



President Yoshiaki Nagao

YAMABIKO CORPORATION(6250)



Company Information

Market	TSE 1st Section
Industry	Machinery (Manufacturing)
President	Yoshiaki Nagao
HQ Address	1-7-2, Suehiro-cho, Ome-shi, Tokyo, Japan
Year-end	End of December
Homepage	http://www.yamabiko-corp.co.jp/english/

Stock Information

Share Price	Shares Outstanding		Total market cap	ROE Act.	Trading Unit
1,101yen	44,108,428 shares		48,563 million yen	7.9%	100 shares
DPS Est.	Dividend yield Est.	EPS Est.	PER Est.	BPS Act.	PBR Act.
35.00yen	3.2%	108.91yen	10.1 times	1,332.44yen	0.8 times

*The share price is the closing price on September 13.

The number of shares issued, DPS, EPS and BPS were taken from the brief financial report of the 2Q of FY 12/19. ROE was taken from the previous term results.

Earnings Trend

Fiscal Year	Sales	Operating Income	Ordinary Income	Net Income	EPS	DPS
March 2016 Act.	113,348	6,730	6,402	4,700	113.75	30.00
March 2017 Act.	111,945	7,620	7,288	2,374	57.46	25.00
December 2017 Act.	102,948	6,283	6,823	4,930	119.33	35.00
December 2018 Act.	118,049	6,290	5,957	4,188	101.39	40.00
December 2019 Est.	125,000	6,500	6,300	4,500	108.91	35.00

*The forecast was made by the company. Unit: Million yen or yen. From the FY 3/16, net income is profit attributable to owners of the parent. Hereinafter the same shall apply. FY December 2017 was a 9-month one. The DPS of 40 yen for FY December 2018 includes the 5 yen dividend for commemorating the company's 10th anniversary.

This report introduces YAMABIKO CORPORATION's earnings results for the First Half of Fiscal Year ending December 2019 and other financial details.

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Key Points

- The sales for the second quarter of the term ending December 2019 were 65 billion yen, increased 3.1% compared to the same term last year. The sales in Japan increased, as the sales of agricultural machinery dropped, but the sales of industrial machinery grew significantly. The overseas sales rose, as the performance of outdoor power equipment in the Americas recovered. Operating income grew 23.6% to 5.2 billion yen. Gross margin rate rose 0.8 points and gross margin increased 6.0%, due to the increase in sales volume and the improvement in cost rate. SG&A expenses were unchanged from the previous year, and profit grew by double digits, exceeding the initial estimate.
- There is no revision to the earnings forecast. The sales for the term ending December 2019 are estimated to be 125 billion yen, increased 5.9% from last term. Its domestic performance is steady. As for their overseas market, the performance is expected to get recovered in North America and Europe area. Operating income is projected to rise 3.3% to 6.5 billion yen. Although there are some negative factors that augment SG&A expenses, including the impact of tariffs arising out of the U.S.-China trade friction, the augmentation of labor costs in the U.S., the increase in expenses for research and development, and the investment for strengthening the business base for starting the robot business in North America, profit is expected to grow thanks to the increases in sales volume and improvement in production efficiency. The assumed exchange rates are 1 US dollar = 110 yen (unchanged from the previous term) and 1 euro = 125 yen (131 yen in the previous term). As for dividends, the company plans to pay a common dividend of 35 yen/share. The estimated payout ratio is 32.1%.
- The overall progress rate for sales in the first half is 52.1%. The progress rates in Japan and the Americas are both over 50%, indicating healthy performance in each major market. The progress rate in Europe is not so low, although the performance in Russia is sluggish. The business of the company is strongly affected by weather and climate changes, so it is difficult to forecast whether business performance will remain healthy, but the effects of its original measures, including the enrichment of its product lineup and effective marketing activities, are becoming evident.
- The company look forward to achieving at least 125 billion yen sales in this term, that is the final fiscal year of “the Medium-term Management Plan 2019” in order to smoothly proceed to the next medium-term management plan, which is scheduled to be announced in Feb. next year.

1. Company Overview

YAMABIKO CORPORATION develops, manufactures and sells outdoor power equipment (e.g. trimmers, chain saws etc.), agricultural machinery (e.g. pest control equipment, sloop mower), industrial machinery (e.g. generators, welders etc.) in Japan and overseas. The overseas sales occupy about 60% of their total sales. In terms of manufacturing and selling outdoor power equipment, the company not only has the top share in Japan but also a large share in the US. Its strength is owning unique production technology, a variety of product line-ups, and an excellent technical support system.

1-1 Corporate history

YAMABIKO CORPORATION started as a joint holding company established in December 2008 through a merger between KIORITZ CORPORATION (listed in the first section of the Tokyo, Osaka and Nagoya Stock Exchanges), which dealt with agricultural machinery in Japan and outdoor power equipment overseas, and Shindaiwa Corporation (listed in the second section of the Tokyo Stock Exchange), which dealt with outdoor power equipment and industrial machinery globally. In October 2009, YAMABIKO CORPORATION established its current business entity by merging both KIORITZ and Shindaiwa.

KIORITZ CORPORATION was established in 1947 in Tokyo and originally called KIORITZ AGRICULTURAL EQUIPMENT CORPORATION. It has been a leading company in both agricultural equipment business through which they developed “Japan’s first speed sprayers” and outdoor power equipment business through which they developed “Japan’s first motorized backpack trimmers” and “the world’s first handheld power blowers”. Furthermore, since its establishment, it has been focusing on self-development of engines for outdoor power equipment. The accumulative number of engines produced in 2008, before the merger, was about 40 million.

Shindaiwa Corporation was established in 1952 in Hiroshima and was originally called Asamoto Precision Manufacturer. It not only developed “Japan’s first electric chain saws” for the outdoor power equipment business, but also manufactured and sold engine generators and engine welders for the industrial machinery business. Its strength was high technological development capabilities, as can be seen in the development of the world’s first mixed fuel 4-cycle engine.

In the late 1990s, with growing concern about global warming caused by greenhouse effect gas, and as engine’s emission gas control became stricter in the Western countries, especially in the US, research and development expenses increased to comply with the new regulations. In the 2000s, the medium and small-sized companies that could not afford these expenses went through rapid industry restructuring on a global scale in the outdoor power equipment industry.

Moreover, the business environment became further uncertain due to a flood of cheaper products from newly emerging countries and diversification of customers’ needs.

Under these circumstances, the two companies concluded a business and capital alliance agreement in May 2007 on the premise of future business integration in order to strengthen the vitality to survive and win the intensifying competition.

In December 2008, YAMABIKO CORPORATION was established as a joint holding company to achieve better efficiency and expansion for all its businesses including development, manufacturing, logistics, sales and management. In October 2009, YAMABIKO CORPORATION conducted an absorption-type merger of KIORITZ and Shindaiwa and became the current business entity.

The company name “YAMABIKO” derives from the mountain god, “Yamabiko”. Its corporate philosophy is to “create the bridge that bonds people and nature with the future”. This expresses the company’s willingness to contribute to the conservation and improvement of the nature and environment.

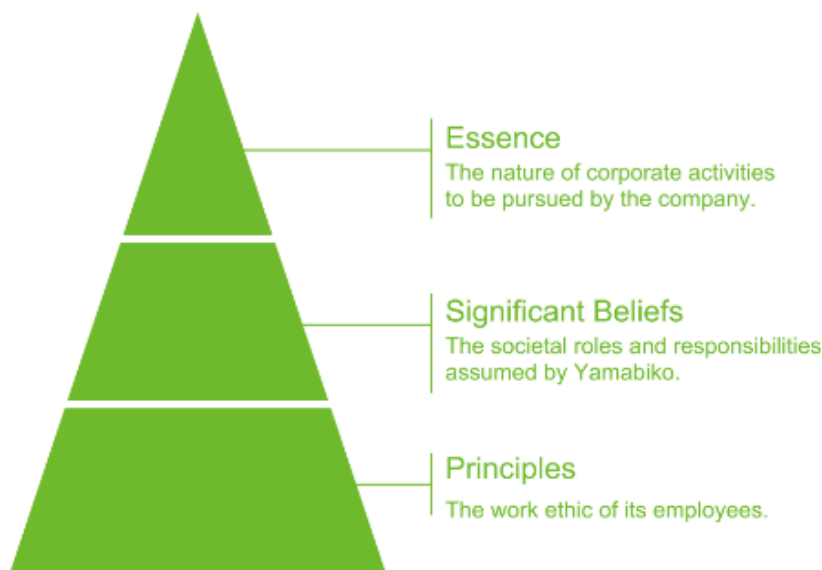
1-2 Corporate philosophy, etc.

YAMABIKO Group’s corporate philosophy is formed from three elements: “Essence”, “Purpose of Existence” and “Code of Conduct”.

“Essence”, which incorporates both “Purpose of Existence” and “Code of Conduct”, expresses in a single word what YAMABIKO Group aims to be as a company, and the essence of its corporate activities.

“Purpose of Existence” sets out the role and responsibilities of YAMABIKO Group in society, and makes a commitment to this.

“Code of Conduct” defines the attitude of each YAMABIKO Group employee in relation to their work.



(From the Company's website)

<Essence>

*Create the bridge that bonds people and nature with the future.

<Significant Beliefs>

- *Offer the best products and service in the world.
- *Support people and companies committed to sustaining nature and the environment.
- *Lead the industry through the creation of new markets and customers, ultimately resulting in growth for tomorrow.
- *Provide a sense of fulfillment for all persons affiliated with YAMABIKO CORPORATION.

<Principles>

- *Observe change and anticipate the future.
- *Combine fact with theory.
- *Break the status quo through innovation and creativity.
- *Think and act with the spirit and vitality of a globally competitive company.
- *Conduct oneself with sincerity and grace.

In addition, the company established 14 detailed measures that augment the Code of Conduct to facilitate the implementation of business activities in accordance with the corporate philosophy.

President Nagao disseminates messages that are based on “Essence”, “Purpose of Existence” and “Code of Conduct” at various occasions. They are also making daily efforts so that the corporate philosophy would lead to each employee's actual activities in each workplace.

* Profile of President Yoshiaki Nagao

President Yoshiaki Nagao was born in February 1953 (Age 66). Since his childhood, he enjoyed “creation” such as building plastic models. When he was in the middle school, his interest grew in automobiles, especially those made in the US. He majored in “combustion engineering” in graduate school, where he studied engines. He began working at KIORITZ CORPORATION in April 1978.

At KIORITZ, he worked at the research department. He was involved with research and development of various engines, especially chain saws engines, under the corporate culture that supported the employees' spirit to find and work on the issues of their interest. Instead of focusing on his research only in the lab, he went out to the mountains and interviewed woodsmen who were the users of their products to hear opinions and identify the demands in detail.

After working in the technology area for most of his time at KIORITZ, he was appointed as President and CEO of ECHO Incorporated,

an affiliate of KIORITZ in the US in February 2006. His focus at ECHO Incorporated was to observe the actual situation of the emission gas control regulations in the US, to find measures to meet the regulations, and to enhance the users' satisfaction. During the merger process of KIORITZ and Shindaiwa, he facilitated fast and drastic organization of the local sales routes. He recalled, "It was an important step to diversify my work".

After the establishment of YAMABIKO CORPORATION, he managed to implement smooth integration as a board director / managing officer / industrial machinery division officer in Hiroshima where the head office of Shindaiwa Corporation was located. In June 2011, he was appointed CEO and President of YAMABIKO CORPORATION.

1-3 Market environment

Although no detailed statistics about the outdoor power equipment market is available, it is known that the largest market is in North America including the US, followed by Europe. In Japan, about 1 million outdoor power equipment/tools are sold per year. The indicators that may impact the company's trend in the earnings include "number of housing start", "commodity price", and "crude oil price" for the overseas market and "rice price" for the Japanese market.

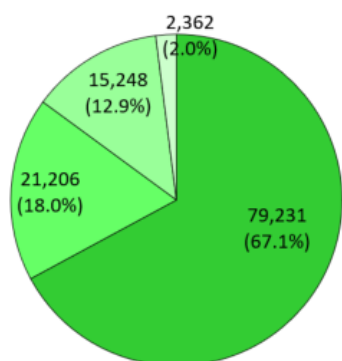
The company recognizes that there are two global manufacturers of outdoor power equipment in Europe (Germany and Sweden).

1-4 Business contents

1. Segment

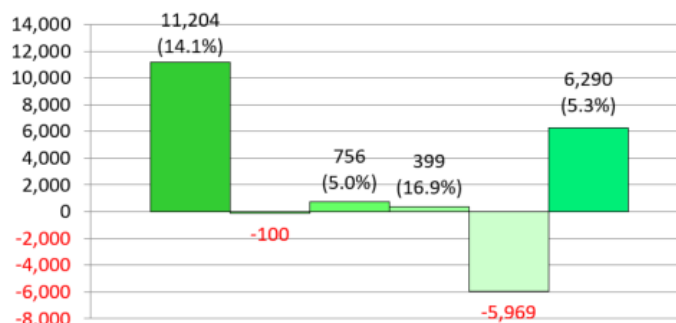
YAMABIKO Group operates businesses in three sectors: Outdoor power equipment, Agricultural machinery and Industrial machinery. These three segments are reported.

Composition of sales
(FY Dec. 2018, Unit: Million yen)



■ Outdoor power equipment ■ Agricultural machinery
■ Industrial machinery ■ Others

Composition of operating income
(FY Dec. 2018, Unit: Million yen)



■ Outdoor power equipment ■ Agricultural machinery
■ Industrial machinery ■ Others
■ Adjustment ■ Operating income

* The number in parenthesis represents the segment profit rate against segment sales

(Developed by us based on YAMABIKO CORPORATION's financial report.)

“Outdoor power equipment business”

YAMABIKO CORPORATION manufactures and sells handheld or backpack-style forestry and landscape maintenance machinery powered by small internal combustion engines. The main products includes chain saws, trimmers, power blowers, hedge trimmers, etc. In Nov. 2014, the company acquired “Belrobotics SA,” a Belgian venture company, which develops, manufactures, and sells robotic mowers for professional use. (In Jan. 2017, Belrobotics SA was renamed “Yamabiko Europe SA” for the purpose of enhancing sales in Europe.)

Based on the accumulated experiences and know-how and excellent development capabilities that meet the customers' needs, YAMABIKO CORPORATION continues to produce high performance, highly durable and high-quality engines.

BRIDGE REPORT



<Chain saws>



<Trimmers>



<Power blowers>



(Gasoline engine system)

The engines for outdoor power equipment such as chain saws and trimmers are mainly 2-stroke gasoline engines. As described later, the company’s excellent capability to develop engines is one of their most important features/strengths.

Brief information concerning the company’s engines is provided below because knowing the gasoline engine system and characteristics of each engine type helps to understand the business of the company,

Basically, a gasoline engine generates power by moving the piston down with the combustion of gasoline through the following 4 steps.

Step	Overview
1. Intake	The air-fuel mixture is sucked in a cylinder.
2. Compression	The air-fuel mixture in the cylinder is compressed as the piston moves up.
3. Expansion	When the air-fuel mixture is compressed the most, a spark will be generated to ignite. Expansion from burning pushes the piston down.
4. Exhaust	The burned gas is discharged to outside.

Reciprocating motion of the piston is converted into revolution by a crankshaft. The rotating motion turns the rotating shaft of axle of a car or revolving shaft of a chain saw.

The gasoline engine is largely categorized in two types (2-stroke engine and 4-stroke engine), depending on the number of reciprocating motions by piston to complete “1 cycle” of the 4 steps.

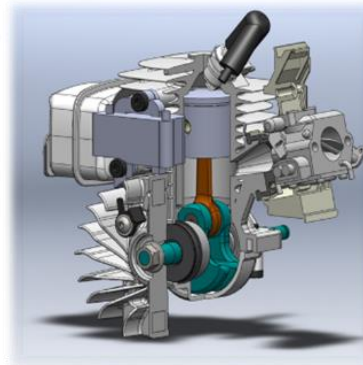
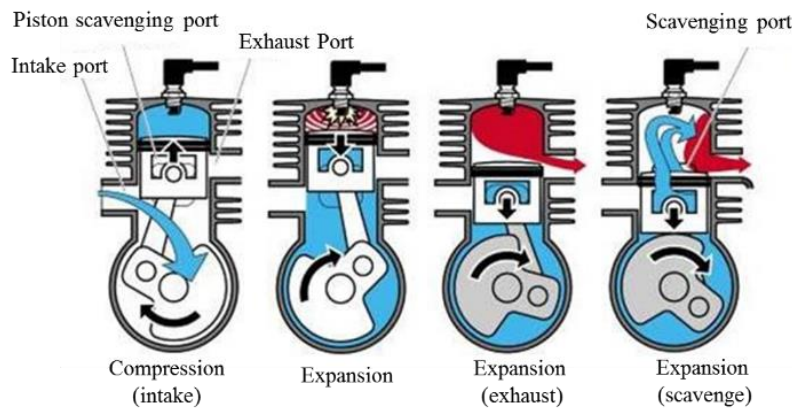
“2-stroke engine”

One power cycle is completed by 2-stroke. In other words, a power is generated by “1 piston reciprocating motion, 1 crankshaft revolution”.

First stroke (piston moving up): “Intake” and “compression” of air-fuel mixture occurs.

Second stroke (piston moving down): Piston moves down due to the “expansion” of air-fuel mixture and “exhaust” occurs later.

BRIDGE REPORT



“4-stroke engine”

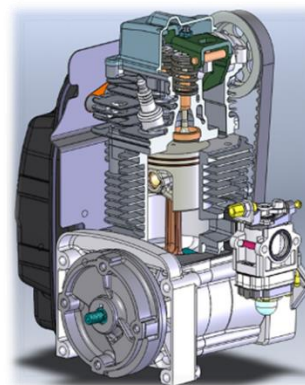
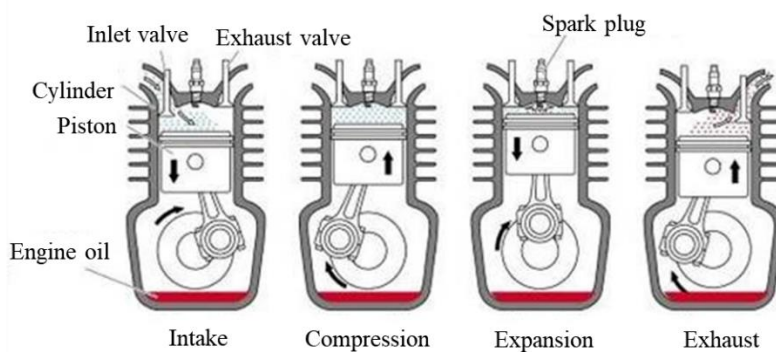
One power cycle is completed by 4-stroke. A power is generated by “2 piston reciprocating motions, 2 crankshaft revolutions”.

First stroke (piston moving down): “Intake” of air-fuel mixture occurs.

Second stroke (piston moving up): “Compression” of air-fuel mixture occurs.

Third stroke (piston moving down): Piston rapidly moves down as a result of “expansion”.

Fourth stroke (piston moving up): Combusted gas is “exhausted”.



The advantage of the 4-stroke engine is the easy control of intake and exhaust. However, its structure is complicated compared to a 2-stroke engine, because the intake/exhaust valves of a 4-stroke engine are installed at the cylinder head, while intake and exhaust of a 2-stroke engine occur at the port that is located on the body of the cylinder. Because of this structure, the weight of a 4-stroke engine is heavier than a 2-stroke engine.

On the other hand, a 2-stroke engine has a larger ratio of burning engine oil and fuel in order to make smooth piston motion and blow-by of air-fuel mixture. This means it releases more harmful substances in the exhaust gas as compared with a 4-stroke engine. However, because of its simple structure and smaller number of parts, the 2-stroke engine can be smaller and lighter. The overhaul is also easier for the same reasons. Therefore, a 2-stroke engine is the most appropriate engine for outdoor power equipment.

“Agricultural machinery business”

YAMABIKO CORPORATION manufactures and sells pest control equipment for Japan and agricultural harvesting equipment for North America.

Its major products include pest control equipment (speed sprayers, mounted equipment for cropland pest control, power sprayers), sloop mower, soy and potato harvesters, etc.

YAMABIKO CORPORATION’s technological strengths in this business segment are KIORITZ’s blowing, spraying, and pumping technology as well as technology to create small and light equipment. These technological capabilities have been built up over many years at KIORITZ.

BRIDGE REPORT



<Mounted equipment for cropland pest control>



<Speed sprayers>



<Sloop mowers>



“Industrial machinery business”

YAMABIKO CORPORATION manufactures and sells equipment for construction, civil engineering and iron works. Its major products include generators, welders, lighting equipment, cutting machines and high-pressure washers.

Technological strengths in this business segment are established by the R&D knowledge accumulated since YAMABIKO CORPORATION started business as Shindaiwa, and such strengths can be found in alternator designing capability improved by their efforts for alternative current motor development, as well as technologies for electronic control and noise prevention.

<Generators>



<Welders>



“Others”

The company manufactures and sells accessories and the parts for after purchasing service for various machines and equipment. The profitability in this segment is the highest among all segments.

<Maintenance kit>



<Nylon trimmer line>



<Fuel/Oil >>



2. Brand

YAMABIKO CORPORATION was established based on the integration of two companies. The products of both companies are well recognized both in Japan and overseas for many years. Therefore, YAMABIKO CORPORATION maintains the brand names as KIORITZ, Shindaiwa, and ECHO.

YAMABIKO CORPORATION is proactively investing in marketing as well as exploring new sales routes to enhance its brand values.

 Domestic brand that sells outdoor power equipment and agricultural machinery.	 Global brand that sells outdoor power equipment and industrial machinery.	 Global brand that sells outdoor power equipment and agricultural machinery.
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3. Development structure

Each business segment is working on development with a focus on the following priority issues.

Business	Priority issues for development
Outdoor power equipment	*To comply with exhaust gas regulations at the global level *To comply with fuel permeability regulations in North America *To comply with noise and vibration regulations in Europe *To create smaller and lighter equipment with low noise, low fuel consumption and high durability *To improve safety
Agricultural machinery	*To achieve reduction of drift, proper quantity of spraying, high performance, and easy operation
Industrial machinery	*To create smaller and lighter machinery with low noise, high performance, high function, and low fuel consumption

The exhaust gas regulations are expected to be further tightened in the future. Therefore, addressing them is of paramount importance. In addition, the company is conducting research on control technology in the field of electronic control.

4. Production structure

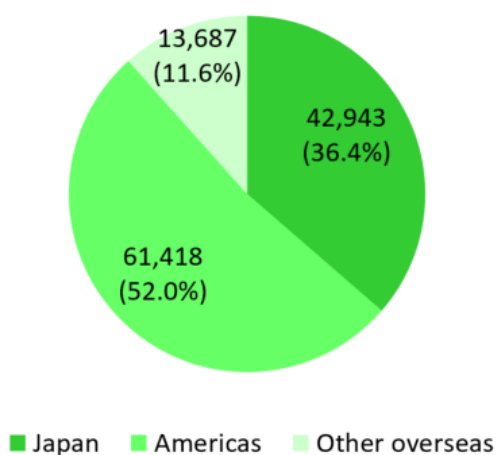
The company has 3 plants (Yokosuka, Morioka, and Hiroshima) and 4 production related subsidiaries in Japan and a total of 10 production related subsidiaries in the USA, Belgium, China and Vietnam.

5. Sales route and sales methods

The company supplies its products in over 90 countries for about 28,000 stores.

More than 60% of the sales are from overseas sales.

Sales by region
(FY Dec. 2018, Unit: Million yen)



<Domestic market>

Seven sales subsidiaries, which were separated mainly by region, were merged into YAMABIKO JAPAN CO., LTD. in April 2017, with the aim of allocating management resources in a more efficient manner, strengthening sales capabilities, and improving customer services through a unified management system and integral operation of business assets.

YAMABIKO JAPAN CO., LTD sells the products to distributors, ZEN-NOH (National Federation of Agricultural Cooperative Associations), home improvement retailers, and construction machinery rental companies, etc. Through them, the products are supplied to the end users including farmers/foresters, companies in the construction, civil engineering and iron industries and landscapers.

The company presents their products in exhibitions in collaboration with dealers and distributors and facilitates sales through demonstration and test drive.

Furthermore, the company accompanies dealers to visit end users to understand their needs and utilize the information for product development.

<North American market>

ECHO Incorporated Group, one of the company's subsidiaries, sells the products to The Home Depot (*) and other distributors, through which the products are supplied to the end users such as landscapers, homeowners, farmers/foresters, and companies in the construction/civil engineering industry.

*The Home Depot

The Home Depot, Inc. is the world's largest home improvement retailer and construction products and services. It was established in 1978. Sales in 2018 were US\$108.2 billion and net income was US\$11.1 billion. It has over 2,200 stores in the US, Canada and Mexico. It is listed on the New York Stock Exchange. (Excerpted from the company's website)

The Home Depot classifies their products into GOOD, BETTER and BEST in accordance with the quality. It is only YAMABIKO CORPORATION that supplies the high-quality BEST products to The Home Depot. This is one of the proofs that the company's products are highly reputed in the North American market.

In the Central and South American market, ECHO Incorporated, one of the company's subsidiaries, sells the products to the distributors of each country, and made their products supplied to the end users through dealers.

Yamabiko Europe SA in Europe and ECHO MACHINERY (SHENZHEN) Co., Ltd. in China, both of which are subsidiaries of Yamabiko, sell products to distributors in their respective countries

Asia and other areas, YAMABIKO CORPORATION sells the products to the distributors in each country.

The overseas dealers display the products by brand, and salesperson conducts person-to-person sales while understanding the needs of the end users.

The home improvement retailer also displays the products by type and price. The end users purchase the products based on the needs, budget and image they have from advertisement, etc.

1-5 Characteristics and strengths

① Unique production and technological capabilities and vertically integrated production

The most important characteristics and strengths of the company are the “unique production and technological capabilities and vertically integrated production capabilities”.

Their mainstay 2-stroke engines that are mounted to the outdoor power equipment are manufactured by an integrated production system solely by the company from development, procurement of aluminum, molding, parts production, processing to assembly, which is said to be unique anywhere in the world. The power sources for the products of agricultural machinery and industrial machinery are also engines, but they are mostly procured externally.

The company have solved various issues with their unique technologies including iron plating and electric discharge processing. This results in the quality improvement and production capacity improvement of the company.

Specifically, the company has established the following technologies.

<Example 1: Iron plating>

Plating is a surface covering method in which the surface of a metal is covered by a thin layer of another metal. For engine production, inside of the cylinder should be plated to avoid abrasion caused by friction with a piston.

The conventional method is to use chrome plating from durability and cost perspectives. However, chrome plating gives negative impact on the environment. Its production efficiency is also low. Therefore, there was an increasing demand for different materials for plating.

The company has been working on “iron plating” since 1978 to reduce environmental load.

Initially, they could produce only hundreds per day. However, as a result of improved productivity, enhanced plating precision, and reduction of environmental load, the company now has the iron plating technology that does not require finish processing. Their technology has drastically smaller environmental load. Furthermore, their daily production capacity increased significantly, reaching thousands.

The company holds 5 patents related to iron plating.

<Example 2: Electric discharge processing>

As described above, a 2-stroke engine requires a smaller number of parts and has a simpler structure as compared to a 4-stroke engine. Therefore, it is most suitable for the “handheld” and “backpack-style” outdoor power equipment. However, it releases some fuel mixed gas. In order to respond to the increasingly strict exhaust gas regulations globally, the company was faced with a challenge to control the flow of the fuel mixed gas for efficient burning.

In order to achieve it, the company explored the production methods to modify the internal shape of the cylinder (by installing a wall between the fuel mixed gas passage and internal shape of the cylinder).

A “wall” can be created by die-casting (*), but it requires a horizontal hole to lead the fuel mixed gas to a combustion chamber. With die-casting, it was impossible to create a horizontal hole. It was also difficult to carry out machining due to small space in the chamber.

The company came up with the idea of using “electric discharge processing (*)” to create a form while taking advantage of die-casting.

Although electric discharge processing enabled to create complicated forms, it was costly due to long processing time and high electrode consumption. The company conducted research on processing conditions for a large volume production and developed designs of special

electrode form. As a result, it succeeded in producing a large volume of products, by shortening processing time, saving personnel, lowering the cost of electrode and enhancing efficiency.

Having obtained three patents related to electrode processing, the company has established the unique technology that cannot be imitated by other companies.

(*) Die-casting

Die-casting is one of the metal mold casting methods. By injecting melted metal in a metallic mold, a large amount of casting with high precision can be produced within a short period of time. It enables to create a thin product at low cost.

(*) Electric discharge processing

Electric discharge processing is a machine processing method to remove a part of the surface of a non-processed workpiece through repeated electrode discharge at short cycles between electrode and the non-processed workpiece. It enables to cut out complicated outline on extremely hard steel.

With “advanced capabilities for creation” such as the above-mentioned technologies, the Company not only complies with exhaust gas regulations but also responds to various needs including weight reduction, enhancing durability and cost reduction. It succeeded in developing and mass-producing “a light weight and highly durable 2-stroke engine that meets the exhaust gas regulations”.

While many companies in the world are forced to leave the industry because they cannot address these issues, YAMABIKO CORPORATION continues to make further development as a leading manufacturer.

② Unique research and development capabilities for each business segment

The company’s capability to address environmental issues is high. The company possesses one of the highest number of US Environmental Protection Agency (EPA)-accredited engines in the world.

Furthermore, not only for outdoor power equipment, the company also has unique research and development capabilities for the agricultural machinery and industrial machinery. Based on the technological capacities that have been accumulated by KIORITZ and Shindaiwa for many years, the company is further brushing up the capabilities.

③ Extensive product lineup and expansion of sales network and domestic services network

The company has an extensive lineup of products that meet various needs of the customers in each of the three business segments. It also currently supplies the products to about 28,000 stores in more than 90 countries across the world.

As a result of merging KIORITZ and Shindaiwa, YAMABIKO CORPORATION’s product lineup and sales network were further expanded.

With the aim of improving the satisfaction level of diversifying users, the company established “Yamabiko Service Shop” inside Japan in 2013, and is operating service systems for maintenance, repair a failure, etc., which are not offered by competitors, throughout Japan. The number of affiliated shops is 430 as of Mar.2019.

④ Excellent technical support system

The company also provides excellent technical support in order to enhance credibility of the products and strengthen the relationships with distributors and dealers.

In addition to offering about 40 service schools annually both in Japan and abroad, in 2018, the company started to provide a new e-learning course using its originally developed teaching materials targeted at overseas distributors in an attempt to enhance their repair skills and deepen their understanding of the mechanism of the engines.

Furthermore, the European subsidiaries of the company recently organize road show-style education and training sessions for nurturing trainers at distributors, and lecture classes designed for distributors’ salespersons, endeavoring to further fortify its service capabilities.

⑤ High product share

By demonstrating the above-mentioned characteristics and strengths (1-5-1) to (1-5-4) in an integrated manner, the company is becoming highly competitive at a global level. For the outdoor power equipment business, the company has the top market share (more than 30%) in Japan and is ranked high in North America, the largest market.

BRIDGE REPORT



1-6 Return on Equity (ROE) Analysis

	FY 3/12	FY 3/13	FY 3/14	FY 3/15	FY 3/16	FY 3/17	FY 12/17	FY 12/18
ROE (%)	7.9	8.7	14.5	12.4	10.4	5.1	9.9	7.9
Net income margin [%]	2.27	2.72	4.48	4.67	4.15	2.12	4.79	3.55
Total asset turnover [times]	1.14	1.13	1.28	1.18	1.21	1.20	1.05	1.18
Leverage [times]	3.04	2.85	2.52	2.26	2.08	2.00	1.98	1.91

The estimated net income margin for this term is 3.60%, which is at almost the same level as the previous term. Although leverage is showing a downward trend, the company is expected to achieve a ROE of around 8%.

2. First Half of Fiscal Year ending December 2019 Earnings Results

2-1 Consolidated Business Results

	1H FY 12/ 18	Ratio to sales	1H FY 12/ 19	Ratio to sales	YoY	Difference from the forecast
Sales	63,125	100.0%	65,095	100.0%	+3.1%	-2.8%
Domestic	22,753	36.0%	24,338	37.4%	+7.0%	-
Oversea	40,372	64.0%	40,757	62.6%	+1.0%	-
Americas	33,336	52.8%	34,077	52.3%	+2.2%	-
Others overseas	7,035	11.1%	6,679	10.3%	-5.1%	-
Gross profit	17,602	27.9%	18,658	28.7%	+6.0%	-
SG&A	13,385	21.2%	13,448	20.7%	+0.5%	-
Operating Income	4,216	6.7%	5,209	8.0%	+23.6%	+6.3%
Ordinary Income	3,937	6.2%	4,850	7.5%	+23.2%	+3.2%
Net Income	2,988	4.7%	3,774	5.8%	+26.3%	+2.0%

*Unit: million yen. Net income means profit attributable to owners of parent.

Sales and profit grew due to the significant rise in sales of industrial machinery. Profit exceeded the estimate.

Sales increased 3.1% to 65 billion yen compared to the same term last year. As for the domestic market, while the sales of agricultural machinery dropped, the sales of industrial machinery grew significantly.

The overseas sales rose, as the performance of outdoor power equipment in the Americas has recovered.

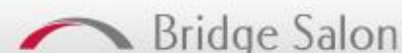
Operating income grew 23.6% to 5.2 billion yen. Gross margin rate rose 0.8 points and gross margin increased 6.0% due to the increase in sales volume and the improvement in cost rate. SG&A expenses were unchanged from the previous year, and the profit grew by double digits, which exceeds the company's initial forecast.

2-2 Trends by Segment

	1H FY 12/ 18	Ratio to sales	1H FY 12/ 19	Ratio to sales	YoY
Outdoor power equipment	43,581	69.0%	44,159	67.8%	+1.3%
Agricultural machinery	11,747	18.6%	11,351	17.4%	-3.4%
Industrial machinery	6,678	10.6%	8,603	13.2%	+28.8%
Others	1,117	1.8%	980	1.5%	-12.3%
Sales	63,125	100.0%	65,095	100.0%	+3.1%
Outdoor power equipment	6,701	15.4%	7,350	16.6%	+9.7%
Agricultural machinery	-107	-	-23	-	-
Industrial machinery	371	5.6%	702	8.2%	+88.8%
Others	182	16.3%	199	20.3%	+9.6%
Adjusted amount	-2,932	-	-3,018	-	-
Operating income	4,216	6.7%	5,209	8.0%	+23.6%

*Unit: million yen. The composition ratio for operating income means the ratio of operating income to sales.

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◎ Outdoor power equipment

	1H FY 12/ 19	YoY
Sales	44,159	+1.3%
Japan	7,295	-0.0%
Overseas	36,863	+1.6%

*Unit: million yen

(Japan)

The sales of chain saws for home improvement retailers increased.

However, the sales of the company's core product trimmers were affected by the unfavorable weather condition and the OEM declined as well, which caused the sales of domestic Outdoor power equipment remained unchanged from the same term last year.

(Overseas)

The performance in Central and South America remained stagnant, but the sales performance in North America, which is the main market for the company, increased especially the sales of products for professionals because the problematic effects of inventory adjustment dissolved, and the new marketing strategy was implemented when the weather was ideal,

The sales performance in Europe was affected by the downturn in Russia, whose economic outlook is bleak, and the depreciation of Euro against Japanese yen. In addition, the sales performance in Australia, Asia, and some other countries were negative.

Overall, the overseas sales in most countries other than the Americas dropped. However, the total sales in overseas markets increased.

◎Agricultural machinery

	1H FY 12/ 19	YoY
Sales	11,351	-3.4%
Japan	9,066	-2.1%
Overseas	2,285	-8.0%

*Unit: million yen

(Japan)

The sales of speed sprayers grew, as new products were released, but the sales of other large-scale pest control machines decreased through the shrinkage of the subsidized business, and the sales of sloop mowers, which had generated good profits until recent declined. This caused the domestic sales decreased.

(Overseas)

In North America, amount of sales of potato harvesting machines were stable, but the sales of mounted equipment for pest control, which was launched targeting the Chinese market in the previous year declined due to the weakening demand caused by the new subsidy policy. As a result, total overseas sales dropped.

◎Industrial machinery

	1H FY 12/ 19	YoY
Sales	8,603	+28.8%
Japan	6,999	+37.2%
Overseas	1,604	+1.8%

*Unit: million yen

(Japan)

The sales of generators, which are core products, grew significantly, thanks to the strong demand for infrastructure development and BCPs. Welders mainly for construction machinery rental sold well. In addition, the sales of mist generators for preventing heatstroke increased. Overall, the sales show a positive result.

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(Overseas)

While the sales growth of generators in North America has been slight, the sales in other countries increased favorably.

◎Other

	1H FY 12/ 19	YoY
Sales	980	-12.3%
Japan	976	-10.3%
Overseas	4	-86.1%

*Unit: million yen

Sales dropped, mainly because of the decline in sales of prototype parts for automobiles.

2-3 Financial standing and cash flows

◎Main Balance Sheet

	End of December 2018	End of June 2019		End of December 2018	End of June 2019
Current Assets	67,637	75,062	Current liabilities	36,578	40,068
Cash	4,641	6,088	Payables	19,439	23,177
Receivables	25,228	32,416	LT Interest Bearing Liabilities	10,696	8,583
Inventories	35,650	35,181	Noncurrent liabilities	9,156	11,884
Noncurrent Assets	31,676	32,178	ST Interest Bearing Liabilities	5,756	8,788
Tangible Assets	24,994	24,444	Total Liabilities	45,735	51,952
Intangible Assets	896	792	Net Assets	53,577	55,287
Investment, Others	5,784	6,940	Shareholders' Equity	52,108	54,381
Total assets	99,313	107,240	Total liabilities and net assets	99,313	107,240

*Unit: million yen

*Trade payables include electronically recorded accounts payable.

Current assets increased 7.4 billion yen from the end of the previous term, due to the growth of trade receivables, etc. Noncurrent assets rose 500 million yen from the end of the previous term, due to the rise in investments and other assets. Total assets increased 7.9 billion yen from the end of the previous term to 107.2 billion yen.

Total liabilities augmented 6.2 billion yen from the end of the previous term to 51.9 billion yen, due to the increases in trade payables and long-term interest-bearing debts, etc.

Net assets rose 1.7 billion yen from the end of the previous term to 55.2 billion yen. As a result, equity ratio dropped 2.3% from the end of the previous term to 51.6%.

The balance of short and long-term interest-bearing debts augmented 900 million yen from the end of the previous term to 17.3 billion yen.

◎Cash Flow

	FY 12/ 18 2Q	FY 12/ 19 2Q	Increase/decrease
Operating Cash Flow	1,092	4,133	+3,041
Investing Cash Flow	-1,673	-1,850	-177
Free Cash Flow	-581	2,283	+2,864
Financing Cash Flow	347	-740	-1,087
Term End Cash and Equivalents	5,387	6,088	+701

*Unit: million yen

The surplus of operating CF expanded, due to the increases in profit before income taxes and trade payables, etc. and free CF turned positive.

Financing CF turned negative, as the net increase in short-term interest-bearing debts was less than that in the same period of the previous year.

The cash position improved.

3. Fiscal Year ending December 2019 Earnings Forecasts

3-1 Full-year earnings forecasts

	FY 12/ 18	Ratio to sales	FY 12/ 19 Est.	Ratio to sales	YoY	Progress rate
Sales	118,049	100.0%	125,000	100.0%	+5.9%	52.1%
Gross profit	33,266	28.2%	34,500	27.6%	+3.7%	54.1%
SG&A	26,976	22.9%	28,000	22.4%	+3.8%	48.0%
Operating Income	6,290	5.3%	6,500	5.2%	+3.3%	80.1%
Ordinary Income	5,957	5.0%	6,300	5.0%	+5.8%	77.0%
Net Income	4,188	3.5%	4,500	3.6%	+7.4%	83.9%

*Unit: Million yen. The forecast was those released by the company.

There is no revision to the earnings forecast. Sales and profit will increase thanks to favorable sales growth in Japan and recovery in sales overseas.

There is no change to the earnings forecast.

Sales are estimated at 125.0 billion yen, up 5.9% year on year. The company is expected to see a stable sales increase in Japan. Sales are projected to recover in North America and Europe.

It is forecasted that operating income will grow 3.3% year on year to 6.5 billion yen. There are compelling negative factors, such as the rising SG&A expenses, including expenses for research and development, and investment in strengthening the business foundation following the launch of a robotic product business in North America, in addition to the impact of tariffs imposed due to the U.S.-China trade disputes and an increase in labor costs in the U.S.; however, it is anticipated that a profit increase will result from the growing sales volume and improved production efficiency.

The exchange rate is assumed to be 1 U.S. dollar = 110 Japanese yen (which remains unchanged from the previous term) and 1 euro = 125 Japanese yen (which was 131 Japanese yen in the previous term).

The ordinary dividend is to be 35 yen/share. The estimated payout ratio is 32.1%.

3-2 Sales Outlook by Region

Region	Sales increase/decrease (JPY100 million)	Overview
Japan	+20	Sales from outdoor power equipment, agricultural machinery, and industrial machinery are expected to increase in all of the company's businesses thanks not only to the release of new models and various measures to expand sales channels that bore fruit, but also to the soaring demand for infrastructure maintenance and the last-minute demand before a tax rise.
Americas	+35	In North America that is the company's primary market, sales are expected to increase significantly following not only the release of new models of outdoor power equipment, and a launch of robotic mowers, but also the expansion of the sales volume of industrial machinery.
Europe	+3	Although the sales performance will continue to be sluggish in Russia, sales are expected to increase mainly in Western Europe through the effects of various sales expansion measures at local subsidiaries whose sales functions have been strengthened.
Other countries	+9	Sales from outdoor power equipment are expected to increase mainly in Asia and Oceania.

4. 2019 Medium-term Management Plan—Activities in the major market—

The situations of the primary measures and recent efforts in each region for achieving sales of 125 billion yen in the term ending December 2019 are as follows.

4-1 Activities in each business segment

①North American market

The company anticipates that the engine product market will rebound in its outdoor power equipment business in 2019.

The company aims to further improve its brand power and market share by expanding sales via its major sales channels, which are distributors and The Home Depot.

(Various Efforts)

- * To enhance brand power, by continuing the sales promotion of the high-end product “X series,” which helps improve the work efficiency of professionals. To expand the market share by releasing products for professionals, which lead the industry.
- * To carry out communication activities proactively by utilizing SNS.
- * To increase the number of stores of The Home Depot handling strategic products
- * To advertise products in the sports field, including MLB and MLS, in order to further cultivate the market for home owners
- * To launch robotic mowers in North America this term, with the aim of increasing sales mainly in the sports field. The company is expanding the business base of its U.S. subsidiary, and the cultivation of sales networks is progressing smoothly.
The robotic mower “TM-2000” of ECHO Robotics received 2019 STMA INNOVATIVE AWARD, which was created by Sports Turf Managers Association (STMA) that pursues the expertise in turf management in the sports field.
TM-2000 was highly evaluated, because the robotic mower enables its users to reduce the time, cost, and resources for turf management. By utilizing such achievements, the company will strive to popularize its products in the market speedily.
- * The sales performance of Large power blowers for professional use shows a positive result. Their top-class performance quality is highly evaluated. The synergetic effects after the enrichment of the product lineup are expected.

②European market

The company aims to popularize the brand by implementing the growth strategies of major distributors and promoting the sales of robotic mowers.

(Various Efforts)

- * Yamabiko Europe goes into full-scale operation. The company places France, Italy, Germany, Spain, Benelux, Greece and Baltic States as priority area and is going to realize the growth strategy of main distributors. It will reinforce sales promotion and digital marketing of robotic mowers, and expand the products for professionals, such as chain saws. It is going to increase the presence in the market for professionals and improving a brand image.
- * In outdoor power equipment, the company aims to expand sales channels by capturing demand by aggressively introducing new products such as the chain saw “CS-2511WES”, which features ergonomic design, light weight, and high output.
- * The market of robotic mowers is expected to keep growing. The company is going to cultivate new demands such as airports as well as sports.

③Japanese market

The company aims to expand its market share by expanding its sales channels and OEM supply and enhancing the capability of offering services.

The company aims to increase sales volume, by grasping demand in the market accurately.

(Various Efforts)

- * The sales of industrial machinery are expected to grow, as there is strong demand for construction and infrastructure development and the machinery is used for recovering from natural disasters.
- * To launch medium-level chain saws, for which cost reduction and output boosting were achieved, and enrich the product lineup
- * To continue much-loved campaigns, such as “Trial Campaign”

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④Industrial machinery

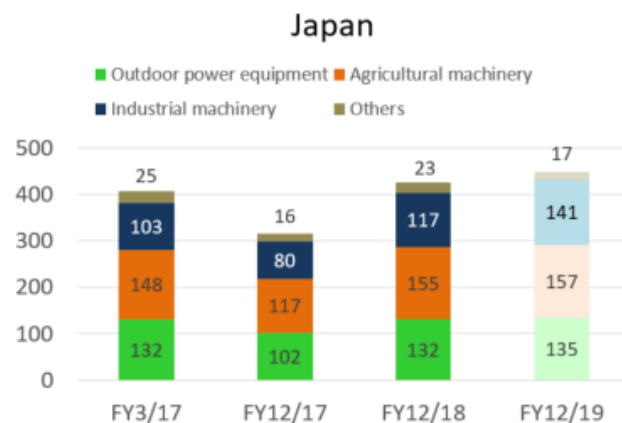
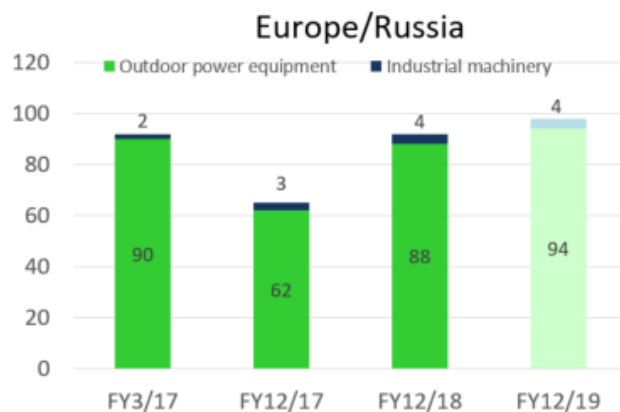
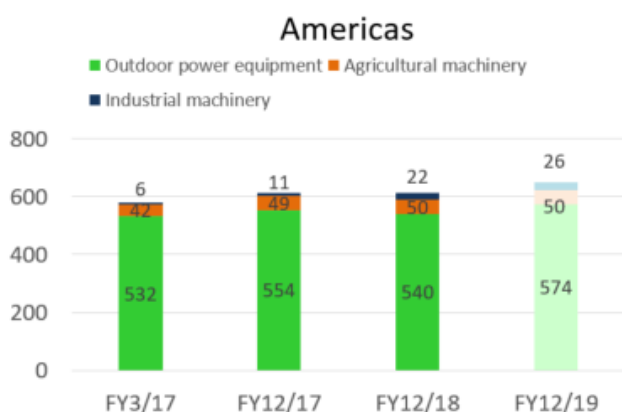
In the Medium-term Management Plan, sales of 11.0 billion yen in Japan and sales of 3.2 billion yen in overseas nations are forecasted for the term ending December 2019, but the company achieved both of the targets a year ahead of schedule in the term ended December 2018.

It will redouble the efforts to “take in demand rising from preparations for 2020 Tokyo Olympic Games, fortify product competitiveness, and enhance sales and service capabilities” in Japan, and “develop new markets, establish an OEM business, expand sales routes, and enrich product lineup” in overseas countries.

⑤Forecast about each market and each business this term

Regarding outdoor power equipment, sales are expected to rise in all of the three markets compared to 2018.

It is projected that industrial machinery will grow considerably in Japan.



* The values for FY12/19 are forecasts. The results for FY 3/17 are indicated after adjustments in segment composition (non-audited).
Unit:100 million yen.

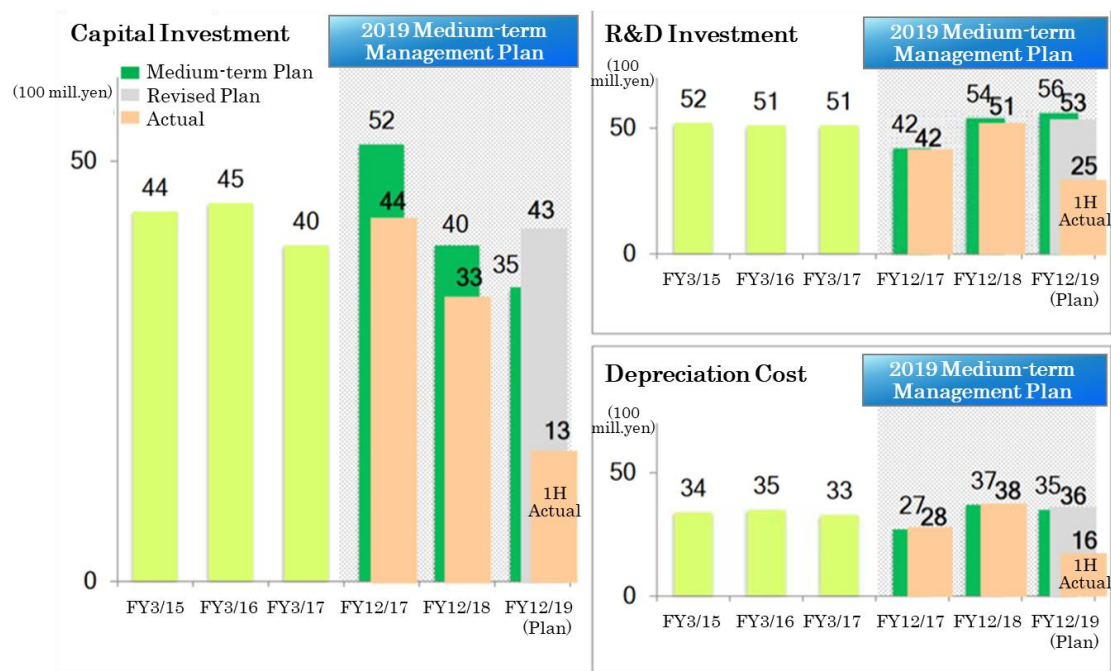
4-2 Initiatives to improve productivity and profitability

The company will reform its production system through the following activities.

- * Shift to the “PULL” strategy-based production synchronized with sale
 - The replacement of production model lines at each foothold completed in Dec. 2018
 - Adopted in all lines in 2019 (to be completed in Dec. 2019)
- * To shorten the lead time until manufacturing by 30%
- * To reduce inventory
- * To reduce cost by improving productivity

The planned funds for capital investments were not fully used in the second preceding and previous terms, and this term, the planned amount was revised upwardly. The company will conduct investment continuously and appropriately in order to boost productivity and grow further.

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(Source: the company)

4-3 Numerical goal・Plan

	FY 3/ 17 Act.	FY 12/ 17 Act. (12 months reference)	FY 12/ 18 Plan	FY 12/ 18 Act.	FY 12/ 19 Plan
Sales	1,119	1,169	1,200	1,180	1,250
Operating Income	76	59	78	62	65
Profit margin	6.8%	5.0%	6.5%	5.3%	5.2%
Net Income	23	35	55	41	45
ROE	5.1%	-	10% or higher	7.9%	-

*Unit: Billion yen

4-4 Annual variation and positioning of the Medium-term Management Plan

The theme of the ongoing “Medium-term Management Plan 2019” is “to grow 3 major businesses and recoup the investment made in the past 3 years.”

Based on the ongoing plan, the company is currently designing the next medium-term management plan with the theme of “endeavoring to create new value at the turning point of the business environment,” which is planned to be released in February 2020.

5. Conclusions

The overall progress rate for sales in the first half term is 52.1%. The progress rates in Japan and the Americas are both over 50%, indicating healthy performance in each major market. The progress rate in Europe shows a slight decrease which is not too severe in general. However, the performance in Russia is sluggish. The business of the company is strongly affected by the local weather and climate changes, so it is difficult to forecast whether business performance will remain positive, but the effects of its original measures, including the enrichment of its product lineup and effective marketing, are becoming more evident.

It is believed that the company will achieve sales of 125 billion yen and earn more this term, that is, the final fiscal year of the Medium-term Management Plan 2019, in order to smoothly proceed to the next medium-term management plan, which is scheduled to be announced in Feb. next year.

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**(Japan)**

	1H FY 12/ 19	FY 12/ 19 Est.	Progress rate
Small-size Outdoor power equipment	72	135	53.3%
Agricultural machinery	90	157	57.3%
Industrial machinery	69	141	48.9%
Others	9	17	52.9%
Total	243	450	54.0%

*Unit: 100 million yen

(Americas)

	1H FY 12/ 19	FY 12/ 19 Est.	Progress rate
Small-size Outdoor power equipment	309	574	53.8%
Agricultural machinery	21	50	42.0%
Industrial machinery	9	26	34.6%
Total	340	650	52.3%

*Unit: 100 million yen

(Europe)

	1H FY 12/ 19	FY 12/ 19 Est.	Progress rate
Small-size Outdoor power equipment	45	94	47.9%
Industrial machinery	1	4	50.0%
Total	47	98	48.0%

*Unit: 100 million yen

*Figures for each market are based on company data.

<Reference1: Regarding “2019 Medium-term Management Plan” >**① Basic policy and vision**

The company set two visions for clearly sharing what kind of company they should aim to develop in the medium to long term.

Yamabiko Sustainability	Remaining a company that earns trust from the public
To contribute to the growth of society and make all people connected to YAMABIKO CORPORATION happy, by growing sustainably with a firm management base.	

Yamabiko Innovation & Diversity	Constantly adapting to become an engaging company
To improve its corporate value by creating innovative products and manufacturing and selling products and offering services globally, and satisfy a variety of values of people connected to YAMABIKO CORPORATION.	

The company considers that the period of “2019 Medium-term Management Plan” is for exerting the effects of active investment conducted during the period of the previous Medium-term Management Plan.

② Key initiatives

In order to actualize the visions set in the above basic policy, the company will take the following key initiatives.

Key initiatives	Outline
(1) To strengthen product competitiveness	① To develop products mounted with lightweight high-performance engines in the business of outdoor power equipment To improve competitiveness further with a product lineup expecting the tightening of emissions control in the future, the spread of battery products, etc.
	② To introduce next-generation robotic mowers and promote global business The company will develop new products by applying the robot development technology.
(2) To hone the capabilities of selling and offering services	① In the business of outdoor power equipment, the company will try to improve its brand power and expand its share further with new marketing strategies, etc. in North America, which is their major target area. In the European market, the company aims to actualize the growth strategies of major distributors for expanding the sales and improve the level of services through the utilization of Yamabiko Europe SA, which was established in Jan. 2017. For the agricultural machinery business, the company will sell pest control machines on a full-scale basis outside Japan, mainly in Asia. For the industrial machinery business, the company will cultivate and expand sales channels in the U.S. market, which is the largest, and Asian markets, to intensify overseas business activities.
	② Inside Japan, the company aims to expand its share in each business, by pursuing the integration synergy of YAMABIKO JAPAN CO., LTD, which was established in Apr. 2017, introducing new products with high added value, strengthening its service system, etc.
(3) Improvement in product quality and production efficiency	① To develop structures and systems for further improving product quality, and aim to establish “absolute quality.”
	② To pursue the improvement in production efficiency and cost reduction, by exerting the effects of capital investment, which was carried out in the period of the previous Medium-term management plan, early and promoting the installation of equipment for automatizing production lines, etc.
(4) Fortification of the business base and improvement in corporate value	① To optimize inventory and improve operation efficiency to the maximum degree by utilizing the new mission-critical system, which was adopted in the period of the previous Medium-term Management Plan. The company will also strive to shorten working hours and improve the working environment, to pursue synergetic effects for improving labor productivity.
	② As the company will commemorate the 10 th anniversary of the establishment of the company in December 2018, the company will envisage an ideal state of YAMABIKO CORPORATION in the coming 10 years, and share its corporate philosophy and visions in the entire corporate group. To improve the social evaluation on the company by promoting its CSR activities To discuss M&A, alliances, etc. without prejudgment

③ Regarding the return to shareholders

As the company will keep paying dividends stably and its consolidated financial standing is improving, the company has decided to change the target consolidated payout ratio from “about 25%” for the previous Medium-term Management Plan to “25% or higher” for the new Medium-term Management Plan.

<Reference2: Concerning corporate governance>

*Composition of the organizational structure, directors and auditors

Organizational structure	Company with Audit and Supervisory Board
Directors	7 (including 2 outside director)
Auditors	4 (including 2 outside auditors)

◎Corporate Governance Report

Last update date: March 29,2019

<Basic policy>

YAMABIKO CORPORATION (“the company”) actively promotes various measures to enhance the corporate value of the entire Group, including an optimization strategy and supervision function at the Group level, as well as the allocation of resources in order to achieve the Group’s global management strategy and growth.

To realize these objectives, the company implements sound and highly transparent Group management in order to deliver value to all of its stakeholders, including regional companies, shareholders, customers and employees. We do this by building a robust corporate culture based on our Corporate Philosophy and Code of Conduct, while enhancing and strengthening a system of corporate governance focused on Group compliance and risk management.

Our board of directors is composed of 7 directors, including 2 outside ones, and makes important decisions regarding our group’s management policy and strategy, and the guidance and supervision for business administration of group companies. In the board of directors, directors monitor and oversee the work of other directors and report their own performance regularly at their meetings. In order to put resolutions of the board of directors into action accurately and swiftly, the management strategy council deliberates them to a sufficient degree.

Our company adopted the auditor system, organizing the board of auditors with a total of 4 auditors, composed of 2 corporate auditors and 2 outside ones.

Auditors participate in the meetings of the board of directors, the management strategy council, and operating officers, and other important in-house meetings, to audit the business execution of directors, and secure the effectiveness of audit in cooperation with accounting auditor and the internal audit section, in accordance with the regulations for the board of auditors and the standards for auditors’ audit.

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

Principle	Reasons for not following the principle
【Supplementary Principle 1-2. (4) Electronic exercise of voting rights, English translation of convocation notices, etc.】	As of the end of December 2018, the ratio of overseas investors for our company is as low as about 16%. Accordingly, we have not yet adopted the electronic exercise of voting rights. As we recognize that it is necessary to offer an environment in which institutional investors and overseas investors can exercise their voting rights easily, we will think of adopting the platform for the electronic exercise of voting rights when the ratio of overseas investors exceeds a certain value (e.g. 30%). As for the English translation of convocation notices, we started producing the English version, excluding business reports and notes, and uploading it to our website.
【Supplementary principle 4-11-1. Balance, diversity, and size of the board of directors as a whole】	Our company’s Article of Incorporation stipulates that the Board of Directors shall be composed of 10 members of fewer, and our Board of Directors currently consists of 7 directors, which we believe is a proper size that enables swift decision-making. The members of the Board of Directors are 5 internal directors, including 3 people who are familiar with each of the businesses that our company conducts and have extensive experience in working abroad, and 2 outside

	<p>directors, including 1 person with experience in working as a top management and 1 person who have abundant knowledge and practical experiences as a lawyer. We believe that managerial issues and challenges are proactively discussed from multilateral perspectives and proper judgments are made at meetings of the Board of Directors.</p> <p>We consider designation and securing of diverse human resources as directors, including women, to be our company's future challenges.</p> <p>Please refer to the description for Principle 3-1. (4) regarding the policies and procedures for nominating directors.</p>
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<Disclosure Based on the Principles of the Corporate Governance Code (Excerpts)>

Principles	Disclosure contents
[Principle 1-4 the strategically held shares]	<p>(1) Policy Regarding Strategic Shareholding Our company conducts business in landscaping, agriculture, construction and civil engineering, and a variety of other fields inside and outside Japan. Therefore, it is required for our company to cooperate with a number of firms involved in each of our businesses. We will strategically hold shares when we have judged that doing so will contribute to improving our corporate value in the medium- and long-term. Meanwhile, when we have determined that the significance of strategically holding shares is not sufficient, we will have dialogue with a relevant company, and then sell or reduce all or part of the strategically held shares by comprehensively taking into account various factors, such as the impact on the market.</p> <p>Each year, regarding the strategically held shares of each listed company, our Board of Directors carefully verifies a multitude of matters, including the purposes of strategically holding the shares, such as maintenance and strengthening of partnerships, and economic rationality, and then determines whether or not our company will continue holding the shares and reviews the number of shares to hold strategically.</p> <p>After the adoption of the Corporate Governance Code in 2015, our company reduced the number of corporations whose shares we have held from 25 to 18.</p> <p>(2) Criteria for Exercising a Voting Right in Regard to Strategic Shareholding Our company properly exercises our voting rights on the strategically held shares after making comprehensive judgment by taking into consideration not only business performance, but also whether or not strategically holding shares will contribute to properly strengthening the corporate governance framework and improving shareholder value, and the impact on our company. Furthermore, we hold dialogue with a relevant company as necessary regarding the contents of a proposal.</p>
[Principle 5-1 Policies Regarding Constructive Dialogue with Shareholders]	<p>Our company has implemented the following measures as policies for maintaining a framework and making efforts to promote constructive dialogue with shareholders.</p> <p>(1) Our company has established the investor relations section within the administration division, as a section in charge of communicating with shareholders. In principle, the division officer will conduct overall management of all matters concerning the shareholders.</p> <p>(2) Relevant internal departments that assist in dialogue with the corporate planning department and the finance & accounting department conduct their duties while actively collaborating with them to create constructive dialogue,</p>

for example, by producing and reviewing materials to be disclosed and sharing necessary information.

(3) As a means of dialogue other than individual meeting with shareholders and investors, we regularly hold briefings for financial highlights and plant tours for institutional investors, and distribute booklets summarizing our company's topics and business performance to shareholders. Furthermore, we use feedback and requests from shareholders and investors to improve the content of our website. We plan to improve our news releases page in the future.

(4) For information sharing, we give the thoughts of shareholders understood in dialogue to directors and relevant departments as feedback via the distribution of reviews and reports in a meeting body.

(5) Our company has set up the Insider Trading Management Regulation to prevent insider trading and thoroughly manage information on insider trading such as promoting the understanding and awareness within our company by posting articles on insider trading at new employee training program and in our company's internal bulletin.

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

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