

## FTGroup (2763)

Consolidated Fiscal Year (Million Yen)		Sales	OP	RP	NP	EPS (Yen)	DPS (Yen)	BPS (Yen)
FY03/2015		34,942	4,486	4,538	2,770	78.9	23.3	296.8
FY03/2016		37,214	4,873	4,835	2,940	84.1	24.0	349.5
FY03/2017CoE		40,000	4,900	4,850	2,700	79.4	28.0	-
FY03/2016	YoY	6.5%	8.6%	6.6%	6.1%	-	-	-
FY03/2017CoE	YoY	7.5%	0.5%	0.3%	(8.2%)	-	-	-
Consolidated Half Year (Million Yen)		Sales	OP	RP	NP	EPS (Yen)	DPS (Yen)	BPS (Yen)
Q1 to Q2 FY03/2016		17,194	2,160	2,149	1,344	-	-	-
Q3 to Q4 FY03/2016		20,020	2,713	2,686	1,596	-	-	-
Q1 to Q2 FY03/2017		18,462	1,866	1,817	969	-	-	-
Q3 to Q4 FY03/2017CoE		21,537	3,033	3,032	1,730	-	-	-
Q1 to Q2 FY03/2017	YoY	7.4%	(13.6%)	(15.5%)	(27.9%)	-	-	-
Q3 to Q4 FY03/2017CoE	YoY	7.6%	11.8%	12.9%	8.4%	-	-	-

Source: Company Data, WRJ Calculation

### 1.0 Executive Summary (21 December 2016)

#### Developing New Stock Income

FTGroup, running operations to sell diverse merchandises to small businesses, sole proprietors and consumers, while providing them with services at the same time, is trying to get at long-term growth by means of “Accumulation of Stock Income” together with other management strategies. Most recently, the number of subscribed lines for *Hikari Collaboration*, expected to drive “Accumulation of Stock Income” most substantially, has been on a steadily rise and so has been for gross profit stemming from here. However, the number of subscribed lines has not increased as many as initially expected at the beginning of FY03/2017 due mainly to intensifying competition with mobile phone carriers, etc. Meanwhile, the Company has already started up further enhancement of sales promotions for *Hikari Collaboration* towards yearend and fiscal yearend by means of efficiently beefing up utilization of new sales agents while proposing sales together with “FT Denki”, i.e., retailing of power to have started in October 2016. At the same time, the Company is eager to develop new services to generate stock income. For example, the Company is looking to increasing penetration for services of “JET” which is innovated water saving device to boost water pressure by outside air to be installed at restaurants, etc. on a rental basis. This makes it possible to cutback amount of water consumption by 30% with no change in feeling of use, accordingly cutting back water bill by 30%. Given water bill cutback is larger than rental charges, the Company believes in a great room to cultivate market from now on, while this will be a new acquisition of source of stock income to be generated in a long-term view. On top of “Accumulation of Stock Income”, the Company is working on “Market Share Enhancement for Existing Business Domains” and “Development and Promotion for New Business”, calling for prospective recurring profit of ¥10,000m in FY03/2019, suggesting CAGR of 27.4% over the next three

years based on recurring profit of ¥4,835m in FY03/2016 results.

In Q1 to Q2 FY03/2017, sales came in at ¥18,462m (up 7.4% YoY), operating profit ¥1,866m (down 13.6%) and operating profit margin 10.1% (down 2.5% points). By business segment, Corporate Business saw sales of ¥14,834m (down 0.8%), segment profit of ¥2,100m (down 18.0%) and segment profit margin of 14.2% (down 3.0% points), while sales of ¥3,787m (up 54.0%), segment loss of ¥167m (versus segment loss of ¥231m during the same period in the previous year) and segment profit margin negative 4.4% (up 5.0% points) for Consumer Business. On the Corporate Business side, sales were buoyant for LED lighting, UTM (Unified Threat Management or abbreviation for UTM appliance to cope with security issues with comprehensive integrity) & servers, *Hikari Collaboration* and ISP services, while sales of OA equipment represented by copiers were adjusted and so were commissions to be received associated with this from suppliers. Thus, sales as a whole for Corporate Business have failed to increase over the previous year and this had a lot to do with the Company's strategy to spend own resources on long-term sales growth rather than short-term. For example, 173 new graduates out of 199 as a whole hired this April have been assigned on the Corporate Business side, which was the largest ever. Thus, the Company does aggressively invest in resources to drive long-term sales. However, short-term, this has resulted in lowering productivity, according to the Company. At the same time, the Company has spent resources on preparation to cultivate new customers in H2 by creating prospect customer list, etc. rather than beefing up sales to existing customer base. On the Consumer Business side, sales of *Hikari Collaboration* and ISP services doubled over the previous year, but reductions of segment loss were limited as expenses to acquire new subscribed lines also increased.


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FY03/2017 Company forecasts are going for prospective sales of ¥40,000m (up 7.5% YoY), operating profit of ¥4,900m (up 0.5%) and operating profit margin of 12.3% (down 0.8% points). By business segment, Company forecasts are going for prospective sales of ¥32,000m (up 1.0%), segment profit of ¥5,200m (down 7.8%) and segment profit margin of 16.3% (down 1.6% points) on the Corporate Business side, while prospective sales of ¥8,000m (up 34.3%), segment loss of ¥100m (versus segment loss of ¥351m in the previous year) and segment profit margin of negative 1.3% (up 4.6% points) on the Consumer Business side. In regards to Corporate Business, the Company is looking to increasing sales of LED lighting in particular. In Japan, the Company's strategy to focus on sales of LED lighting for stores is expected to be successful, while sales overseas are to be driven by startup of operations of new local subsidiary in Philippines on a full-fledged basis, preceded by those of Thailand. On the Consumer Business side, the Company is to promote new subscriptions of its *Hikari Hayatoku* though the use of call center and direct sales. *Hikari Hayatoku* represents *Hikari Collaboration* services to be provided to consumers, accounting for bulk of total. The number of subscribed lines stood at 50,225 as of the end of FY03/2016, while Company forecasts assume 110,000 as of the end of FY03/2017. However, the Company suggests progress rate was no more than 36.5% as of the end of Q2.

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## 2.0 Company Profile

### Selling Diverse Merchandises to Small Businesses, etc.

<b>Company Name</b>	FTGroup Co., Ltd. <a href="#">Company Website</a> <a href="#">Share Price</a>	
<b>Established</b>	1 August 1985	
<b>Listing</b>	12 March 2003: Tokyo Stock Exchange JASDAQ Standard (Ticker: 2763)	
<b>Capital</b>	¥1,344m (As of the end of September 2016)	
<b>No. of Shares</b>	36,283,200 shares, including 2,612,764 treasury shares (As of the end of Sep. 2016)	
<b>Main Features</b>	<ul style="list-style-type: none"> <li>● More than 90% exposed to small businesses whose headcounts below 20 and sole proprietors on the Corporate Business side</li> <li>● HIKARI TSUSHIN, INC., the parent company since 27 June 2013</li> <li>● Major expectations for “Accumulation of Stock Income”</li> </ul>	
<b>Businesses</b>	<ul style="list-style-type: none"> <li>. Corporate Business</li> <li>. Consumer Business</li> </ul>	
<b>Top Management</b>	Chairman and Representative Director: Makoto Kuroyanagi President and Representative Director: Makoto Ishida	
<b>Shareholders</b>	HIKARI TSUSHIN, INC. 37.8%, H-Communications, Inc. 10.6%, Makoto Kuroyanagi 10.0% (As of the end of September 2016)	
<b>Headquarters</b>	Chuo-ku, Tokyo, JAPAN	
<b>No. of Employees</b>	Consolidated: 1,652, Unconsolidated: 182 (As of the end of September 2016)	

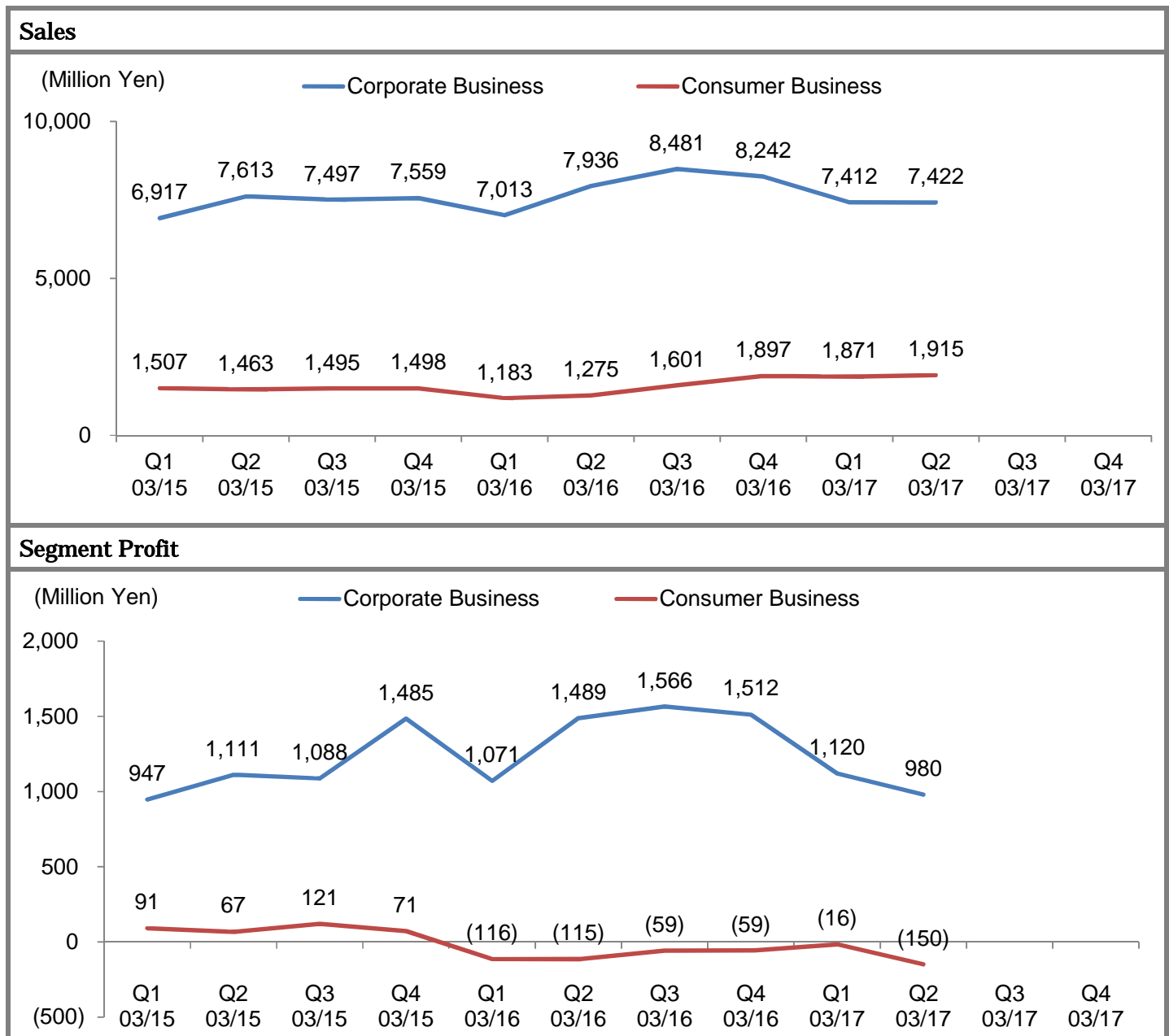
Source: Company Data

## 3.0 Recent Trading & Prospects

### Q1 to Q2 FY03/2017 Results

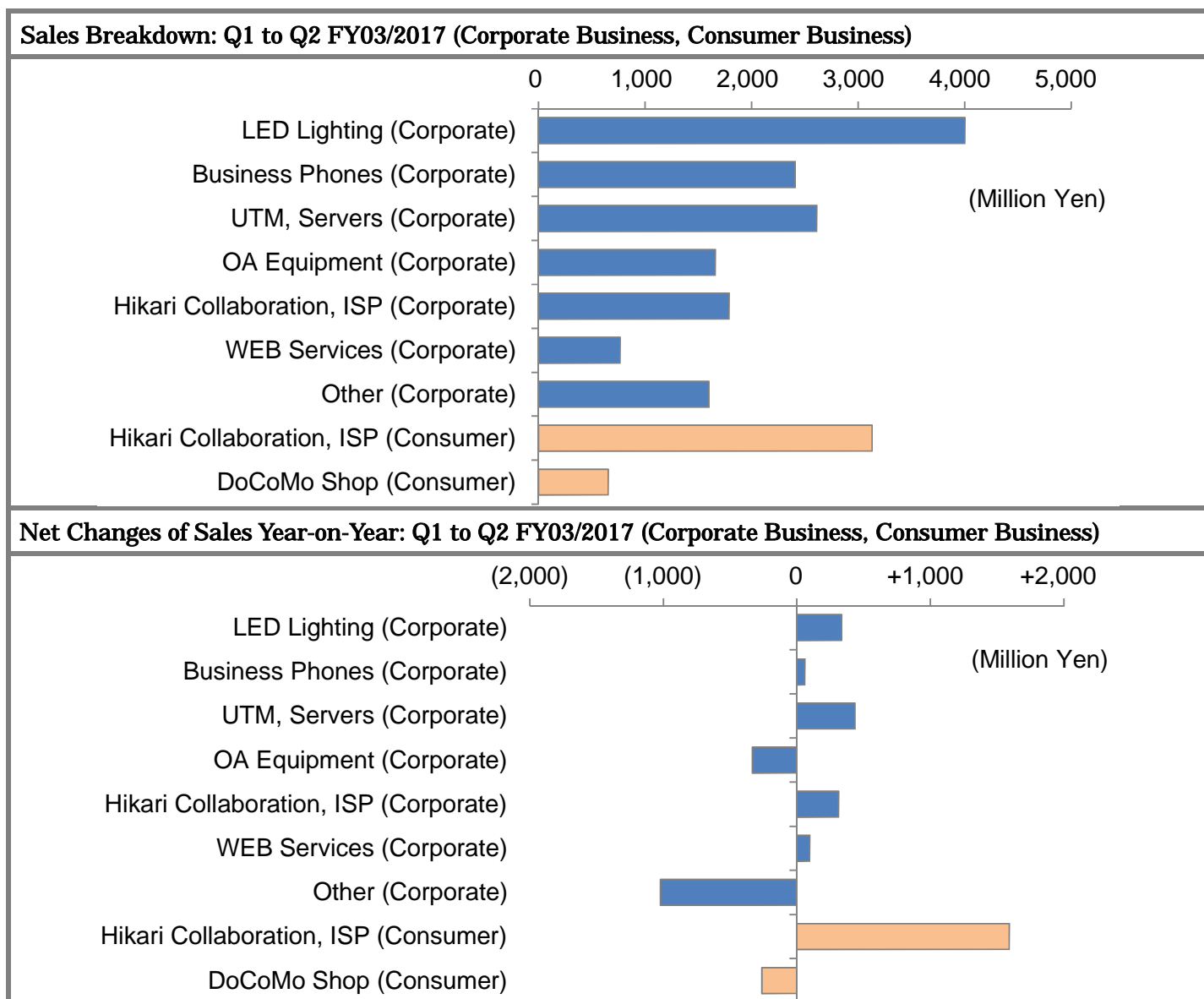
In Q1 to Q2 FY03/2017, sales came in at ¥18,462m (up 7.4% YoY), operating profit ¥1,866m (down 13.6%), recurring profit ¥1,817m (down 15.5%) and net profit ¥969m (down 27.9%), while operating profit margin 10.1% (down 2.5% points).

Compared with initial Company forecasts, sales fell short by ¥338m (1.8%), operating profit by ¥334m (15.2%), recurring profit by ¥383m (17.4%) and net profit by ¥381m (28.2%). According to the Company, Company forecasts were almost met in terms of sales, while operating profit fell short due to “decreasing commissions to be received from suppliers in line with decreasing volume of OA equipment on the Corporate Business side, lowering gross profit margin driven by focus on new customer cultivations, lowering productivity stemming from the largest ever hiring of new graduates as many as 199, etc.”



Source: Company Data, WRJ Calculation

On the Corporate Business side, the Company sells diverse merchandises to small businesses and sole proprietors, while providing them with services at the same time, being exposed to those with headcounts below 20 by more than 90%. Meanwhile, over the past 5 years, the bulk of operating profit as a whole for the Company has been accounted for by this business segment. Given loss on the Consumer Business side, this business segment accounted for 106.6% of segment profit as a whole for the Company in FY03/2016, while 81.2% in FY03/2013 when the Company relied on this business segment least in terms of earnings.

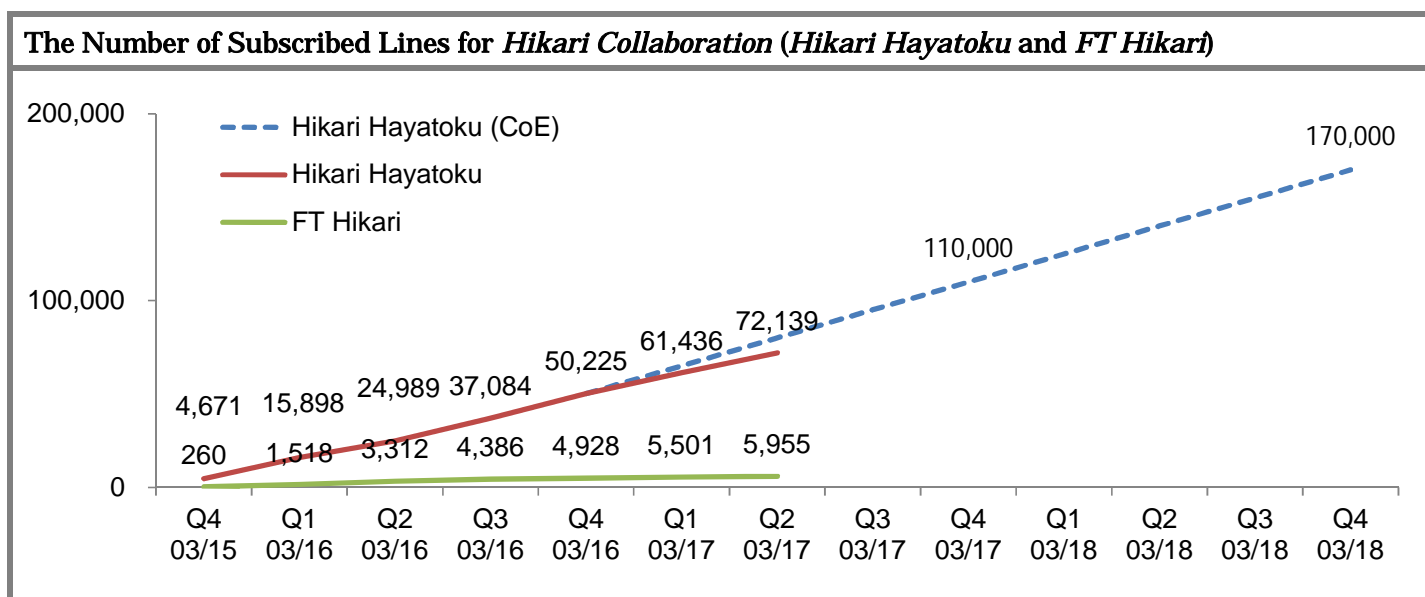


Source: Company Data, WRJ Calculation

Meanwhile, on the Corporate Business side, the Company has been seeing major progress for “Development and Promotion for New Business”. In FY03/2012, the Company started up operations to sell LED lighting on a full-fledged basis, having become the largest category of merchandises to date, while sales are still steadily increasing most recently. Sales came in at ¥4,001m (up 9.1%), comprising sales of ¥3,206m (up 3.0%) in Japan and sales overseas of ¥795m (up 44.0%).

Even in the market for LED lighting in Japan where maturity prevails, sales are still increasing steadily, implying “Market Share Enhancement for Existing Business Domains” making progressing. On the overseas side, sales on an existing basis in Thailand are still increasing, while sales by newly-established local subsidiary in Philippines are kicking in. While the former were ¥646m (up 17.0%), the latter were ¥149m. Local subsidiary in Thailand has been consolidated since the beginning of FY03/2016 and saw head start by mainly selling to local bases of Japanese companies, which is now followed by increases of sales over the previous year. Meanwhile, local subsidiary in Philippines is to be in charge of sales in Philippines as well as those in ASEAN (Association of Southeast Asian Nations) as a whole, while the Company is looking to high future growth of sales stemming from here.

Meanwhile, on the Consumer Business side, sales mainly comprise *Hikari Collaboration* and ISP services. The Company is also involved with sales of Smartphones, etc. through operations to run DoCoMo shops, but sales here are relatively small in the first place. On top of this, the Company has made a changeover to run only three shops based in Iwate-prefecture, having externally transferred two shops in Kyushu area to date, resulting in sales coming down from the previous year. Meanwhile, the number of subscribed lines for *Hikari Collaboration* is marginally falling short of assumption made at the beginning of FY03/2017. In regards to *Hikari Hayatoku*, i.e., the mainstay *Hikari Collaboration* in the Company to be provided to consumers, we estimate that the number of subscribed lines as of the end of Q2 fell short of assumption by some 10%, but the Company has already implemented measures to compensate for this as discussed earlier.



Source: Company Data, WRJ Calculation

In February 2015, *Hikari Collaboration* started up in the market, representing wholesaling of optical line services by NTT East and NTT West. Given this, the Company came up with an idea that this should generate good opportunities to make progress for “Accumulation of Stock Income”, mentioned as one of the key management strategies, having started up own services called *Hikari Hayatoku* for consumers and *FT Hikari* for corporate customers as one of *Hikari Collaboration Operators*.

As of the end of Q2, the number of subscribed lines stood at 78,094, comprising *Hikari Hayatoku* and *FT Hikari*, respectively, 72,139 and 5,955, implying that *Hikari Hayatoku* for consumers having accounted for 92% of total. Meanwhile, the Company was going for increases up to 110,000 as of the end of FY03/2017 for the number of subscribed lines and 170,000 as of the end of FY03/2018, at the beginning of FY03/2017.

In the first place, the Company used to be heavily involved with commission sales of optical line services on the Consumer Business side. That is to say, the Company used to obtain commissions in a lump from telecom carrier as much as equating to future income in regards to each subscription acquired, while spending expenses on sales promotions to acquire new subscribers at the same time. Thus, when the Company made a full-fledged changeover to own services of *Hikari Hayatoku* from commission sales (to stock income from outright sales) in Q1 FY03/2016, timing for the Company to book sales was delayed to a large extent. Nevertheless, it appears that the Company kept on spending expenses on sales promotions as much as before for *Hikari Hayatoku*, having resulted in loss on the Consumer Business side, which has been persisting to date.

Nevertheless, it should be spotted that subscribed lines of *Hikari Hayatoku* once acquired are to generate stable sales and gross profit in a long-term view with no further expenses for sales promotions. Thus, after a critical point in the near future, consistent increases of earnings due to *Hikari Hayatoku* are expected to materialize.

## Income Statement (Cumulative, Quarterly)

Income Statement	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
(Million Yen)	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4		Net Chg.
	03/2016	03/2016	03/2016	03/2016	03/2017	03/2017	03/2017	03/2017		
<b>Sales</b>	<b>8,085</b>	<b>17,194</b>	<b>27,167</b>	<b>37,214</b>	<b>9,208</b>	<b>18,462</b>	-	-		<b>+1,267</b>
Cost of Sales	3,986	8,499	13,729	19,111	4,838	9,899	-	-		+1,400
Gross Profit	4,098	8,695	13,437	18,103	4,369	8,563	-	-		(132)
SG&A Expenses	3,239	6,531	9,892	13,214	3,304	6,696	-	-		+164
<b>Operating Profit</b>	<b>859</b>	<b>2,160</b>	<b>3,538</b>	<b>4,873</b>	<b>1,060</b>	<b>1,866</b>	-	-		<b>(293)</b>
Non Operating Balance	3	(10)	(18)	(37)	(17)	(49)	-	-		(39)
<b>Recurring Profit</b>	<b>863</b>	<b>2,149</b>	<b>3,520</b>	<b>4,835</b>	<b>1,042</b>	<b>1,817</b>	-	-		<b>(332)</b>
Extraordinary Balance	(1)	(1)	(37)	(45)	(10)	(15)	-	-		(13)
Pretax Profit	862	2,148	3,482	4,790	1,032	1,801	-	-		(346)
Tax Charges, etc.	285	749	1,257	1,730	430	804	-	-		+55
NP Belonging to Non-Controlling SHs	19	55	99	119	2	28	-	-		(26)
<b>Net Profit</b>	<b>558</b>	<b>1,344</b>	<b>2,126</b>	<b>2,940</b>	<b>600</b>	<b>969</b>	-	-		<b>(375)</b>
Sales YoY	(2.1%)	+0.3%	+4.6%	+6.5%	+13.9%	+7.4%	-	-		-
Operating Profit YoY	(11.4%)	+4.3%	+9.7%	+8.6%	+23.4%	(13.6%)	-	-		-
Recurring Profit YoY	(12.3%)	+1.5%	+7.4%	+6.6%	+20.8%	(15.5%)	-	-		-
Net Profit YoY	(6.7%)	+2.3%	+5.4%	+6.1%	+7.6%	(27.9%)	-	-		-
Gross Profit Margin	50.7%	50.6%	49.5%	48.6%	47.5%	46.4%	-	-		(4.2%)
SG&A / Sales	40.1%	38.0%	36.4%	35.5%	35.9%	36.3%	-	-		(1.7%)
Operating Profit Margin	10.6%	12.6%	13.0%	13.1%	11.5%	10.1%	-	-		(2.5%)
Recurring Profit Margin	10.7%	12.5%	13.0%	13.0%	11.3%	9.8%	-	-		(2.7%)
Net Profit Margin	6.9%	7.8%	7.8%	7.9%	6.5%	5.2%	-	-		(2.6%)
Tax Charges, etc. / Pretax Profit	33.1%	34.9%	36.1%	36.1%	41.7%	44.6%	-	-		+9.8%

Income Statement	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
(Million Yen)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		Net Chg.
	03/2016	03/2016	03/2016	03/2016	03/2017	03/2017	03/2017	03/2017		
<b>Sales</b>	<b>8,085</b>	<b>9,109</b>	<b>9,973</b>	<b>10,047</b>	<b>9,208</b>	<b>9,253</b>	-	-		<b>+144</b>
Cost of Sales	3,986	4,512	5,230	5,381	4,838	5,060	-	-		+547
Gross Profit	4,098	4,596	4,742	4,666	4,369	4,193	-	-		(403)
SG&A Expenses	3,239	3,292	3,360	3,322	3,304	3,391	-	-		+98
<b>Operating Profit</b>	<b>859</b>	<b>1,300</b>	<b>1,378</b>	<b>1,334</b>	<b>1,060</b>	<b>806</b>	-	-		<b>(494)</b>
Non Operating Balance	3	(14)	(7)	(19)	(17)	(31)	-	-		(17)
<b>Recurring Profit</b>	<b>863</b>	<b>1,286</b>	<b>1,370</b>	<b>1,315</b>	<b>1,042</b>	<b>774</b>	-	-		<b>(511)</b>
Extraordinary Balance	(1)	-	(36)	(7)	(10)	(5)	-	-		(5)
Pretax Profit	862	1,286	1,334	1,308	1,032	769	-	-		(516)
Tax Charges, etc.	285	464	508	473	430	374	-	-		(90)
NP Belonging to Non-Controlling SHs	19	35	43	20	2	26	-	-		(9)
<b>Net Profit</b>	<b>558</b>	<b>786</b>	<b>782</b>	<b>814</b>	<b>600</b>	<b>368</b>	-	-		<b>(417)</b>
Sales YoY	(2.1%)	+2.4%	+13.1%	+11.9%	+13.9%	+1.6%	-	-		-
Operating Profit YoY	(11.4%)	+18.1%	+19.4%	+5.9%	+23.4%	(38.0%)	-	-		-
Recurring Profit YoY	(12.3%)	+13.5%	+18.0%	+4.4%	+20.8%	(39.8%)	-	-		-
Net Profit YoY	(6.7%)	+9.8%	+11.1%	+8.2%	+7.6%	(53.1%)	-	-		-
Gross Profit Margin	50.7%	50.5%	47.6%	46.4%	47.5%	45.3%	-	-		(5.1%)
SG&A / Sales	40.1%	36.1%	33.7%	33.1%	35.9%	36.6%	-	-		+0.5%
Operating Profit Margin	10.6%	14.3%	13.8%	13.3%	11.5%	8.7%	-	-		(5.6%)
Recurring Profit Margin	10.7%	14.1%	13.7%	13.1%	11.3%	8.4%	-	-		(5.8%)
Net Profit Margin	6.9%	8.6%	7.8%	8.1%	6.5%	4.0%	-	-		(4.6%)
Tax Charges, etc. / Pretax Profit	33.1%	36.1%	38.1%	36.2%	41.7%	48.6%	-	-		+12.6%

Source: Company Data, WRJ Calculation



## Segmented Information (Cumulative, Quarterly)

Segmented Information	Cons.Act Q1	Cons.Act Q1 to Q2	Cons.Act Q1 to Q3	Cons.Act Q1 to Q4	Cons.Act Q1	Cons.Act Q1 to Q2	Cons.Act Q1 to Q3	Cons.Act Q1 to Q4	YoY Net Chg.
(Million Yen)	03/2016	03/2016	03/2016	03/2016	03/2017	03/2017	03/2017	03/2017	
Corporate Business	7,013	14,950	23,432	31,674	7,412	14,834	-	-	(115)
Consumer Business	1,183	2,458	4,060	5,957	1,871	3,787	-	-	+1,328
<b>Sales (Before Adjustments)</b>	<b>8,196</b>	<b>17,409</b>	<b>27,492</b>	<b>37,632</b>	<b>9,283</b>	<b>18,622</b>	-	-	<b>+1,213</b>
Elimination	(111)	(214)	(325)	(417)	(75)	(160)	-	-	+54
<b>Sales</b>	<b>8,085</b>	<b>17,194</b>	<b>27,167</b>	<b>37,214</b>	<b>9,208</b>	<b>18,462</b>	-	-	<b>+1,267</b>
Corporate Business	+1.4%	+2.9%	+6.4%	+7.1%	+5.7%	(0.8%)	-	-	-
Consumer Business	(21.5%)	(17.2%)	(9.1%)	(0.1%)	+58.2%	+54.0%	-	-	-
<b>Sales (YoY)</b>	<b>(2.1%)</b>	<b>+0.3%</b>	<b>+4.6%</b>	<b>+6.5%</b>	<b>+13.9%</b>	<b>+7.4%</b>	-	-	-
Corporate Business	85.6%	85.9%	85.2%	84.2%	79.8%	79.7%	-	-	-
Consumer Business	14.4%	14.1%	14.8%	15.8%	20.2%	20.3%	-	-	-
<b>Sales (Composition)</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	-	-	-
Corporate Business	1,071	2,560	4,127	5,640	1,120	2,100	-	-	(460)
Consumer Business	(116)	(231)	(291)	(351)	(16)	(167)	-	-	+64
<b>Segment Profit</b>	<b>955</b>	<b>2,329</b>	<b>3,835</b>	<b>5,289</b>	<b>1,103</b>	<b>1,933</b>	-	-	<b>(395)</b>
Elimination	(95)	(168)	(297)	(415)	(43)	(67)	-	-	+101
<b>Operating Profit</b>	<b>859</b>	<b>2,160</b>	<b>3,538</b>	<b>4,873</b>	<b>1,060</b>	<b>1,866</b>	-	-	<b>(293)</b>
Corporate Business	+13.1%	+24.4%	+31.1%	+21.7%	+4.6%	(18.0%)	-	-	-
Consumer Business	-	-	-	-	-	-	-	-	-
<b>Segment Profit (YoY)</b>	<b>(8.1%)</b>	<b>+5.0%</b>	<b>+11.9%</b>	<b>+6.1%</b>	<b>+15.6%</b>	<b>(17.0%)</b>	-	-	-
Corporate Business	112.2%	110.0%	107.6%	106.6%	101.5%	108.6%	-	-	-
Consumer Business	(12.2%)	(10.0%)	(7.6%)	(6.6%)	(1.5%)	(8.6%)	-	-	-
<b>Segment Profit (Composition)</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	-	-	-
Corporate Business	15.3%	17.1%	17.6%	17.8%	15.1%	14.2%	-	-	(3.0%)
Consumer Business	(9.8%)	(9.4%)	(7.2%)	(5.9%)	(0.9%)	(4.4%)	-	-	+5.0%
Elimination	(1.2%)	(1.0%)	14.0%	-	(0.5%)	(0.4%)	-	-	+0.6%
<b>Operating Profit Margin</b>	<b>10.6%</b>	<b>12.6%</b>	<b>13.0%</b>	<b>13.1%</b>	<b>11.5%</b>	<b>10.1%</b>	-	-	<b>(2.5%)</b>

Segmented Information	Cons.Act Q1	Cons.Act Q2	Cons.Act Q3	Cons.Act Q4	Cons.Act Q1	Cons.Act Q2	Cons.Act Q3	Cons.Act Q4	YoY Net Chg.
(Million Yen)	03/2016	03/2016	03/2016	03/2016	03/2017	03/2017	03/2017	03/2017	
Corporate Business	7,013	7,936	8,481	8,242	7,412	7,422	-	-	(514)
Consumer Business	1,183	1,275	1,601	1,897	1,871	1,915	-	-	+640
<b>Sales (Before Adjustments)</b>	<b>8,196</b>	<b>9,212</b>	<b>10,083</b>	<b>10,139</b>	<b>9,283</b>	<b>9,338</b>	-	-	<b>+126</b>
Elimination	(111)	(103)	(110)	(92)	(75)	(84)	-	-	+18
<b>Sales</b>	<b>8,085</b>	<b>9,109</b>	<b>9,973</b>	<b>10,047</b>	<b>9,208</b>	<b>9,253</b>	-	-	<b>+144</b>
Corporate Business	+1.4%	+4.2%	+13.1%	+9.0%	+5.7%	(6.5%)	-	-	-
Consumer Business	(21.5%)	(12.8%)	+7.1%	+26.6%	+58.2%	+50.2%	-	-	-
<b>Sales (YoY)</b>	<b>(2.1%)</b>	<b>+2.4%</b>	<b>+13.1%</b>	<b>+11.9%</b>	<b>+13.9%</b>	<b>+1.6%</b>	-	-	-
Corporate Business	85.6%	86.2%	84.1%	81.3%	79.8%	79.5%	-	-	-
Consumer Business	14.4%	13.8%	15.9%	18.7%	20.2%	20.5%	-	-	-
<b>Sales (Composition)</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	-	-	-
Corporate Business	1,071	1,489	1,566	1,512	1,120	980	-	-	(509)
Consumer Business	(116)	(115)	(59)	(59)	(16)	(150)	-	-	(34)
<b>Segment Profit</b>	<b>955</b>	<b>1,374</b>	<b>1,506</b>	<b>1,453</b>	<b>1,103</b>	<b>830</b>	-	-	<b>(543)</b>
Elimination	(95)	(73)	(128)	(118)	(43)	(23)	-	-	+49
<b>Operating Profit</b>	<b>859</b>	<b>1,300</b>	<b>1,378</b>	<b>1,334</b>	<b>1,060</b>	<b>806</b>	-	-	<b>(494)</b>
Corporate Business	+13.1%	+34.0%	+43.9%	+1.8%	+4.6%	(34.2%)	-	-	-
Consumer Business	-	-	-	-	-	-	-	-	-
<b>Segment Profit (YoY)</b>	<b>(8.1%)</b>	<b>+16.6%</b>	<b>+24.5%</b>	<b>(6.7%)</b>	<b>+15.6%</b>	<b>(39.6%)</b>	-	-	-
Corporate Business	112.2%	108.4%	104.0%	104.1%	101.5%	118.1%	-	-	-
Consumer Business	(12.2%)	(8.4%)	(4.0%)	(4.1%)	(1.5%)	(18.1%)	-	-	-
<b>Segment Profit (Composition)</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	-	-	-
Corporate Business	15.3%	18.8%	18.5%	18.4%	15.1%	13.2%	-	-	(5.6%)
Consumer Business	(9.8%)	(9.1%)	(3.7%)	(3.1%)	(0.9%)	(7.9%)	-	-	+1.2%
Elimination	(1.2%)	(0.8%)	(1.3%)	(1.2%)	(0.5%)	(0.3%)	-	-	+0.5%
<b>Operating Profit Margin</b>	<b>10.6%</b>	<b>14.3%</b>	<b>13.8%</b>	<b>13.3%</b>	<b>11.5%</b>	<b>8.7%</b>	-	-	<b>(5.6%)</b>

Source: Company Data, WRJ Calculation

## Balance Sheet (Quarterly)

Balance Sheet (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY Net Chg.
	Q1 03/2016	Q2 03/2016	Q3 03/2016	Q4 03/2016	Q1 03/2017	Q2 03/2017	Q3 03/2017	Q4 03/2017		
Cash & Deposit	7,529	7,354	6,594	8,148	5,937	6,033	-	-	(1,320)	
Accounts Receivables	4,284	5,107	5,822	6,307	5,973	6,585	-	-	+1,477	
Inventory	1,092	1,183	1,407	1,383	1,753	1,994	-	-	+810	
Other	1,732	1,935	2,023	1,716	1,860	1,567	-	-	(367)	
<b>Current Assets</b>	<b>14,640</b>	<b>15,581</b>	<b>15,846</b>	<b>17,556</b>	<b>15,524</b>	<b>16,180</b>	-	-	<b>+599</b>	
Tangible Assets	1,432	1,441	1,503	1,478	1,464	1,469	-	-	+27	
Intangible Assets	263	283	252	320	341	348	-	-	+65	
Investments & Other Assets	1,592	1,617	1,902	1,886	2,161	2,188	-	-	+570	
<b>Fixed Assets</b>	<b>3,287</b>	<b>3,341</b>	<b>3,657</b>	<b>3,685</b>	<b>3,967</b>	<b>4,005</b>	-	-	<b>+663</b>	
<b>Total Assets</b>	<b>17,927</b>	<b>18,923</b>	<b>19,504</b>	<b>21,241</b>	<b>19,492</b>	<b>20,186</b>	-	-	<b>+1,262</b>	
Accounts Payables	2,051	2,519	2,695	2,905	2,647	2,661	-	-	+141	
Short Term Debt	991	861	792	777	758	758	-	-	(102)	
Corporate Bond (Less than 1 year)	20	20	20	20	10	210	-	-	+190	
Other	3,580	3,930	3,959	4,972	4,027	3,691	-	-	(238)	
<b>Current Liabilities</b>	<b>6,643</b>	<b>7,330</b>	<b>7,466</b>	<b>8,676</b>	<b>7,443</b>	<b>7,320</b>	-	-	<b>(9)</b>	
Corporate Bond	10	10	-	-	-	800	-	-	+790	
Long Term Debt	186	129	98	84	72	60	-	-	(68)	
Other	61	69	103	90	83	76	-	-	+6	
<b>Fixed Liabilities</b>	<b>258</b>	<b>209</b>	<b>201</b>	<b>175</b>	<b>156</b>	<b>937</b>	-	-	<b>+728</b>	
<b>Total Liabilities</b>	<b>6,901</b>	<b>7,540</b>	<b>7,668</b>	<b>8,852</b>	<b>7,600</b>	<b>8,258</b>	-	-	<b>+718</b>	
<b>Shareholders' Equity</b>	<b>10,660</b>	<b>11,015</b>	<b>11,451</b>	<b>11,983</b>	<b>11,543</b>	<b>11,563</b>	-	-	<b>+548</b>	
Other	365	368	384	405	348	364	-	-	(3)	
<b>Total Assets</b>	<b>11,026</b>	<b>11,383</b>	<b>11,835</b>	<b>12,389</b>	<b>11,891</b>	<b>11,927</b>	-	-	<b>+544</b>	
<b>Total Liabilities &amp; net Assets</b>	<b>17,927</b>	<b>18,923</b>	<b>19,504</b>	<b>21,241</b>	<b>19,492</b>	<b>20,186</b>	-	-	<b>+1,262</b>	
Equity Capital	10,718	11,050	11,476	12,014	11,554	11,574	-	-	+524	
Interest Bearing Debt	1,208	1,020	911	882	841	1,829	-	-	+808	
Net Debt	(6,321)	(6,333)	(5,683)	(7,265)	(5,095)	(4,204)	-	-	+2,129	
Equity Capital Ratio	59.8%	58.4%	58.8%	56.6%	59.3%	57.3%	-	-	(1.1%)	
Net-Debt-Equity Ratio	(59.3%)	(57.5%)	(49.6%)	(60.6%)	(44.1%)	(36.4%)	-	-	+21.1%	
ROE (12 months)	28.2%	27.5%	27.2%	26.2%	26.8%	22.7%	-	-	(4.8%)	
ROA (12 months)	25.9%	25.1%	25.6%	23.7%	26.8%	23.0%	-	-	(2.0%)	
Days for Inventory Turnover	25	24	25	23	33	36	-	-	-	
Inventory Turnover	14.6	15.2	14.9	15.6	11.0	10.1	-	-	-	
Quick Ratio	178%	170%	166%	167%	160%	172%	-	-	-	
Current Ratio	220%	213%	212%	202%	209%	221%	-	-	-	

Source: Company Data, WRJ Calculation

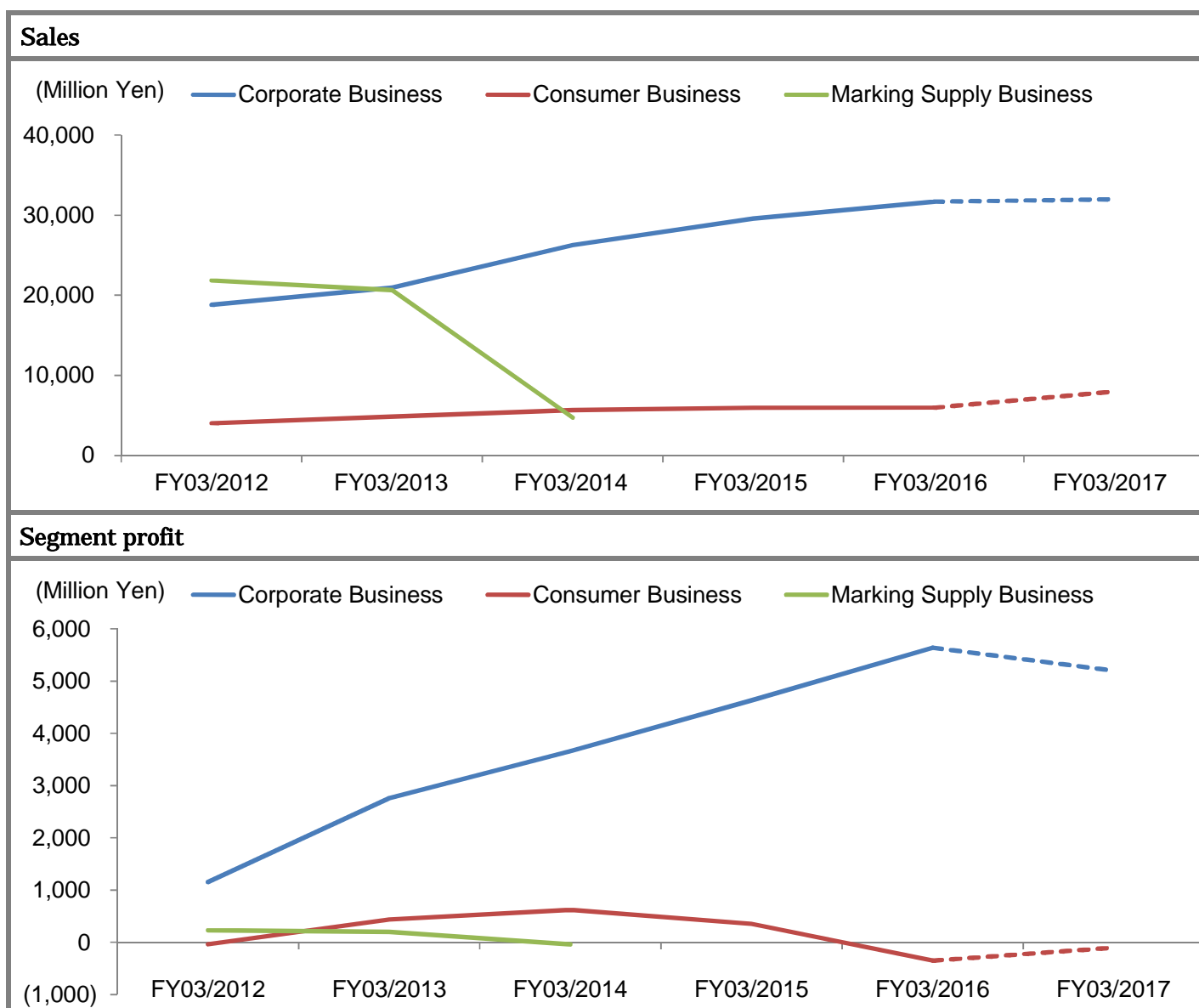
## Cash Flow Statement (Cumulative)

Cash Flow Statement (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY Net Chg.
	Q1 03/2016	Q1 to Q2 03/2016	Q1 to Q3 03/2016	Q1 to Q4 03/2016	Q1 03/2017	Q1 to Q2 03/2017	Q1 to Q3 03/2017	Q1 to Q4 03/2017		
Operating Cash Flow	-	200	-	1,391	-	(1,165)	-	-	(1,365)	
Investing Cash Flow	-	(64)	-	(543)	-	(354)	-	-	(290)	
<b>Operating CF &amp; Investing CF</b>	<b>-</b>	<b>136</b>	<b>-</b>	<b>848</b>	<b>-</b>	<b>(1,519)</b>	<b>-</b>	<b>-</b>	<b>(1,656)</b>	
Financing Cash Flow	-	(1,221)	-	(1,984)	-	(375)	-	-	+845	

Source: Company Data, WRJ Calculation

### FY03/2017 Company Forecasts

FY03/2017 Company forecasts are going for prospective sales of ¥40,000m (up 7.5% YoY), operating profit of ¥4,900m (up 0.5%), recurring profit of ¥4,850m (up 0.3%) and net profit of ¥2,700m (down 8.2%), while operating profit margin of 12.3% (down 0.8% points).



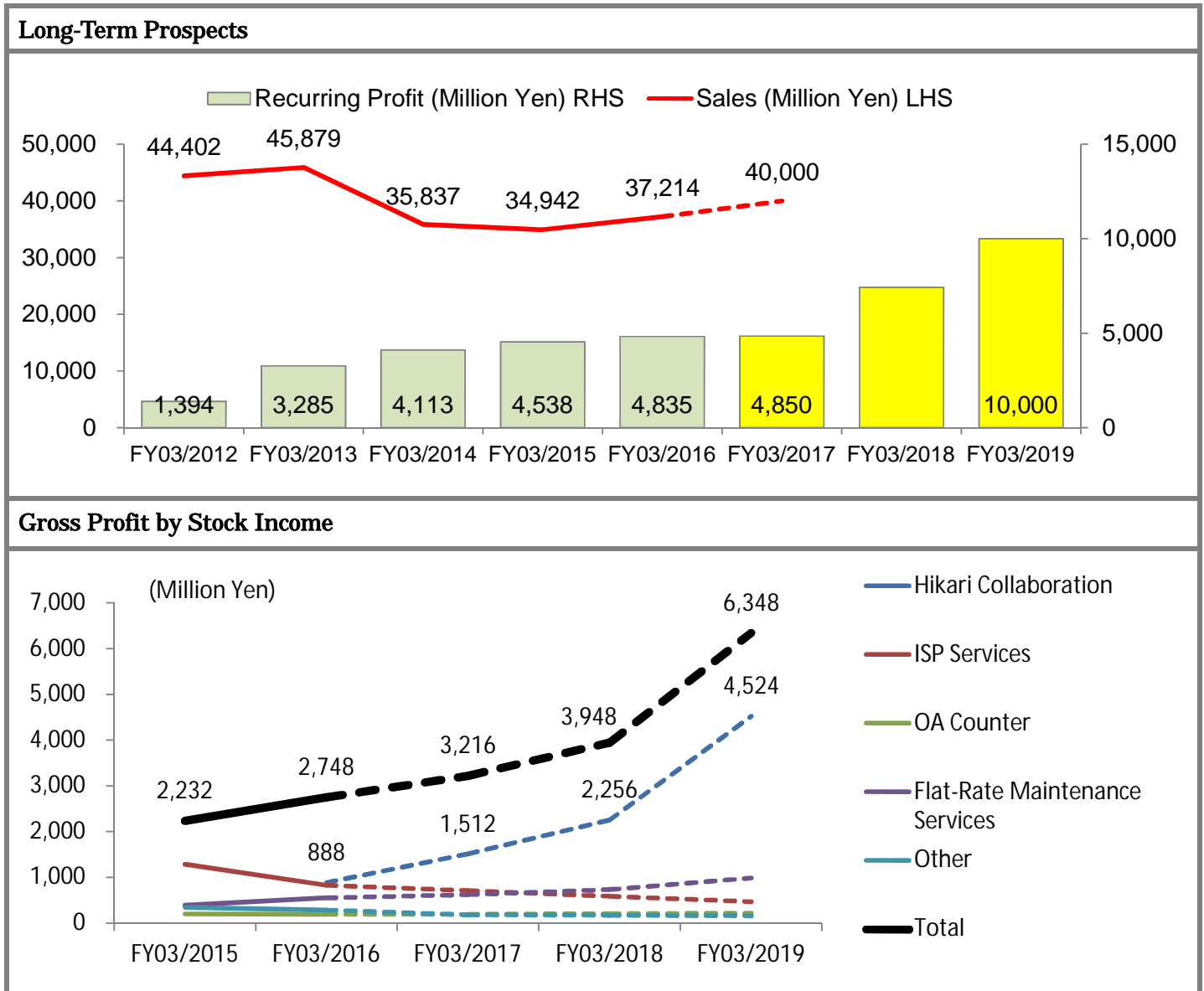
Source: Company Data

All those prospective figures above are after revision for earnings, which was made given shortfall in Q1 to Q2 results. Compared with initial Company forecasts, sales have remained unchanged, but operating profit downgraded by ¥300m (5.8%), recurring profit by ¥350m (6.7%) and net profit by ¥400m (12.9%). Meanwhile, prospective annual dividend has remained unchanged at ¥28.0 per share, implying payout ratio of 35.3%. This is up ¥4.0 from ¥24.0, implying payout ratio of 28.5%, in FY03/2016 results.

Above-mentioned revision for earnings have basically reflected shortfall in Q1 to Q2 results, while Company forecasts for H2 have remained effectively unchanged. Current Company forecasts assume prospective sales of ¥21,537m (up 7.6% YoY) and operating profit of ¥3,033m (up 11.8%) in H2. When compared with equivalents in initial Company forecasts, sales have been upgraded by ¥338m (1.6%) and operating profit by ¥34m (1.1%), i.e., roughly in line.

## Long-Term Prospects

The Company suggests recurring profit of ¥10,000m to be achievable in FY03/2019, while mentioning key strategies to do so, comprising “Accumulation of Stock Income”, “Market Share Enhancement for Existing Business Domains” and “Development and Promotion for New Business”. Meanwhile, when based on ¥4,835m in FY03/2016 results, the Company is calling for CAGR of 27.4% and net increase of ¥5,165m over the next three years for recurring profit.



Source: Company Data, WRJ Calculation (WRJ estimates based on figures on a monthly basis, disclosed by the Company)

According to suggestions by the Company, it appears that “Accumulation of Stock Income” is to play the most important role for prospective net increases of recurring profit over the next three years. During the same period, the Company is going for net increases of gross profit by ¥3,600m (¥2,748m to ¥6,348m) for stock income as a whole. This is in line with net increase of gross profit by ¥3,636m (¥888m to ¥4,524m) for *Hikari Collaboration*. As far as assuming that SG&A expenses, including those of sales promotions, to be allocated here will remain unchanged from FY03/2016 results, 70% of net increases of recurring profit (¥3,600m ÷ ¥5,165m) will be accounted for by “Accumulation of Stock Income” with *Hikari Collaboration* as the key constituent.

In Q1 to Q2 FY03/2017 results, gross profit came in at ¥8,563m (down 1.5% YoY), while flow income on an outright sales basis saw gross profit of ¥7,003m (down 6.5%) and stock income ¥1,560m (up 29.4%), implying that stock income accounted for 18.2% (up 4.3% points) of total. Gross profit stemming from stock income was driven by steadily increasing number of subscribed lines for *Hikari Collaboration*. As this is offered to customers together with ISP (Internet Service Provider) services and thus gross profit is coming down for existing ISP services. In regards to stock income of OA counter and flat-rate maintenance services to be obtained by maintenance & services associated with business phones, copiers, etc., gross profit is steadily on the rise. At the end of the day, all those trends are expected to persist towards FY03/2019.

## 4.0 Business Model

### “Innovated Future for Life & Office”

The Company, mentioning “Innovated Future for Life & Office” as catchphrase, is running operations to sell diverse merchandises to small businesses, sole proprietors and consumers, while providing them with services at the same time. Meanwhile, the Company plays a part of corporate business in the HIKARI TSUSHIN group. The Company started up its capital & operational tie-up with HIKARI TSUSHIN, INC., triggered by acceptance of capital injections from HIKARI TSUSHIN, INC., made in 2006. Then, in order to further promote operational tie-up with the Company, HIKARI TSUSHIN, INC. implemented tender offer for the Company’s shares, while procuring the shares from the market at the same time, having resulted in HIKARI TSUSHIN, INC. becoming the parent company on 27 June 2013.

### Merchandises and Services Offered by FTGroup



Source: Company Data

Meanwhile, according to release on 9 December 2016, the Company has concluded buy back of own shares, aiming at “implementation of flexible capital policy in response to changes in the business environment and return of earnings to shareholders”. Said share buyback based on resolution of the Board of Directors held on 10 August was concluded with acquisition period of 1 December to 8 December, acquired number of shares as many as 189,800 and acquisition amount of ¥135m.

**Disclaimer**

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Information here is a summary of “IR Information” of the Company, compiled by Walden Research Japan, from a neutral and professional standing point, in the form of a report. “IR Information” of the Company comprises a) contents of our interview with the Company, b) contents of presentations for institutional investors, c) contents of timely disclosed information and d) contents of the homepage etc.

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