in consolidated operating profit (+30%), and a ¥50 dividend (effectively a ¥15 dividend hike). While sales slightly missed the goal due to the impact of yen appreciation on conversion of overseas value to a yen basis, operating profit reached the goal one year ahead of time and ultimately overshot by ¥416mn.

Additionally, GLOBERIDE is currently preparing a new medium-term business plan that lasts through FY3/21 with aims of further growth and improved corporate value by sustaining “proactive management.” It has not presented plan content at this stage, but wants to announce it as soon as within the year and no later than spring 2018.

The new plan will continue the three measures from the previous medium-term plan of pursuing supply capacity for products with market advantages, stimulating and improving the domestic market, and taking actions in overseas markets. The final fiscal year is FY3/21 and targets the Tokyo Olympics and Paralympics year. We expect a reasonably healthy environment given the prospect of heightened sports excitement in Japan.

Outlook and strategy

While the domestic market is likely to pick up, we think overseas business will remain the primary source of growth opportunity. Income levels should be rising in Asia, and these gains are likely to broaden demand for products related to fishing for leisure. We forecast continuation of a growth trajectory over the next three years thanks to this addition to market development room.

While GLOBERIDE is currently preparing the specific sales goal, we think it might target consolidated net sales in the ¥90,000mn range, judging from 20% sales growth in the previous plan. It hopes to expand top-line sales with fishing as the main driver and is also considering wider peripheral businesses. New investments are part of the review, including M&A as a possible approach.

GLOBERIDE positions FY3/18 as a preparatory stage prior to embarking on the medium-term business plan and will actively invest in people and products. This stance explains the prospect of a lower growth rate for operating profit than sales in FY3/18. GLOBERIDE plans to invest in new product molds and other areas during FY3/18.

Plan formulation also has strong awareness of “post-Olympics” from 2020. GLOBERIDE is likely to move quickly in strengthening the overseas foundation and establishing capabilities to generate profits in these markets in order to sustain a growth trajectory even if domestic demand subsequently weakens.

(1) Fishing product business

Aging is affecting the fishing population in Japan, and the overall trend is moving downward. This environment raises concern about the future similar to other consumption goods.

GLOBERIDE is addressing the situation by proposing a different type of fishing than in the past and hopes to increase sales by creating a new market. We think GLOBERIDE is capable of pursuing this strategy because of its strength of steadily launching innovative products that cannot be produced by rivals. The Company also conducts activities to raise awareness among young people, such as the Daiwa Young Fishing Club (D.Y.F.C.) started 40 years ago, and takes an aggressive stance to market development.

DAIWA's technologies



Source: Materials supplied by the Company

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Outlook and strategy

Daiwa Young Fishing Club



Source: Materials supplied by the Company

Yet overseas markets are the primary opportunity for driving future growth. Asia, which is already exhibiting robust growth, offers clear potential. For example, particularly strong demand for the Company's high-end products exists in China from the segment with large incomes even though these items cost a few times more than normal prices. The fishing style is also changing from simple fishing, mainly for crucian carp and koi carp, to fishing using lures and reels. Inquiries for high-end products handled by GLOBERIDE are likely to strengthen as income levels climb in Southeast Asia and other regions.

US and European markets have matured and largely fluctuate with trends in economic activity, but GLOBERIDE still has substantial room to expand its share. The Company plans to use a strategy of acquiring share by bolstering the line-up of products that meet regional characteristics.

Fishing show in Italy



Italy – Pescare Show

Source: Materials supplied by the Company

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Outlook and strategy

(2) Golf products business

While GLOBERIDE aims to increase its global market share in fishing business, it is not trying to compete for volume with DUNLOP SPORTS CO. LTD. <7825>, Bridgestone Corporation <5108>, and other firms in the golf business. Instead it utilizes a strategy of calibration to its position in the industry.

The Company seeks differentiation from other manufacturers and provides high-end products and services to customers who are fans of these products with emphasis on nurturing ONOFF, FOURTEEN, and other brands. Specifically, following on from FOURTEEN, which has a fan club with more than 10,000 members, the ONOFF brand has started to build a membership organization and enhanced services for brand customers. It promotes measures that boost customer satisfaction. FOURTEEN follows a strategy of supplying the “best fourteen clubs” to golfers in order to accumulate sales.

The membership organization holds test-hitting events exclusive to members. These activities put emphasis on fans and pursue steady improvement of brand value and stable sales growth.

CLUB ONOFF membership organization



Source: Materials supplied by the Company

Fourteen Classic golf competition organized by FOURTEEN



Source: Materials supplied by the Company

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Outlook and strategy

(3) Racquet sports business

GLOBERIDE utilizes a strategy that nurtures a brand in the tennis business too, similar to golf products. It serves as the sales agency for PRINCE in Japan. PRINCE triggered a boom with “oversized racquets” and fueled a revolution in the tennis playing style in the 1970s. This brand has continued to deliver innovations in racquet technology and actively engages in product creation and promotions that propose an enjoyable tennis life for adults both on and off the court.

Enjoying adult tennis life off the court



Source: Materials supplied by the Company

Windsor Corporation, a subsidiary running a retail business, is a well-known specialty racquet shop in Japan. It has a broad range of sales connections that extends from students to adults and also other racquet sport players, mainly in the Kanto area, and aims to expand sales going forward.

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Outlook and strategy

Windsor Racquet Shop - Shibuya



Source: Materials supplied by the Company

(4) Apparel

Apparel business offers opportunity in the new medium-term plan. GLOBERIDE mainly supplied fishing apparel up to now and is launching an independent apparel brand for the first time. It is developing the D-VEC brand released in 2017 as an urban fashion line that combines technology and functionality cultivated over many years for DAIWA fishing apparel with fashion sense from a dedicated design team.

D-VEC items, which can be worn comfortably even in a harsh fishing natural environment, comprise an extensive line-up of not only outerwear, but also T-shirts, shorts, shoes, umbrellas, and eyewear. GLOBERIDE opened the EC site and a shop in Harajuku, Tokyo on March 25, 2017. It is proposing sports apparel that makes life fuller in accordance with the corporate ideal of being a “lifetime sports company” and hopes to enhance corporate value.

D-VEC



Source: The Company's website

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Shareholder returns

Steadily raised the dividend each fiscal year, targeting ¥55 in FY3/18

GLOBERIDE plans to pay an annual dividend of ¥50 per share in FY3/17. The FY3/16 dividend was unusual at ¥27 for the year (essentially ¥45) because of the reverse stock split from 10 ordinary shares to one share conducted on October 1, 2015. The FY3/17 dividend hence works out to an effective increase of ¥5 or 11.1%.

GLOBERIDE pays shareholder returns while striking a balance with retained earnings that reflects proactive R&D and capital investments to develop innovative products. However, it has adhered to a positive stance toward shareholder returns with steady dividend increases each fiscal year even in recent years of ramped-up capital investments. GLOBERIDE will boost the dividend payout ratio to 33.3% (from FY3/17's 26.3%) if it pays a ¥55 in FY3/18 as planned.

Additionally, the Company has adopted a shareholder gift program that distributes original QUO cards based on the number of shares owned and the years of ownership. It explains that this program contributed to an increase in shareholders of roughly 10%.

2017 shareholder incentive QUO card design

¥1,000 certificate
(Salmon derby)



¥1,000 certificate
(Sanpei and Yachibozu)



¥1,000 certificate
(Roses and Gyoshin)

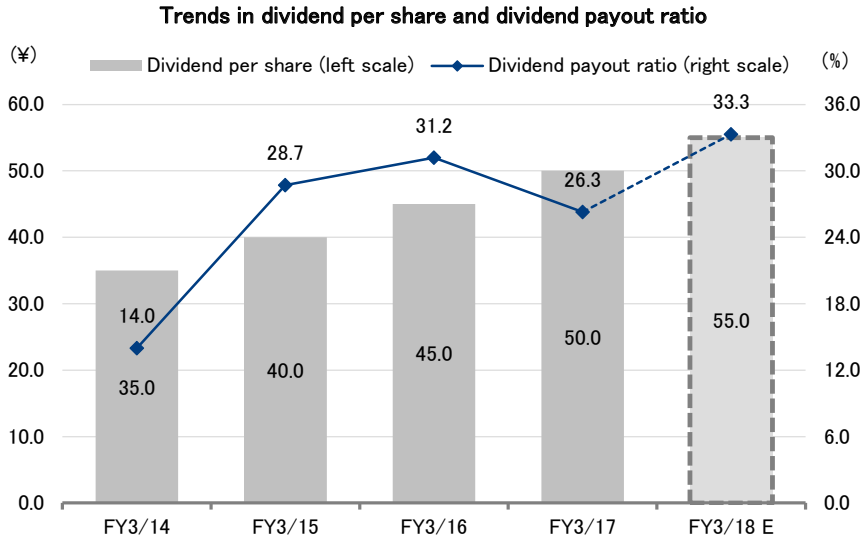


¥2,000 certificate
(Let's go fishing)



Source: Materials supplied by the Company

Shareholder returns



Note: GLOBERIDE conducted a reverse split that allocated one share per 10 existing shares of ordinary stock on October 1, 2015. Values in this diagram have been adjusted retroactively for years prior to FY3/16.

Source: Prepared by FISCO from the Company's financial results



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