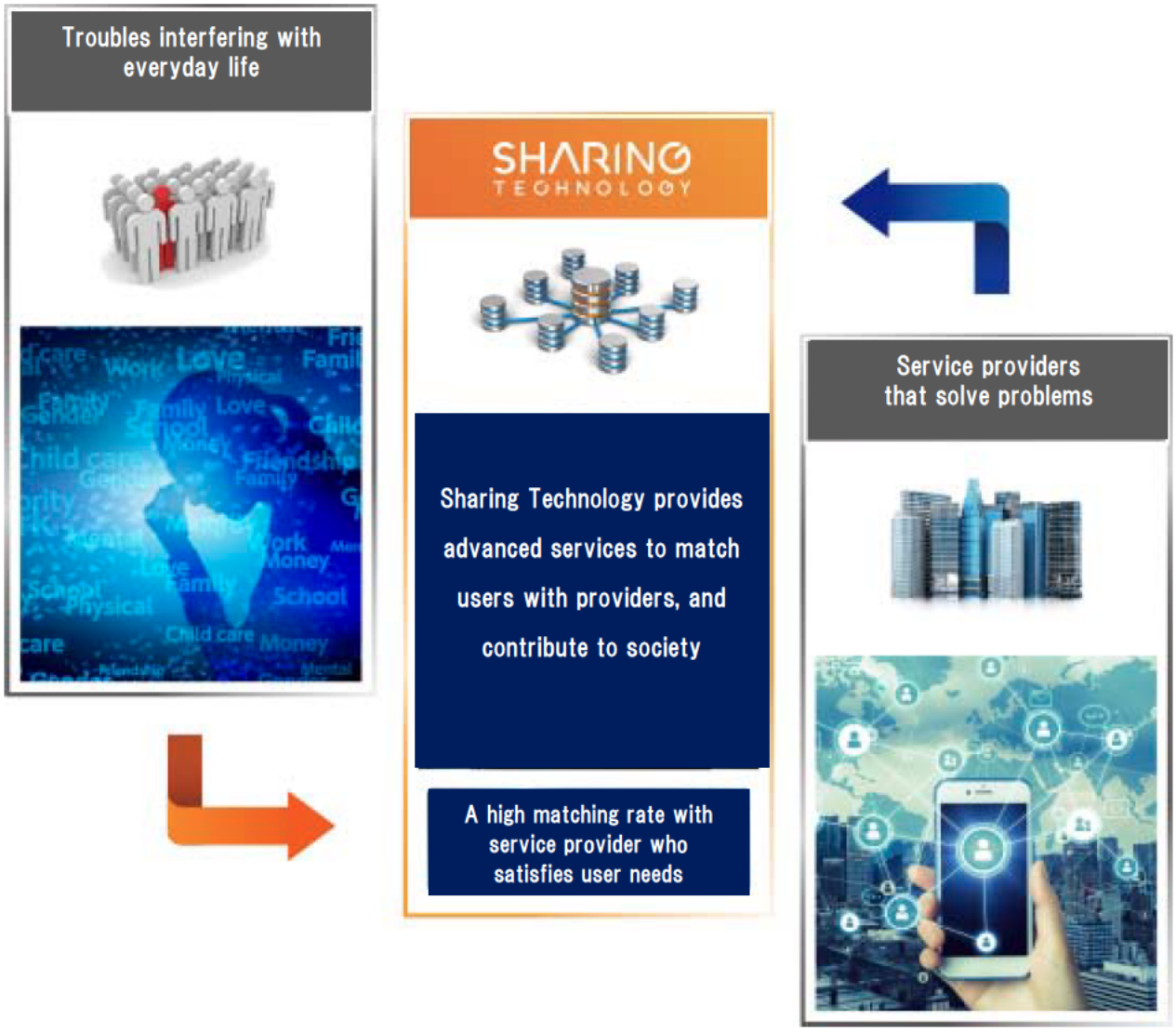
Sharing Technology, Inc [3989]

Where we are, and where we will be based on the medium-term plan

For Further expand of Sharing Technology

Make aggressive investments to increase ordinary profit by about four times to ¥1.7 billion from fiscal 2017 to fiscal 2020



November 10, 2017

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SHARING TECHNOLOGY

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1. Summary

Established a dominant position in a unique sharing-economy way, with matching technology

Developed web-based business in the daily-life service market with sharing technology

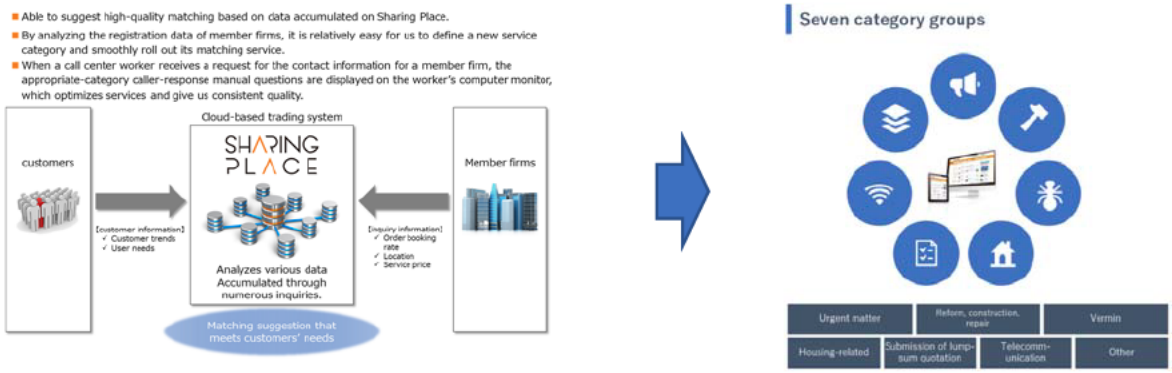
From the time it was created, in 2006, Sharing Technology Inc. (STI) has been growing under the guidance of a corporate mission, "Develop services to match those who need service with those who provide it, by using advanced technology, and thereby contribute to society." STI has developed and expanded its web-based business to connect website visitors who are looking for solution to a problem that has occurred in their daily lives with experts who provide services to deal with the problem. Data for matching experts to consumer households needing help is accumulated in STI's cloud-based trading system "Sharing Place" where we use it to help efficiently realize matching, and develop new service categories. At present we manage 193 of what we call Vertical Media Sites, each devoted to a different category of problem-solving experts in the daily-life service sector.

What are the Vertical Media Sites?

STI'S Vertical Media Sites contain all kinds of information on a range of specific thematic categories, and allow site visitors needing services in a given category to efficiently obtain appropriate information. It has proved to be highly beneficial to both customers for the services and the suppliers.



Business model that allows efficient matching and vertical expansion, based on data accumulated in the cloud



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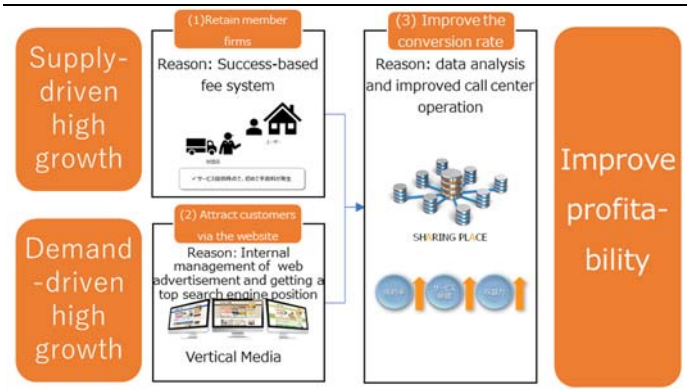
Established a dominant position, secured by competitiveness, and realized high growth

Due to (1) adoption of a pay-for-success fee system, which has attracted many firms to register as service providers, (2) enhancement of capability to attract customers to our site insourcing of web advertisements, and improvement in the conversion rate, and (3) data analysis and resulting improved call center managing ability (to help improve our conversion rate), STI has connected both service providers and loci of demand, and realized high growth with a business model that enables long-term profitability improvement. In Japan, no other company is providing this range and scale of matching of demand and supply of specialized services important for daily life of households.

Unique business model that enables high growth and high profitability, and related data

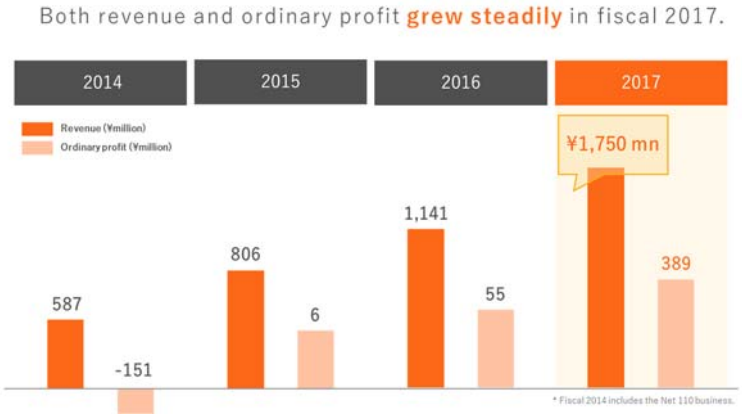


STI has successfully captured both demand and supply in focused categories of the daily-life service sector. Supported by advanced technology, STI has improved its conversion rate, and has enjoyed dominant profit and high growth.



STI's revenue grew 44% CAGR in the past three years. In fiscal 2017, ended September, revenue and ordinary profit amounted to ¥1.7 billion and ¥380 million respectively. STI was listed on the Tokyo Stock Exchange Mothers exchange in August 2017.

Operating performance



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Evolution in management, based on three factors to maximize corporate value, that embody STI's mission

We are committed to evolve management based on three factors that maximize corporate value. We believe that focus on the following three factors and appropriate capturing of social demand will help us attain long-term sustainable corporate value creation.

Three factors to maximize corporate value, that embody STI's mission

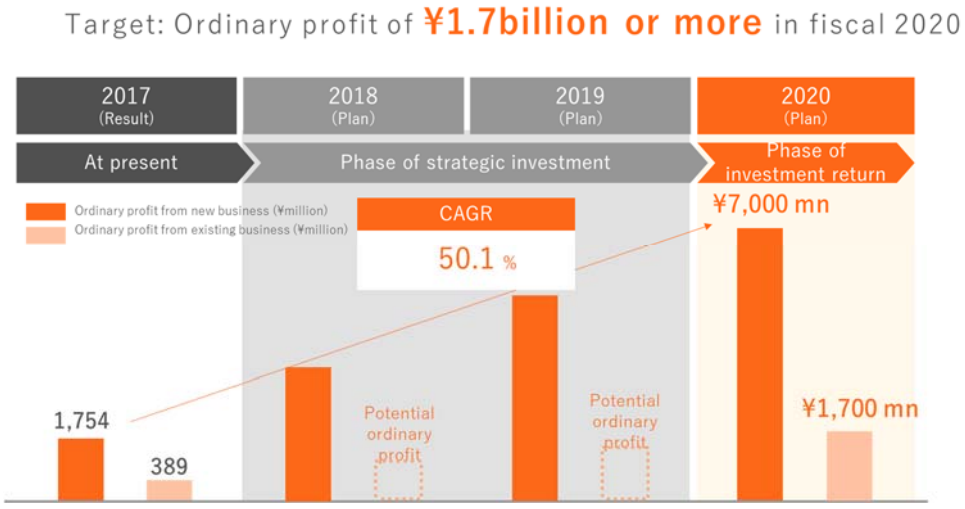
Accelerate growth by embodying STI's mission, through investment focus on three factors to maximize corporate value

1. Use of web-knowhow to raise ROI
2. High profitability and high ROI
3. Synergy with existing services

Medium-term targets: ¥7 billion in revenue and ¥1.7 billion in ordinary profit in fiscal 2020

In addition to the enhancement of existing business and growth driven by M&A, STI is entering the *minpaku* type hotel business with a business model for reforming rental apartment buildings into hotels. We plan to spend the first two years of this initiative in making upfront investment and to achieve ¥1.7 billion in ordinary profit in fiscal 2020, ending September 2020. At the same time, we intend to manage efficiently and to pursue high efficiency in use of invested capital. Investment capital and working capital will mainly be funded by cash and deposits on hand and bank borrowing, by taking advantage of the low interest rates available at present. By borrowing for investment at low cost, we intend to keep the cost of capital down and aim at raising long-term corporate value.

Medium-term business plan: Make upfront investment, enhance management resources, and achieve ¥1.7 billion in ordinary profit



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2. Corporate outline, history, and founding story

Corporate outline and history

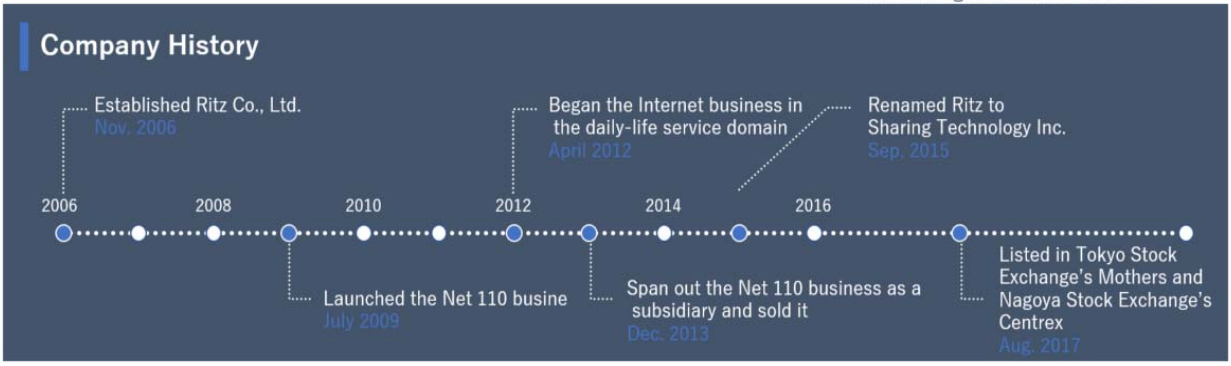
Sharing Technology, Inc. (STI) was founded by Keisuke Hikiji, CEO, in 2006. Its main business is to provide matching service between consumers or others who have confronted a problem affecting their daily lives, and registered member firms. As of the end of September 2017, STI had alliances with 2,318 members in as many as 119 service genres. While STI is engaged only in the web-based business, in terms of its organization it is divided into the Web-marketing service sector, which is more important to the other sector, Web-consulting service.

Corporate outline and history

Basic information

• Corporate name	Sharing Technology Inc.	• Location	HG Sakuradori Building 2F, 3-23-20 Marunouchi, Naka-ku, Nagoya City, Aichi Prefecture
• Established	November 24, 2006		
• Capital	1,105.15 million yen (capital and capital reserves)	• Business activities	・Management of the Vertical Media Sites in the daily-life service domain ・Management of the Good Living 110, an integrated platform sit ・Consulting services in attracting customers on the
• Representative	Keisuke Hikiji, CEO		
• Number of employees	97 (average age: 28.7) Ex. Part-timers As of Sep. 30, 2017		

Company History



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Business outline: Web-marketing service

Web Marketing Service

• Providing matching services to customers who have "troubles" in their daily-life activities and member firms

■ Vertical Media Sites (as of Sep. 30, 2017)
119 categories and 193 websites



■ Integrated platform website
"Good Living 110"



Founding history

Created a business that brings innovation in less advanced areas in use of the internet

From founding in 2006 to 2012: Trials and errors

Engaged in e-commerce and internet line brokerage service

Keisuke Hikiji, present CEO of STI, felt an urge to bring about innovation in society and established Rits Co., Ltd. 11 years ago when he was a university student. He tried many businesses, including e-commerce and service to support installation of internet business lines, by using its own call center and real-estate offices, named "Net 110 Business". (Note: 110 is the emergency police telephone number in Japan, equivalent to 911 in the U.S.)

From 2012 to the present: Significant growth with Sharing Technology

Hard to find firms that respond to rare "troubles" in everyday life

When operating the Net 110 Business and talking with real estate brokers, Hikiji found out that it was difficult for many people to find the right firm ("daily-life service provider") to solve unusual or rare problems or troubles interfering with in everyday life, such as rain leakage, water leakage, extermination of termites, or building reform and repair. While some of this kind of problem needs urgent attention, it often was not easy to efficiently find an appropriate service provider, as such problems are encountered infrequently and often are urgent. Rits therefore created a market to efficiently match ordinary consumers (or others such as small business or organizations) with daily-life service by means of the internet.

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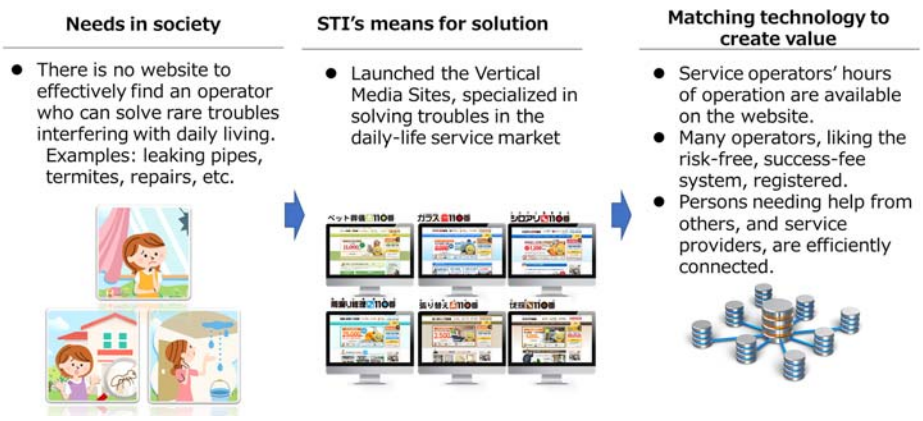
Vertical Media Sites to connect consumers with service providers were a foothold to start a web business

Despite the widespread nature, often-urgent, unscheduled, unusual, or rare occurrence of need for these services, no major companies were chasing this sort of business, that was usually handled by small-scale neighborhood companies, but these tended to make little or no use of the internet to attract customers, and their existence often was unknown to people needing help. Rits thus started a web-based business in this sector, by using accumulated website knowhow and its own call center. Rits launched the Vertical Media Sites and connected consumers who needed help service providers who could take care of the problem at hand. This business of sharing economy by using technology has grown significantly. Rits was renamed Sharing Technology Inc. in 2015.

Vertical Media Sites in the daily-life service sector as a foothold to start a web business



3. Mission, vision, offering value, business activity and model

Mission and vision

From its first day, Sharing Technology Inc. (STI) has been growing under the stimulus of the corporate mission, "Develop services to match those who need service and those who provide it, by using advanced technology, and thereby contribute to society." STI plans to accelerate investment focused on the three factors stated below to maximize corporate value. Along with progress of such investment, the company may seek modify its mission and vision.

Mission and vision

Corporate mission

"Develop services to match those who need service and those who provide it, by using advanced technology, and thereby contribute to society."

Corporate vision: Accelerate growth by means of three factors to maximize corporate value

1. Use of web-knowhow to raise ROI
2. High profitability and high ROI
3. Synergy with existing services

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Values to be offered

Value that STI wants to offer consists of satisfaction of social needs by using advanced technology and to thereby contribute to society. For that purpose, STI will keep pursuing the discovery of social needs.

Business activity and model

STI is engaged in web-marketing service, centered around operation of the Vertical Media Sites associated with diverse daily-life service markets.

Web-marketing service

The Web-marketing service provides matching of people who have encountered a problem affecting their daily life, and specialty companies which provide services for those kind of troubles (“member firms”). The users visit our Vertical Media Sites, which contain information on our daily-life service businesses, and send us an inquiry and request for price quotation for a particular service they need.

Vertical Media Sites



■ Vertical Media Sites (as of September 30, 2017)

193 websites in 119 categories

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Among the member firms that receive the information of the request via the Sharing Place, only the first responder can directly communicate with the prospective customer and submit a price quotation. If the customer accepts the offer and an agreement is reached, the member firm then provides the service and the customer pays the agreed amount to the firm. Subsequently, STI receives a part of the amount as a commission fee (pay-for-success fee) from the firm. The entire deal flow is illustrated below. While STI has three types of fee structure in its Web-marketing service, namely pay-for-success fee, customer introduction fee, and other, a majority of transactions is done on the success-based fee basis. From the perspective of the member firms, the work referred from STI allows them to generate sales they otherwise would not have secured, and to make more efficient use of their resources.

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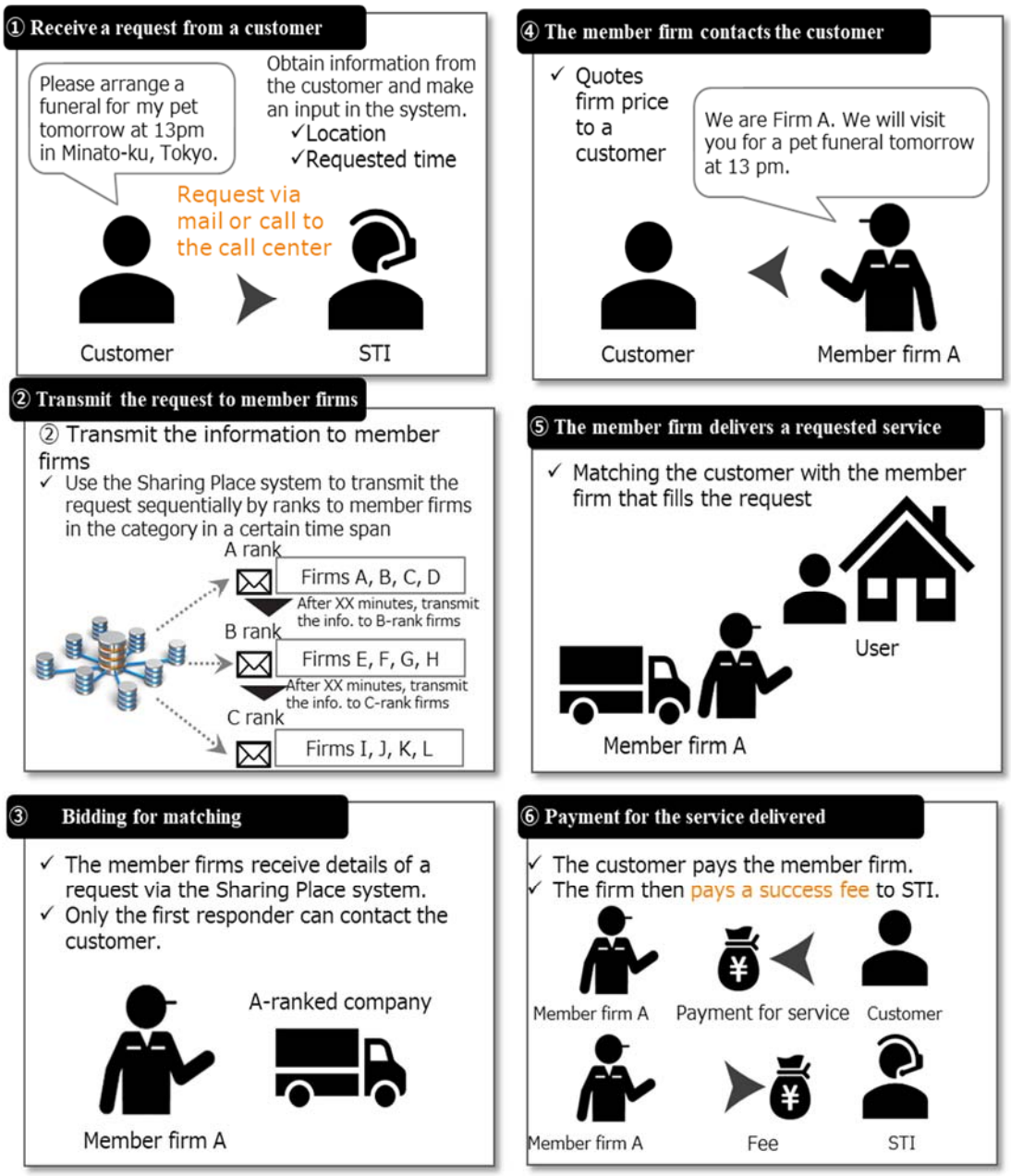
Flow of Web-marketing Service, up to a stage of STI's receipt of pay-for-success fees



By making an alliance with STI, member firms can attract more customers and obtain an opportunity to increase business and to make additional use of their tangible assets, such as equipment, as well as their intangible assets (and turn idle time into income-earning time). STI doesn't charge a registration fee to firms that enter into an alliance. STI currently operate 193 sites in 119 service categories in its Vertical Media Sites in the daily-life service sector. The number of member firms reached 2,318 at the end of September 2017. Among them, 1,579 firms provided services to STI's users during the fiscal year ended September 30, 2017.

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STI's main service categories are as follows:

Main service categories and site names (as of Sep. 30, 2017)

Category	Services or problems	Main site	Number of sites and categories
① Urgent matter	Locksmith, bee or wasp removal, door knobs, glass window replacement, PC, water, pet funeral	Key 110	32 websites in 7 categories
② Reform, construction, repair	Water leakage, rats, harmful birds and animals, dismantling, outer wall painting, restoration to original state, monitoring cameras, wall footings, washing machine repair, paulownia-wood chest repair, fine-tuning/repair of pianos, furniture reform/assembly/moving, OA equipment repair, automatic doors, musical instrument repair, roof reform, water area reform, house reform for nursing care, elevator installation, iPhone repair	Rainwater leakage repair 110	47 websites in 24 categories
③ Vermin	Termite, cockroach, lice, bedbugs, fleas, etc.	Termite 110	23 websites in 4 categories
④ Housing-related	Tree trimming; weeding; gardening; replacing of tatami mats, fusuma doors, shoji screens and screen doors; ventilators; air conditioners; water heaters; asphalt paving; ground survey; electrical work; antenna installation; switches; interphones; electrical shutters; block construction; plugs; shutters; hand rails; electrical leakage repair, etc.	Tree trimming 110	29 websites in 27 categories
~~⑤~~ Submission of lump-sum quotation	Purchase of farm equipment, heavy machinery, trucks, cars, discarded cars, pianos; event site management; development of applications; noise insulation work; store design; construction of parking lots; sale of gravestones; matchmaking; sale, use or management of properties, apartments, vacant houses, land; subleasing; telemarketing; mail distribution; printing work; leasing of printers; mailing; direct mail; business phone; data input; house cleaning (agency); ISO	Mr. farm equipment price assessor and purchaser	35 websites in 35 categories
⑥ Telecommunication	Hikari telephone, PCs for free, fixed telephones and lines, Flets Hikari	Hikari Telephone Navi	5 websites in 4 categories
⑦ Other	Signboard production; bugging device; disinfection and odor elimination; house cleaning; security personnel; housekeeping; data restoration; sales and lease of vending machine; TVCM, purchase of kitchen equipment; rental storage; brokerage of buildings; taking over of discarded cars; introduction of industrial doctors; waterproofing work; replacement and repair of fittings and joints	Signboard 110	22 websites in 18 categories

Good Living 110, an integrated platform site

STI is managing Good Living 110, an integrated platform site for all Vertical Media Sites. Good Living 110 site has all kinds of service information and is aimed at getting to be a top search portal

On the Good Living 110 site, the internet user can search, browse, and compare service providers, and make an inquiry to a selected firm. STI also regularly delivers useful content and tips for good living to our website users. A

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usage procedure for users and STI's fee structure and method for the Good Living 110 site are the same at each Vertical Media Site.

The Good Living 110 integrated platform site



Good Living 110, an integrated platform site of many Vertical Media Sites, enables users to search, browse, and compare service providers, and make an inquiry to a selected firm. STI also regularly delivers to users useful information for better living.

The Sharing Place trading system

STI's proprietary trading system for matching services with those needing them, haring Place, is also a database of information on member firms and customers. Via the Sharing Place, member firms receive information on inquiries and referrals, and can make a bid for the work. They log-in at the Sharing Place, using their ID and password, to do this. As it is cloud-based, the members can access it and obtain inquiry information from anywhere via PC or smartphone. The always-accessible matching service has resulted in building up a database in the Sharing Place, including trends in user needs and a track record by region and each member firm's specialty and characteristics. We analyze order placement rates and other data for each service category, use the analysis results to quantify each firm's competent service area, and realize a high ratio of successful matching that satisfy user needs.

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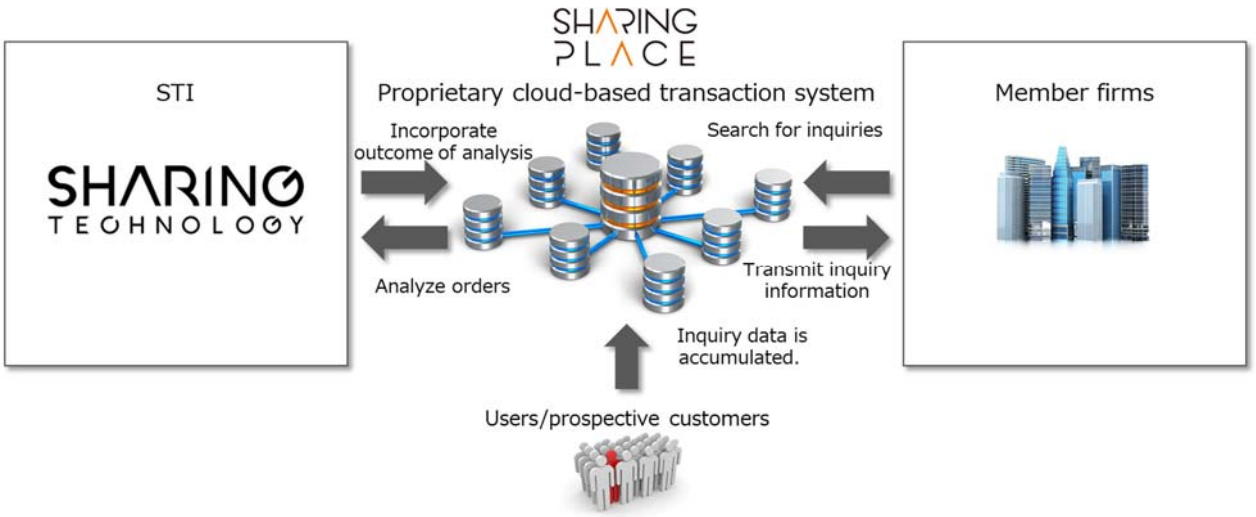
What is Sharing Place?



Web-consulting service

The Web-consulting service is STI's second business segment. Its business model is to receive from participating firms a monthly fixed charge for consulting service concerning attraction of users on the internet.

Business model to realize a rapid growth

Web technology to realize "sharing economy"

A key for value creation for STI is the concept of "sharing economy," to enable daily-life service providers to increase their business volume and earnings by work obtained via the internet. It is a scheme to make use of the firm's assets, including the skills and experience of the firm's people, that otherwise might be idle, with prospective customers who need to utilize them. STI has already entered into alliances with over 2,000 service providers and has been expanding business together with them.

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Three success factors behind high growth and strong competence

Three main factors explain STI's success.

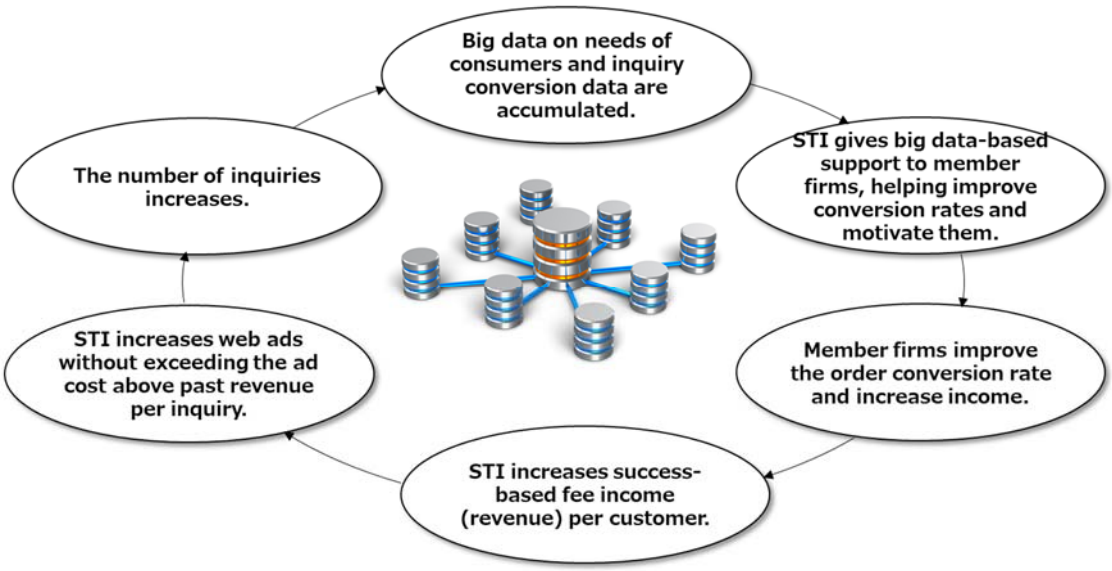
① Pay-for-success fee system being a key for a growth in member firms

STI's pay-for-success fee system has attracted many firms (approximately 2,300 as of this writing) Registering as a STI member is free of charge. That there is no initial fee, and a scheme that incurs an expense only after revenue is generated, have been quickly and favorably received by many service providers.

② Virtuous cycle of optimal balance between the web-based ads and the order booking rate, using big data

The second factor is the creation of a virtuous cycle based on use of big data. Data is accumulated every day and on its basis, we give appropriate advice and motivation to member firms, which helps them to get a higher order booking rate and an increase in revenue. We also increase web-based advertisement in order to attract more inquiries, without exceeding the ad cost per inquiry above past revenue per inquiry. This virtuous cycle allows us to keep growing and keep accumulating data.

Evolving unique matching technology



③ Good working relationship with member firms

The third success factor is good working relationships with member firms. Along with an increase in the number of member firms, we have adopted a ranking-based system to give priority to member firms with a higher order booking rate, so that they are the first to be introduced to prospective customers. We give advice to member firms in order to boost their rates and are thus strengthening our Win-Win relationship.

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Unique competitiveness, which is hard for others to replicate

Thanks to the above three success factors, STI has established competitiveness, which is hard for others to replicate. Daily-life service providers in STI's focused categories tend to be small in scale, have a moderate local-region monopoly, and therefore be competitive in their small service areas. We believe that welcoming these firms to our network of service categories, we should be able to establish a sustainable monopolistic situation in these specific categories and realize high profitability. This is supported by (1) network effects, (2) accumulation of data on prospective customers, which are hard to get via the internet, and (3) evolution of web advertisement and a call center.

Logic behind building unique competitiveness that is hard for others to replicate

Network effects

- An increase in users and service providers leads to expansion of STI's network and growth in STI's business value.

Data accumulation

- STI has accumulated a database on troubles in daily life and a diverse pattern of real dialogues between a user and a call center staff up to their reaching an agreement. STI has a greater database than peers, who find it hard to replicate.

Hard-to-replicate resources (evolution in web ad and the call center)

- STI has the knowhow to manage an optimal balance of revenue per request and web ad expense per request. STI's knowhow for implementing the PDCA cycle and improving operations is hard to replicate. STI's call center is adopting more AI and targeting improvement in the conversion, making it even harder for others to compete with us.

4. Market and competitive environment

Stable and immense market potential

The smartphone and PC advertisement market, which Sharing Technology, Inc. (STI) operates in, has increased by 24% year-on-year in 2017.

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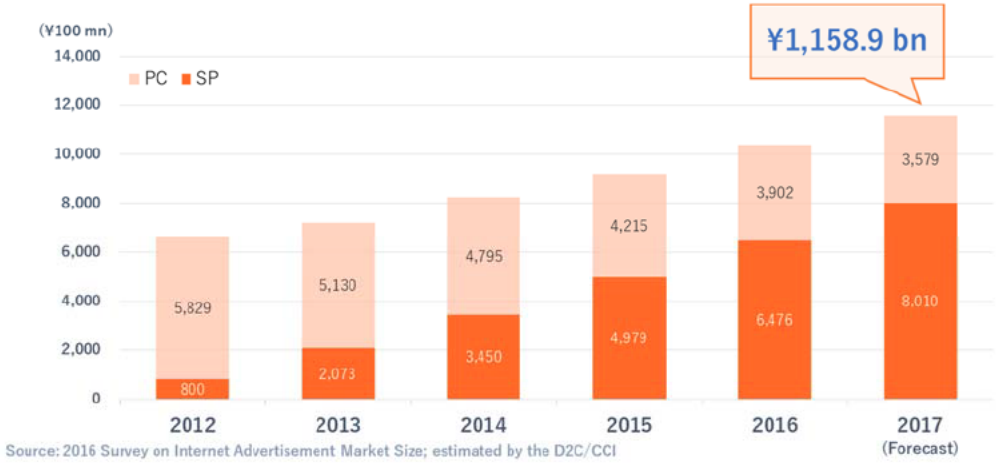
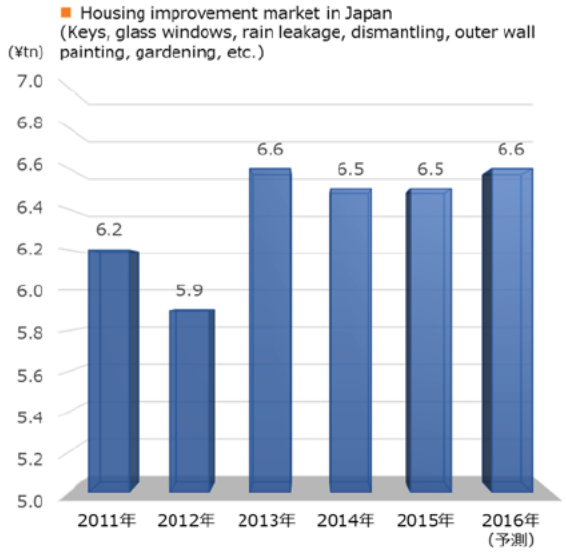
Smartphone and PC advertisement market size



Source: 2016 Survey on Internet Advertisement Market Size; estimated by the D2C/CCI

STI member firms handle troubles that can happen suddenly at any time in everyday life, such as pet funerals or garden and grounds work. We therefore can expect stable revenue and income, regardless of changes in social conditions or the surrounding environment. Given the fact that the house reform market alone is as big as ¥6.6 trillion in Japan, we believe that growth potential is high for convenient services we make available.

Japan's housing reform market, merely a fraction of the daily-life service market



Huge growth potential in STI's services that essentially offer convenience to users. Web-based convenience and a pay-for-success fee model are attractive to service firms.

Many small firms and individual entrepreneurs who provide daily-life services still rely on paper media for promoting their business, despite the uncertainty of results, and their promotion spending doesn't necessarily match returns. In contrast, STI's member firms are only obliged to pay success-based fee to STI only upon completion of

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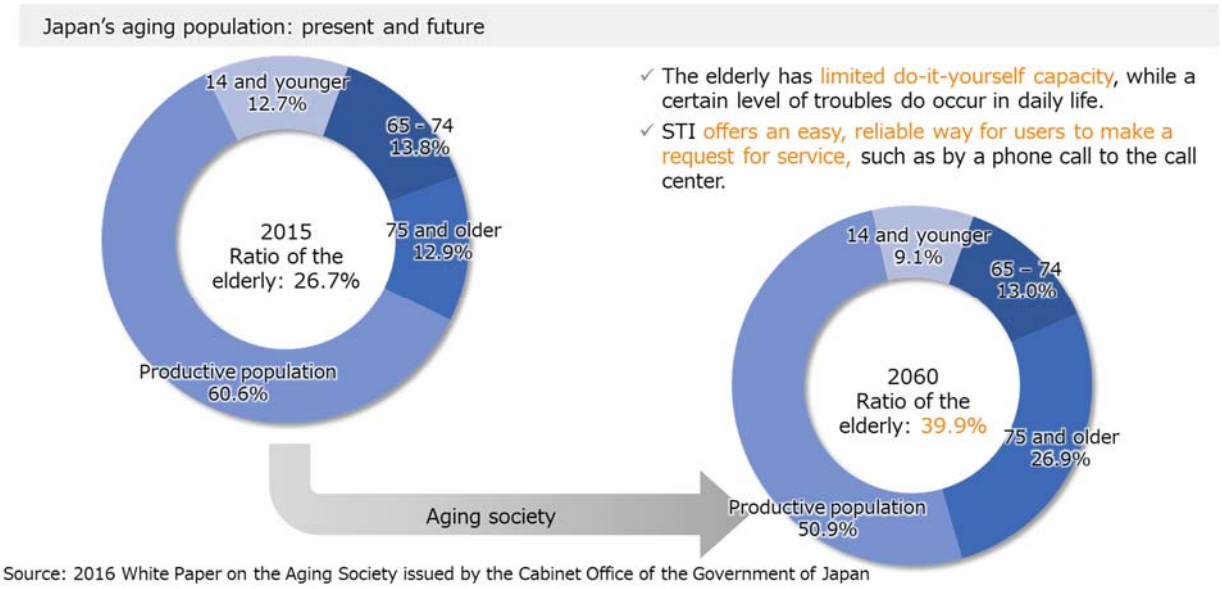
delivery of the service, introduced by STI, and collection of payment from the customer. Moreover, STI doesn't charge an initial registration fee, annual fee, or other types of fee to member firms. As a result, member firms can efficiently obtain orders and increase sales, with virtually no initial costs to attract customers. This is why we believe we have successfully captured and retained excellent member firms.

Aging population further boosts growth of the daily-life service market

Daily-life problems are especially worrisome to elderly people who live alone. Demographic and social trends in Japan indicate continuing increase in the number of seniors who live alone. According to the 2016 White Paper on the Aging Society issued by the Cabinet Office of the Government of Japan, the ratio of those aged 65 and older in Japan is projected to increase from 23.0% in 2010 to 39.9% in 2060. Seniors tend to be less capable of resolving troubles by themselves, but they often encounter problems. STI is conscious of senior users and has arranged a system so that seniors can find it easy and secure to use our services. Measures we have taken include live-chat verbal response at the call center.

Aging population and increasing need for daily-life services



Potential vertical expansion

Smooth matching in newly-developed service categories

STI's Sharing Place is a rich database that contains past revenues of member firms, their service prices, order booking rates, areas of coverage in detail, and more. We analyze the order booking rate and other data by each service category, based on the results of analysis assess each member firm's competitive service areas, to realize a

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higher rate of matching that satisfies needs of customers. Through its interaction with member firms, valuable information, such as latest customer trend and user needs, is absorbed and analyzed. We can therefore grasp what kind of needs exist outside our service areas and identify which of member firms can satisfy such needs, based on the registration data of member firms.

As such, it is relatively easy for us to define a new service category and smoothly roll out its matching service. Moreover, the Sharing Place software is designed that when a call center worker receives a request for the contact information for a member firm, the appropriate-category caller-response manual questions are displayed on the worker's computer monitor. This optimizes services and give us consistent quality.

No competitors at present but ties with member firms are enhanced in preparation against future entrants

A nationwide network of member firms is indispensable in STI's business. We believe that it is not easy for new entrants to build up the similar member firm network as STI's, provide services in as many categories as ours, and create a way to attract customers. We therefore feel that the entry barrier is high.

Nevertheless, in case of an increase in new entrants and an intensified competition with existing peers, STI's operating performance and financial condition can be affected.

In addition, a new entrant or an existing peer which focuses on specific regions or specific services may be able to expand its target business in a short period of time and become competitive, giving an impact on STI's operating performance and financial condition. In preparation against such risks, we strive to build solid and lasting relation with member firms and to maintain a leading position.

5. Medium-term business plan

Aiming at growth based on three factors to maximize corporate value

Sharing Technology Inc. (STI) will continue to evolve based on the aforementioned three factors to maximize corporate value. We have developed a medium-term business plan, in which we focus on the three factors, capture social needs, and aim at creating maximal long-term sustainable corporate value.

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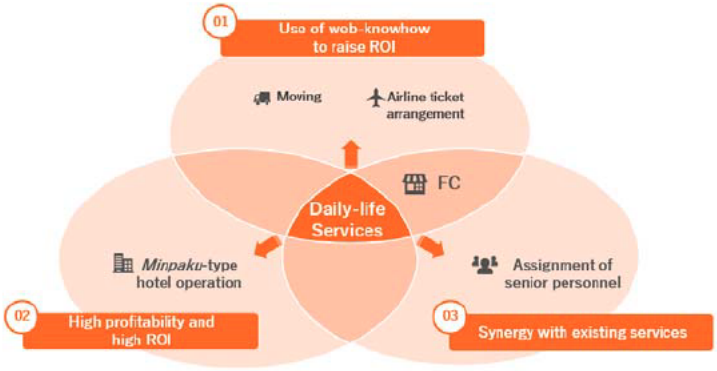
Three factors to maximize corporate value, that embodies STI's mission

Accelerate growth by embodying STI's mission, through investment focus on three factors to maximize corporate value

1. Use of web-knowhow to raise ROI
2. High profitability and high ROI
3. Synergy with existing services



Integrated Platform Site



Vertical Media Site

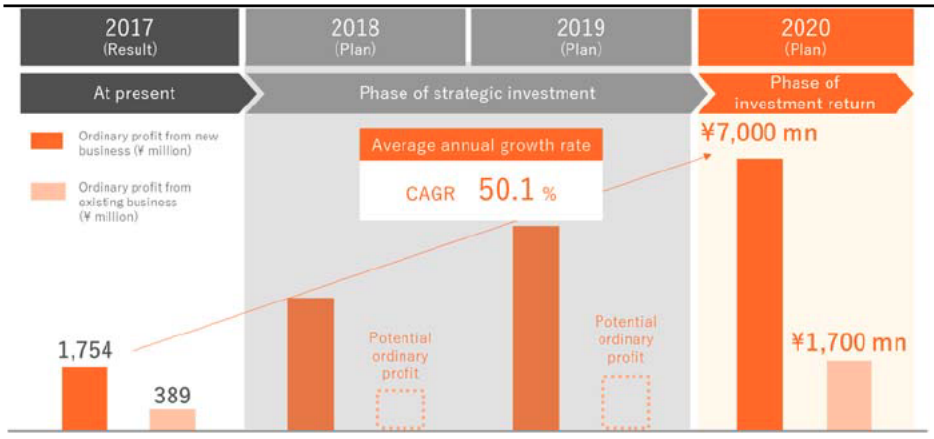


Strengthen staffing of web-related work to enhance the Vertical Media Sites of the Good Living 110 from the end of September 2017. Aiming at boosting the traffic.

The business plan and improvement of corporate value

In addition to the enhancement of existing business and growth driven by M&A, STI is entering the *minpaku*-type hotel business with a business model for refurbishing a rental apartment building into a hotel. We plan to spend the first two years for upfront investment and to achieve ¥1.7 billion in ordinary profit in fiscal 2020, ending September 2020. At the same time, we intend to manage our invested capital efficiently. Investment capital and working capital will mainly be funded by cash and deposits at hand and bank borrowing, given the low interest rates available at present. We will borrow at low cost, thereby reduce cost of capital, and strive to raise long-term corporate value.

Medium-term business plan: Make upfront investment, enhance management resources, and achieve ¥1.7 billion in ordinary profit



Drivers of corporate value

- Existing business: Use of AI; enhanced web customer-attracting and matching ability
- New business, M&A: *Minpaku*-type hotels; staffing agency business of the elderly (under study); acquisition of FC site (basic agreement); etc.
- Financial strategy: Increase in bank borrowing; decline in cost of capital

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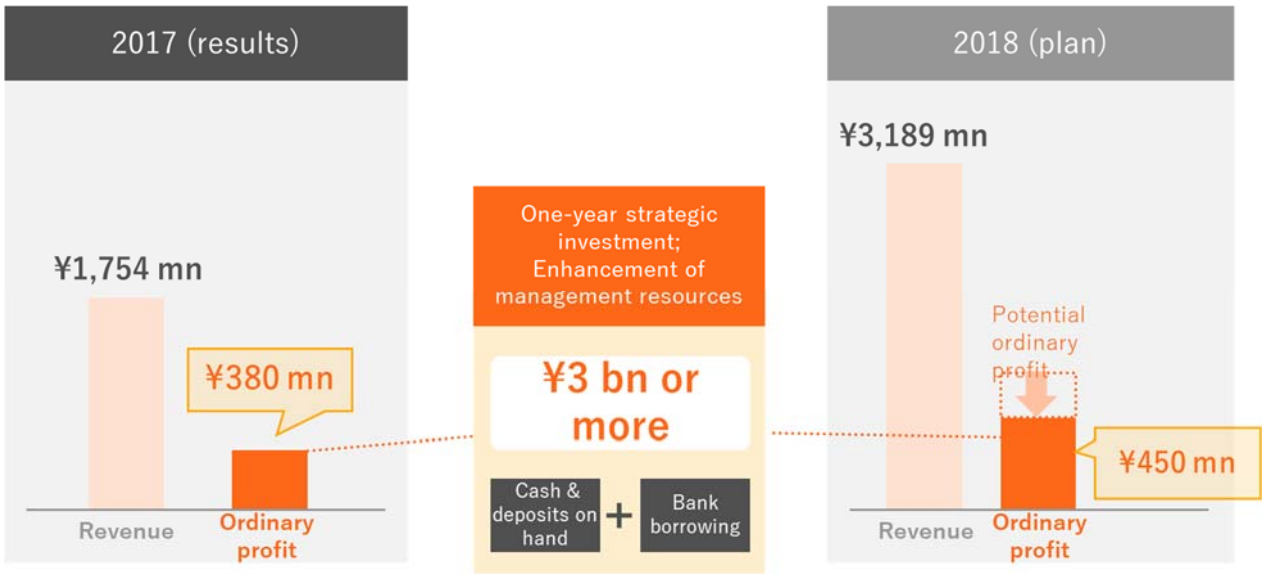
Forecasts for fiscal 2018 ending September 2018 assume that more than ¥3 billion will be required for investment and it will be funded by cash and deposits on hand and bank borrowing, by taking advantage of low interest rates. We intend to be sufficiently funded and at the same to reduce overall funding costs. While the high-margin profit model remains unchanged, forecasts for fiscal 2018 are as follows, taking into account for strategic investments.

Earnings forecasts for fiscal 2018 and funding policy



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Upfront investment

Our initial strategy was to make investments in increment, but our current strategy is to position the next two years as a period of concentrated strategic investment in order to expand corporate value. We will aggressively make business investments, and enhance management resources.

Details

Where we put our money

1	Web-related investment	Hiring and development of personnel in web-related work, and outsourcing expenses, both aimed at expanding existing business
2	Investment in systems	Hiring and development of system-related personnel, and outsourcing expenses, both aimed at expanding existing business
3	Investment in new businesses	*Minpaku*-type hotel business: staffing agency business of elderly workers (under consideration); M&As

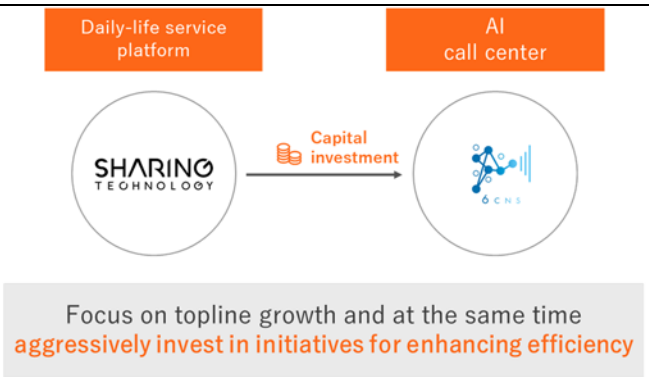
M&A to enhance business;

Call center that makes use of AI

AI techniques are being adopted in diverse fields, and we think they will soon be adopted for operation of call centers, which is an indispensable part of STI's web-marketing services. We therefore invested capital in 6CNS Inc. following a resolution of STI's Board of Directors meeting on October 31, 2017.

6CNS makes use of AI in development of call centers and is engaged in planning, development, design, and sales of voice emotion-recognition AI systems. For telemarketing operators, 6CNS utilizes Level 4 technology, Japan's highest level in the Advanced IT Engineer Examination, has made its newly-developed AI engine learn Japan's highest call center knowhow, and provides innovative services. The company is also studying themes such as language analysis by using recorded audio data (transcribing spoken words), customers' voice recognition technology, voice synthesis technology, and dialogue engine technology.

Capital investment in 6CNS, a developer of AI for call centers



Focus on topline growth and at the same time
aggressively invest in initiatives for enhancing efficiency

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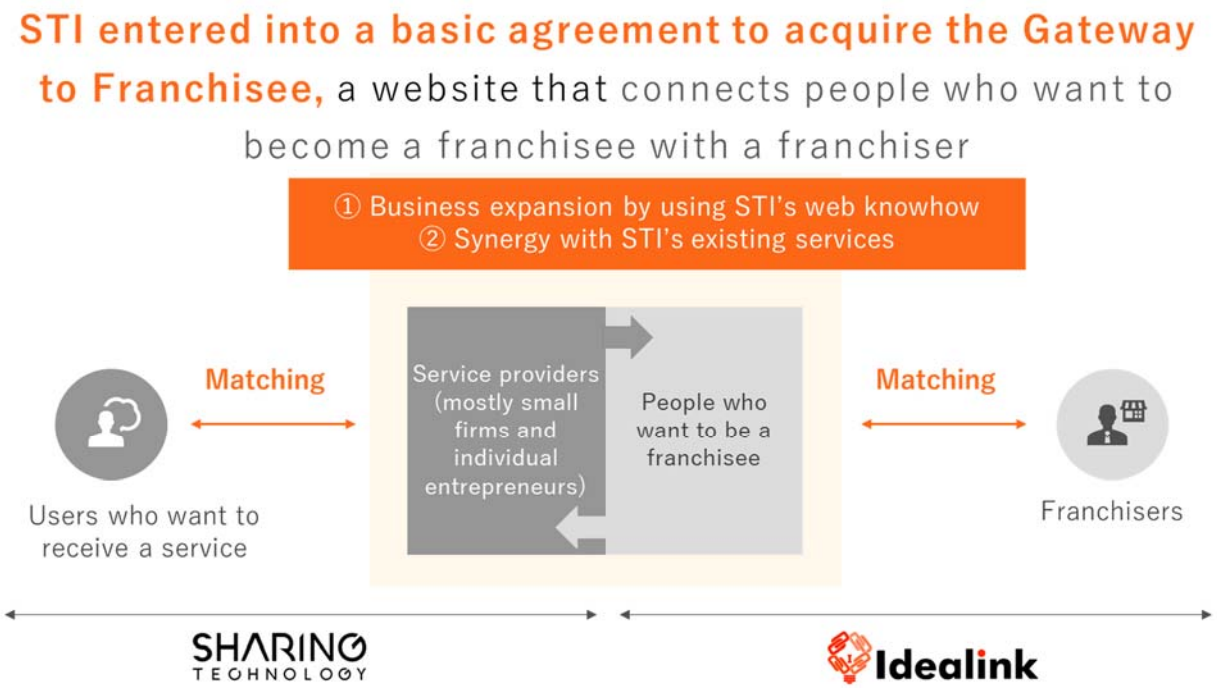
Website enhancement

STI's Board of Directors resolved at its meeting on November 7, 2017 to enter into a basic agreement to make Idealink Co., Ltd. a subsidiary of STI. Idealink, located in the Shinagawa district of, Tokyo and led by CEO Naoki Shimabukuro, manages a website, Gateway to Franchise, which connects aspiring franchisees with franchisers, and a financial media site. Both of these areas are not incorporated in STI's daily-life service portfolio.

We believe that Idealink's users who want to be registered at the Gateway to Franchisees and STI's member firms in the daily-life service category have many common features and that synergies can be expected in business management. STI and Interlink are also jointly considering activities for capturing customers. That is why STI has entered into a basic agreement and began due diligence to make Idealink its subsidiary.

We anticipate synergy can be generated between Idealink's Gateway to Franchisees and STI's existing business. As for Idealink's other managed sites, namely Credit Card Ninpo-cho, Credit Card Now, Credit Card Now Premier, and Ion Card Navi, we think that SIT's website management know-how can be profitably utilized by us.

Impacts of acquiring Idealink



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New business growth story

In considering new business, we think of three aspects in particular: (1) use of web-knowhow to raise return on investment (ROI); (2) high profitability and high ROI; and (3) synergy with existing services. Specifically, we launched a *minpaku*-type hotel business and is considering a staffing agency business of elderly workers.

New and prospective businesses

1	*Minpaku*-type hotel operation (launched)	Initial investment spending, such as for leasing apartments and interior work, incurs but high investment efficiency can be achieved in a short time.
2	Staffing agency business of elderly workers (under consideration)	Considering to allocate elderly workers to STI's existing daily-life service categories. (This business is still under consideration and its potential impact to earnings is not incorporated in the medium- and long-term budget plans.)

Launch of *minpaku*-type hotel business

Utilizing a legal change that enables *minpaku* operation in National Strategic Zones

Triggered by a surge of foreign tourists, a shortage of accommodations in Japan has become a serious issue. STI has taken this as a business opportunity and has launched a *minpaku*-type hotel business. *Minpaku*, means rentals of vacant rooms in private residences to travelers.

The Special Provision of the Japanese Hotel Business Law in National Strategic Zones, applicable to Airbnb-style rentals or *minpaku* rentals, was enforced in October 2016. This special provision enabled us to adopt a model for use of all rooms of a new apartment building as *minpaku* rooms. *Minpaku* operation requires a much smaller initial investment than that of conventional hotel operation and can generate ROI much earlier as the business can be launched in a short lead time. Personnel expenses can also be reduced by adopting a remote response system using IoT devices. This is therefore expected to be a highly profitable model and, in a sense, a new form of sharing.

① High efficiency of investment due to rental contract and no need for continuous presence of staff

STI is launching this business not by constructing a hotel from scratch but by leasing an entire existing apartment building, that requires low initial investment. By adopting a smart *minpaku* rental system, continuous presence of staff around the clock is not required, unlike hotels. Personnel expense therefore can be significantly reduced, to realize high profitability.

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② Luxurious, reasonable, and differentiated with competitors

STI will design interior of apartment units under the concept of a luxury hotel, using hotels in Scandinavia countries and tropical resort hotels as reference. By creating a “instagrammable” space with a nice bed, attractive wallpaper, curtains, and modest decorations, STI’s *minpaku* rooms will be appealing as photos on the reservation website. As a legal requirement of the *minpaku*-type hotel, the floor area is to be 25 m^2 or more, which makes it much bigger than a typical business hotel room of 9 m^2 or 13 m^2, allowing a group of visitors to stay in one unit, and satisfying the typically higher area desired by many non-Japanese. We expect to attract families or group of friends on vacation in Japan among foreign inbound tourists. As a group of four visitors, who typically have to stay in two rooms, can stay in one room at our *minpaku* hotel, we will have a clear price advantage over conventional hotels.

③ How to attract customers: use of own technology and on the web

We use accommodation reservation websites, managed by other companies. Our experience has verified the importance of appropriate pricing in view of the demand and supply balance. We have the knowhow to do so in our existing business: to implement the Plan-Do-Check-Act (PDCA) cycle, based on some tentative theory and data tracking, and to think of cost-benefit performance in making choices.

④ Selection of property

Hotel occupancy rate and room rate highly depend on location. We therefore take full consideration of facilities in the neighborhood in selecting a property. We are planning to choose areas which are convenient for prospective customers and where existing facilities assure a steady occupancy rate.

⑤ Estimated spending for the new business

Leases for apartment houses and others: ¥18 million (pre-tax) (contract signed October 31, 2017)

Cost for interior finish work and others: ¥20 million (pre-tax) (contract planned for mid-November 2017)

⑥ The first candidate property

Location: Osaka City, Osaka Prefecture

Scale: Seven floors (27 apartment units)

Construction completion: November 2017 (plan)

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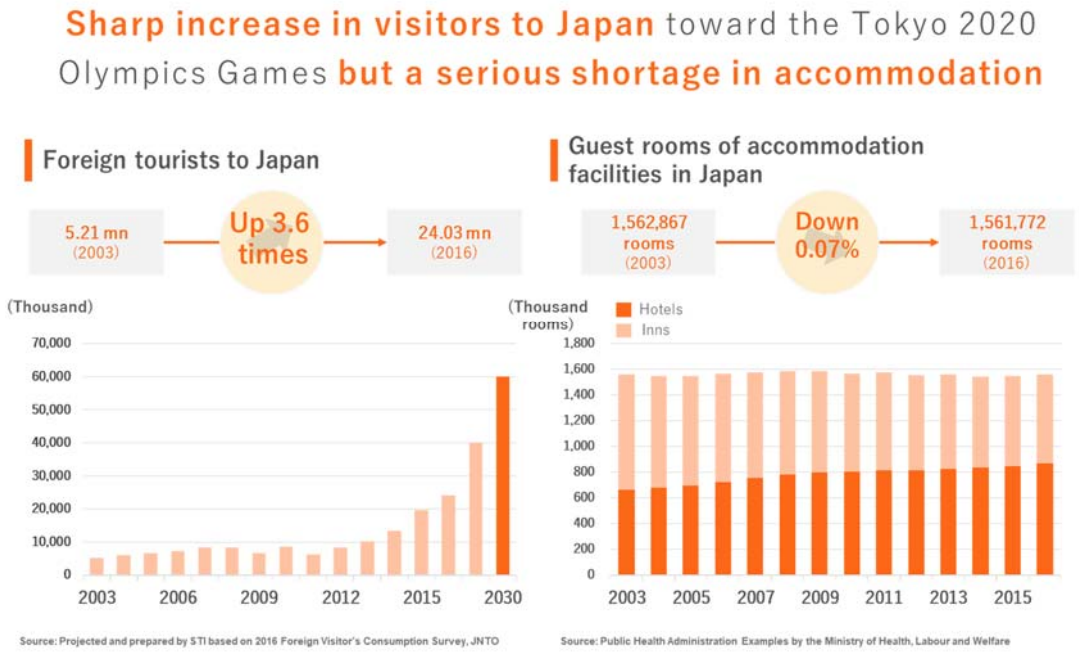
Positive demand for *minpaku* hotels

Foreign tourists' inbound demand is expected to expand significantly. We are anticipating our web-based reservation system will be favorably received and generate an increase in bookings as this type of use of the internet is where we are strong.

Environment for the *minpaku*-type hotel business



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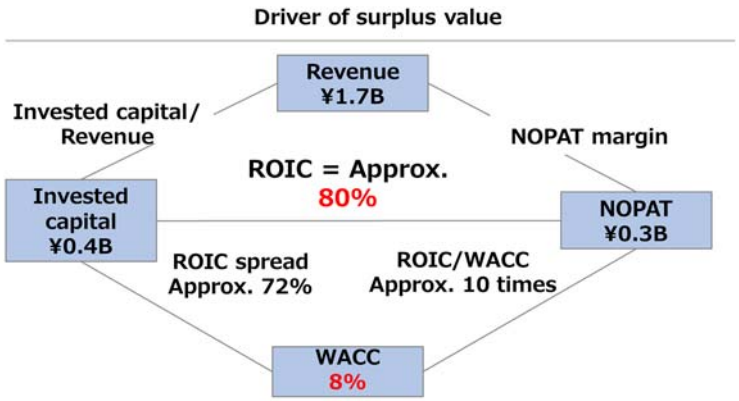
6. Strategy for corporate value creation, financial policy, and return to shareholders

Driver for long-term corporate value creation

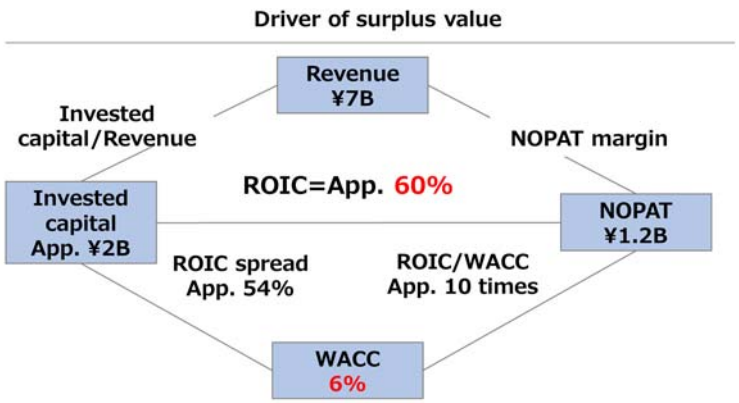
In managing long-term corporate value, we find the following factors are important: (1) revenue (scale and growth); (2) net operating profit after tax margin (NOPAT margin), (3) ratio of revenue to invested capital; and (4) weighted average cost of capital (WACC). Return on invested capital (ROIC) is calculated by dividing the NOPAT margin by the ratio of revenue to invested capital. We understand that a higher ratio of ROIC to WACC means a higher ability to create corporate value. WACC is estimated from the change in stock price and other factors. However, as Sharing Technology Inc. (STI) has a short history after being listed, we use data from peer companies and come up with about 7-8% as the present estimated WACC. This is illustrated below. STI's ROIC of 80% implies an extremely high efficiency, and is about 10 times WACC. In fiscal 2020, the final year of the current medium-term business plan, WACC is expected to decline to around 6%, due to investment in the hotel business, risk of which is stable, and an increase in borrowing. As a result, ROIC is likely to decline marginally but the ROIC/WACC is projected to stay at around 10 times, the same as at present.

Structure of STI's corporate value creation

Fiscal 2017



Fiscal 2020 (image)



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Details of the items above are as follows:

Invested capital = 1.5-months of revenue + Current assets excluding cash – Current liability excluding interest-bearing debt + Fixed assets and others

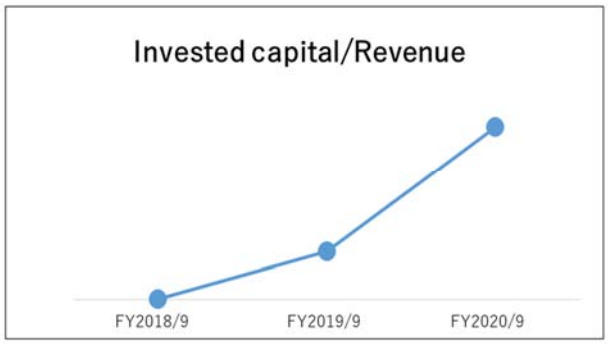
Invested capital/Revenue = Invested capital at the beginning of a fiscal year/Revenue for the fiscal year

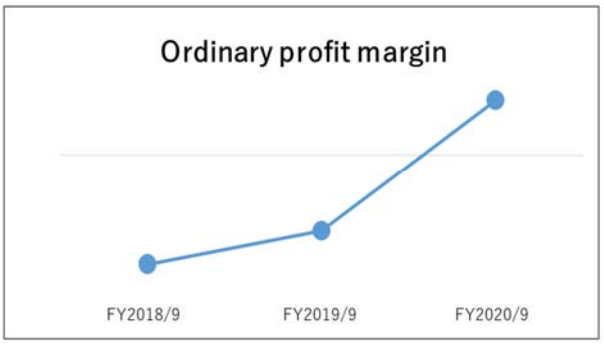
NOPAT = Operating profit X (1 – Effective tax rate)

A conceptual representation of the development of corporate value in the *minpaku* hotel business is shown in the following graphs. We are expecting to incur ordinary losses in the first two years but to turn to a significant profit in the third year.

Corporate value structure of the *minpaku*-type hotel business

Earnings trend (projected) of *minpaku*-type hotel business





The next graph visualizes an image of STI's longer-term corporate value creation, by using an EVA® framework. Basic assumptions are to make significant borrowing to fund investment in fiscal 2017, and to invest in a stable hotel business to lower WACC to around 6% in the next two years. Corporate value is unlikely to expand much over the next two years but is projected to grow significantly in the third year. If STI achieves the targets of the medium-term business plan, WACC declines to 6% and then gradually rises to around 10%, and growth rate gradually declines toward 0% by the 12th year, STI's theoretical shareholder value can be calculated to be ¥20 billion or higher. We aim at realizing this scenario in the longer term, while achieving the medium-term business plan's targets in the immediate term.

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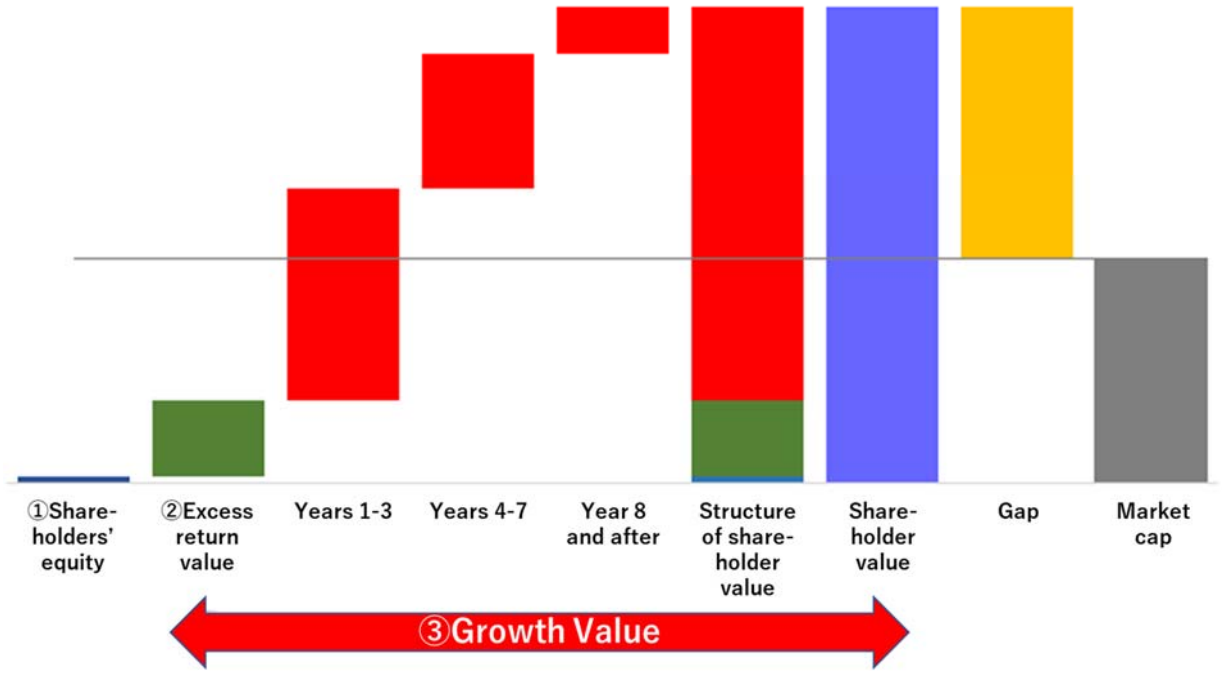
Projected development of shareholder value



Note: EVA® is a trademark owned by Stern Value Management (formally, Stern Stuart & Co.) and is calculated as follows:
EVA = NOPAT – WACC X Invested capital at the beginning of a year
The chart above is illustration based on the permanent value of EVA of each year being discounted to the present value.
This year's permanent value of EVA is defined as surplus value and an increase in EVA from the next year as growth value.

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ESG initiatives

In order to maintain and enhance sustainable corporate value, we find it important to manage the company by incorporating the Environment (E), Society (S), and Governance (G) elements in the business structure. We are carrying out the following initiatives:

ESG initiatives

Environment (E)	● Web-based operation contributes to saving of paper, unlike other daily-life service providers who use paper-based ads (with uncertain effectiveness). ● STI's matching technology enables more intensive use of member firms' management resources. ● *Minpaku*-type hotel operation makes effective use of apartments, contributing to reduction in wasteful use of resources.
Society (S)	● STI's contribution to all stakeholders and society is to keep providing fair market and lasting value in existing and other business domains. ● STI will evolve its organization and personnel evaluation system so that each employee can grow in line with the company's growth. By means of interviews with employees, we support their career advancement and self-fulfillment consistent with workstyle innovation in society.
Governance (G)	● We appropriately allocate employees and directors to enable flexible decision-making at the company, and also flexibly transform our internal control system. ● We make decisions with consideration of cost of capital concerning measures to enhance long-term corporate value, based on the theory of corporate value.

Return to shareholders

Since its foundation, STI has not paid a dividend as our priority is to first secure adequate internal reserves and enhance the company's base in order to strengthen financial conditions and expand operation. While we recognize that distribution of return to shareholders is one of management's priority issues, we are in a growth stage and for the time being would like to focus on increasing internal reserve to fund investments for more efficient operation and business expansion. In the future, we intend to decide our policy on distribution of a return to shareholders, with consideration given to financial conditions, operating performance, business plans, and other factors. However, the timing to start dividend payment is yet to be determined.

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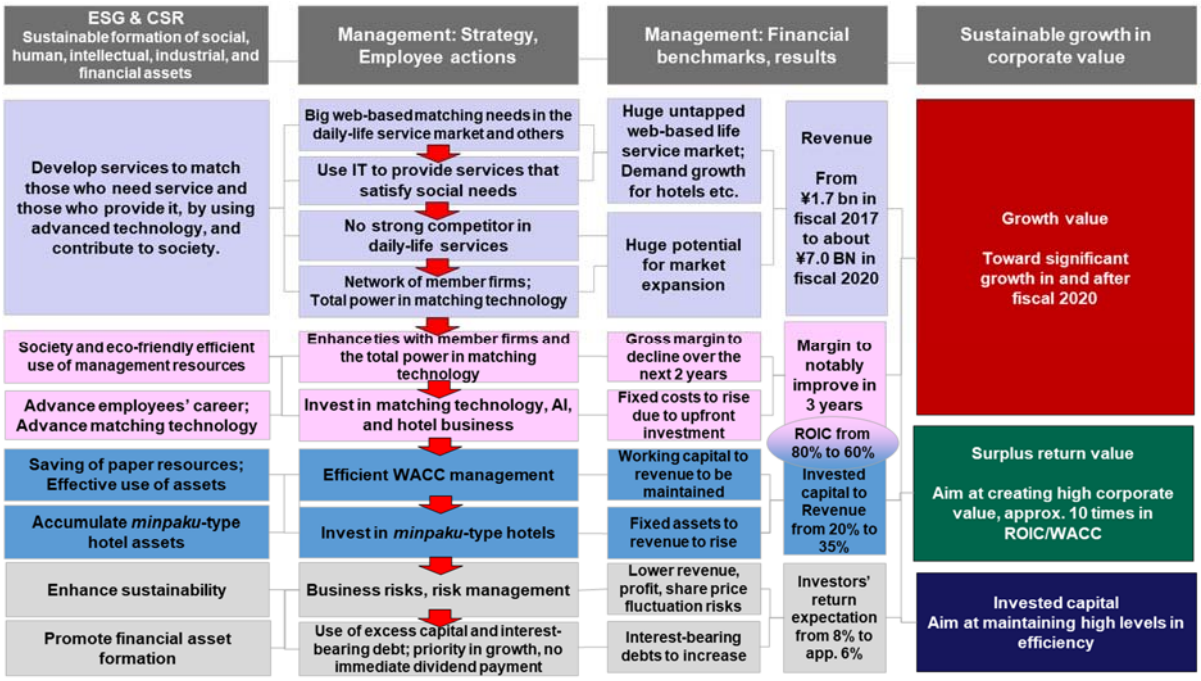
Summary of long-term prospects for corporate value in the medium-term business plan

What we have discussed above are illustrated below. We hope that this report helps our shareholders, existing and prospective, to better understand our initiatives to raise long-term corporate value.

Overview of corporate value creating structure



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