Financial Results Explanatory Material for the Fiscal Year Ended March 31, 2018 (FY3/18)

Welbe, Inc.

Securities Code: 6556

Contents

1. Corporate and Business Overview

2. Results for FY3/18

3. Plan for FY3/19

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Corporate Overview (As of March 31, 2018)

Welbe Corporate Philosophy

Dedicated to the pursuit of self-fulfillment and happiness for all employees and the creation of a society where everyone can have big dreams

Name	Welbe, Inc.
Head office	7F, GINZA Namikidori Building, 2-3-6, Ginza, Chuo-ku, Tokyo
Representative	Makoto Ohta, President & CEO
Established	December 1, 2011
Capital	¥328 million
No. of shares issued	8,850,000 shares Note: Welbe conducted a three-for-one common stock split on April 1, 2018. Number of shares issued is before the stock split.
Fiscal year end	March 31
Business (No. of operating bases)	Disability Welfare Service Business (1) Employment transition support business: Operation of **58** employment transition support offices; **2** specific consultation support offices; **2** employment support centers for people with developmental disabilities operated on consignment from Saitama Prefecture (*1); **1** self-reliance training (lifestyle training) center (*2) (2) Habilitation Business: **16** child development support centers; **3** after-school day care service classrooms *1: "**Job Centers**" *2: "**Welbe Challenge**"
Employees	546 (excluding temporary employees)

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Progress and Growth

December 2011
Established

April 2012
Began **Employment Transition Support Business** and in November, opened **3 centers**

June 2014
Began Habilitation Business for **pre-school children** (Child development support business)
Began Employment Support Business specialized for **people with developmental disabilities**

April 2015
Began operations outside the **Kanto area**

June 2015 Exceeded **30 locations**

September 2016 Exceeded **50 locations**

November 2016
Began Habilitation Business for **elementary, junior and senior high school students**
(After-school day care service)

October 2017
Listed on the TSE Mothers Market

Opened **habii Kawagoe**
Opened **Job Center Soka**

Opened **welbe Nishifunabashi Ekimae Center**

Opened **welbe Nagoya Ekimae Center**

Opened **habii plus Kawagoe**

Source: Welbe website

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Business Overview

Seamless disability welfare services for all ages from pre-school children to adults

Employment Transition Support Business (Age 18 to 65)

Job training, job hunting support, post-employment support for people with disabilities who want to work

- **welbe**
  Provision of services based on the Comprehensive Support for Persons with Disabilities Act
  Operation of employment transition support offices
- **Others**
  Operation of specific consultation support offices, Job Centers and Welbe Challenge



Habilitation Business (Up to age 18)

Support and guidance for growth and development of children with disabilities

- **habii**
  Provision of services based on the Child Welfare Act
  Operation of child development support centers for pre-school children
- **habii plus**
  Provision of services based on the Child Welfare Act
  Operation of after-school day care service classrooms for elementary, junior and senior high school students



Adults

Elementary, junior and senior high school students

Pre-school children

Employment transition support office

welbe

After-school day care service classroom

habii+ plus

Child development support center

habii

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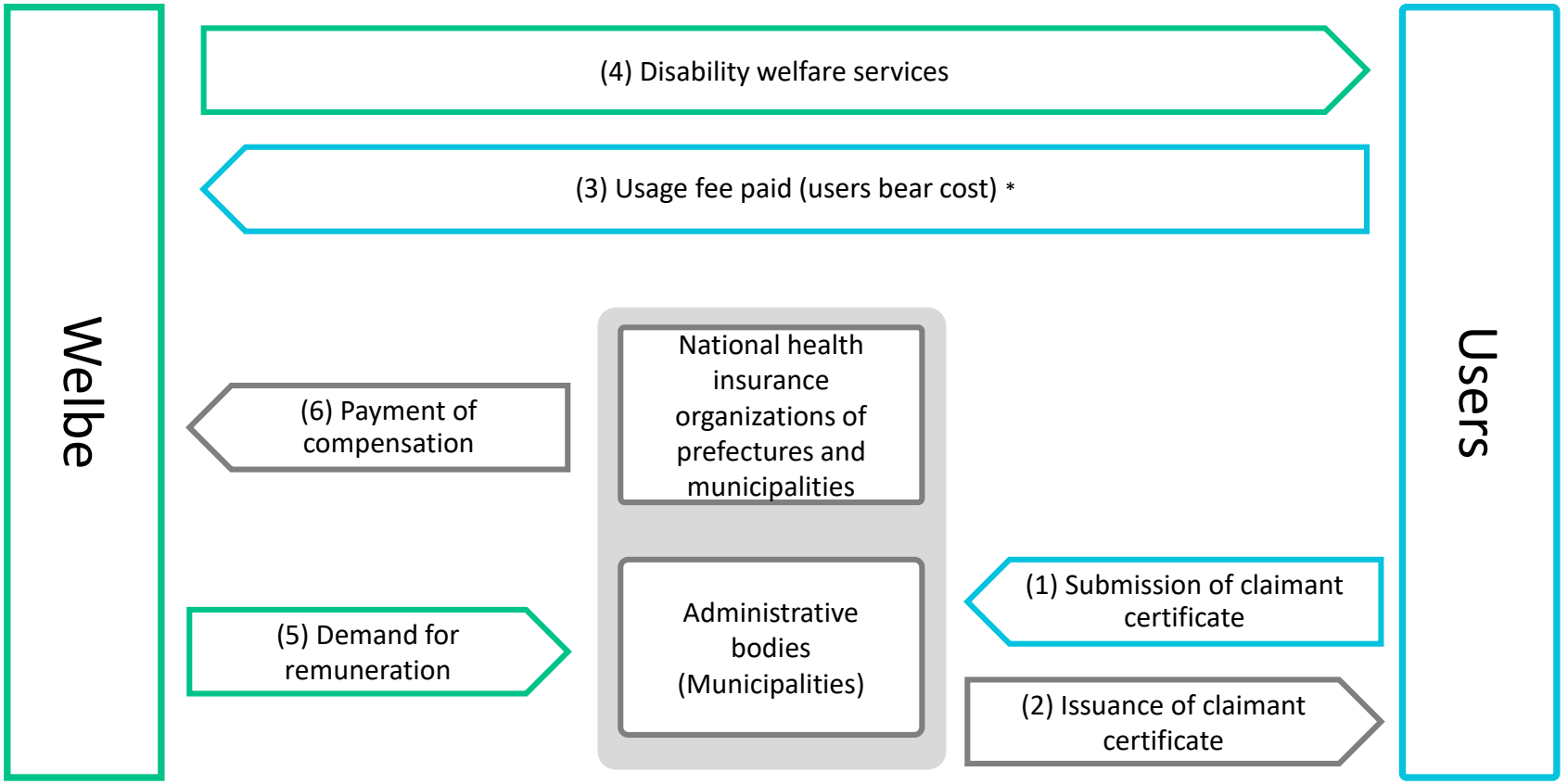
Business Model

Users pay for part of the cost of services and the remaining balance of the cost is covered by the national health insurance organizations or other public-sector sources.



* Monthly fees for disability welfare services are limited based on household income.

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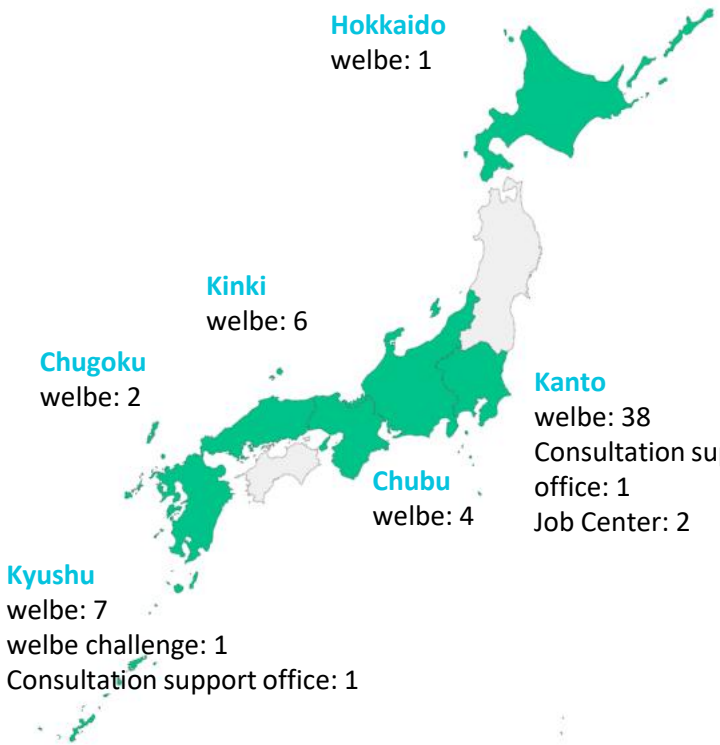
Employment Transition Support Business Overview

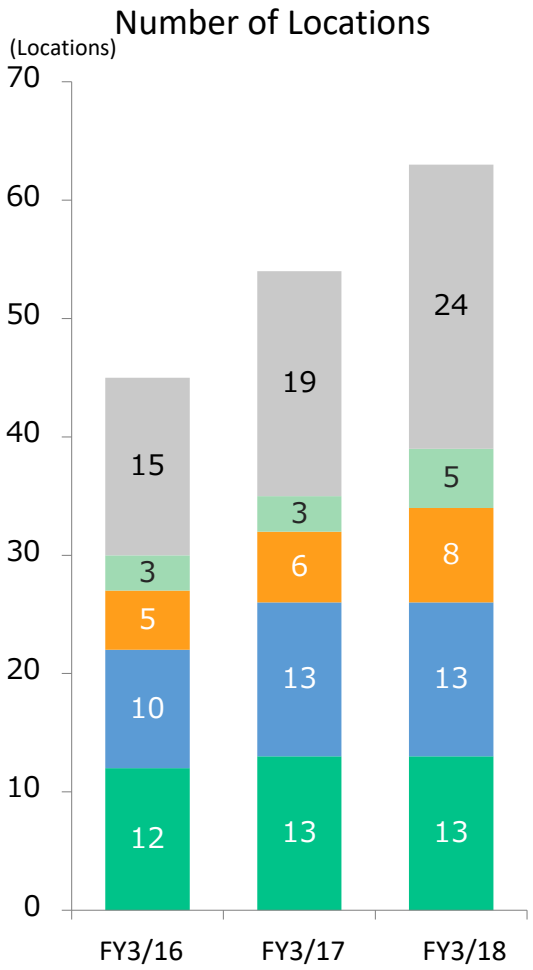
With operations centered in the Tokyo area, this business is expanding with the goal of establishing a nationwide network

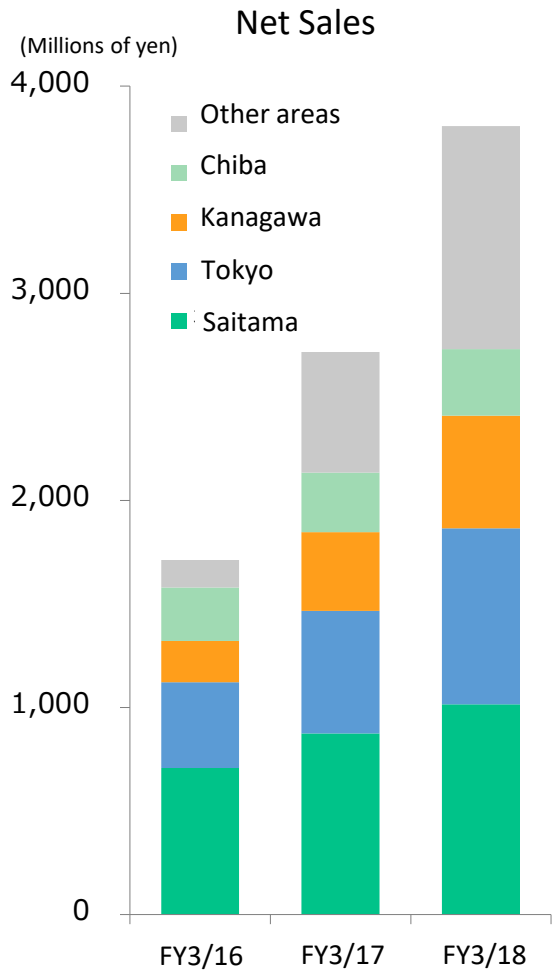
welbe **63 locations**
from Hokkaido to Kyushu

(As of March 2018)



Locations and Sales by Region





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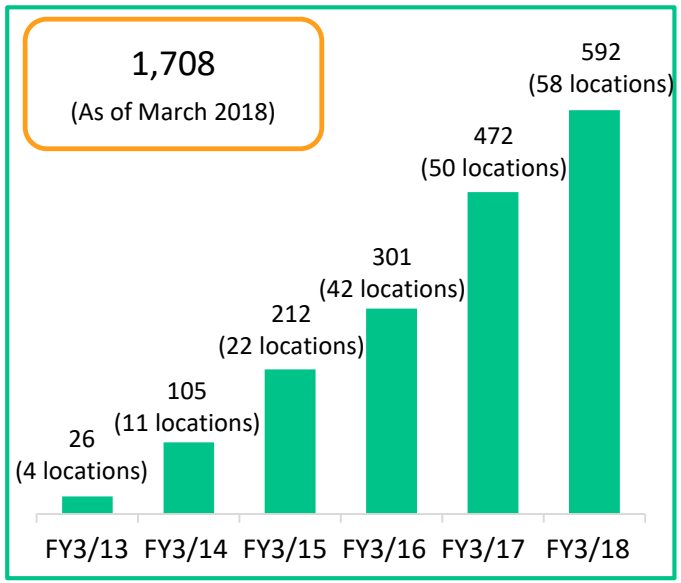
Employment Transition Support Business Performance

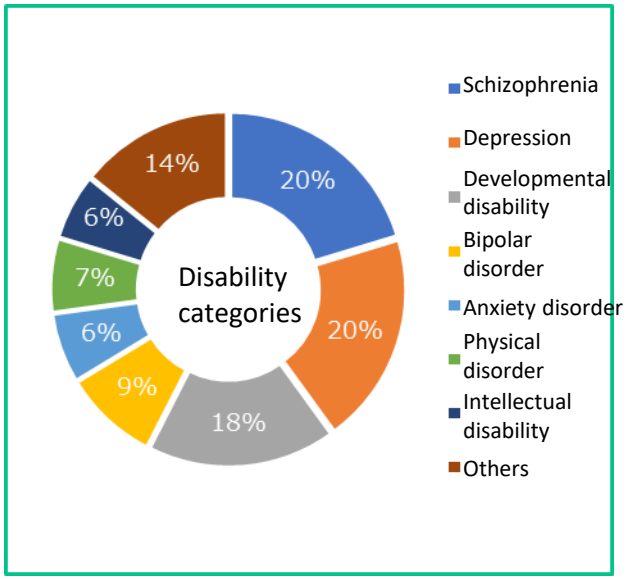
Periodic communications and consultations with employers to help people remain in a job

(Advice for developing workers' skills, such as methods to deal with specific disabilities and other needs and help for employers about interacting with and giving directions to people with special needs)

Number of People with Jobs

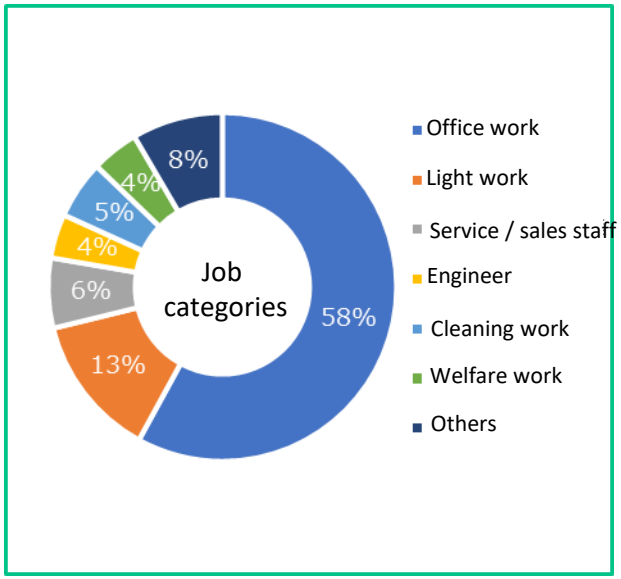


Job Placements by Disability Category



* Mental diseases are 70%, going from schizophrenia to anxiety disorder.

Job Placement Categories



* More than 70% are in jobs where they had no experience, primarily office work.

In FY3/18, **406** job placements had retention of at least six months

*Number of people placed in jobs by Welbe between October 2016 and September 2017 who remained in their jobs for at least six months

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Habilitation Business Overview

Continuing to open new locations with emphasis on Tokyo area

Number of **habii** locations nationwide **16**

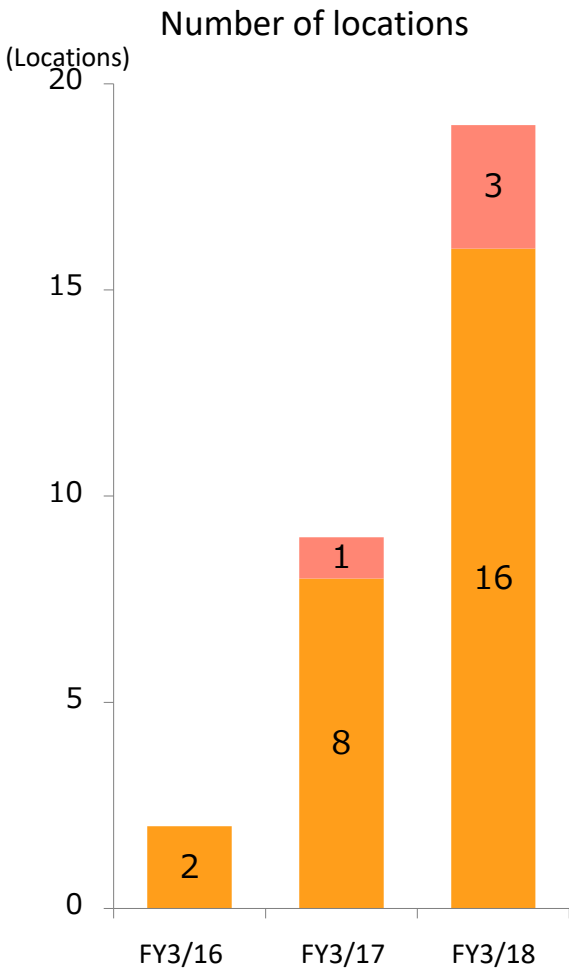
Number of **habii plus** locations nationwide **3**

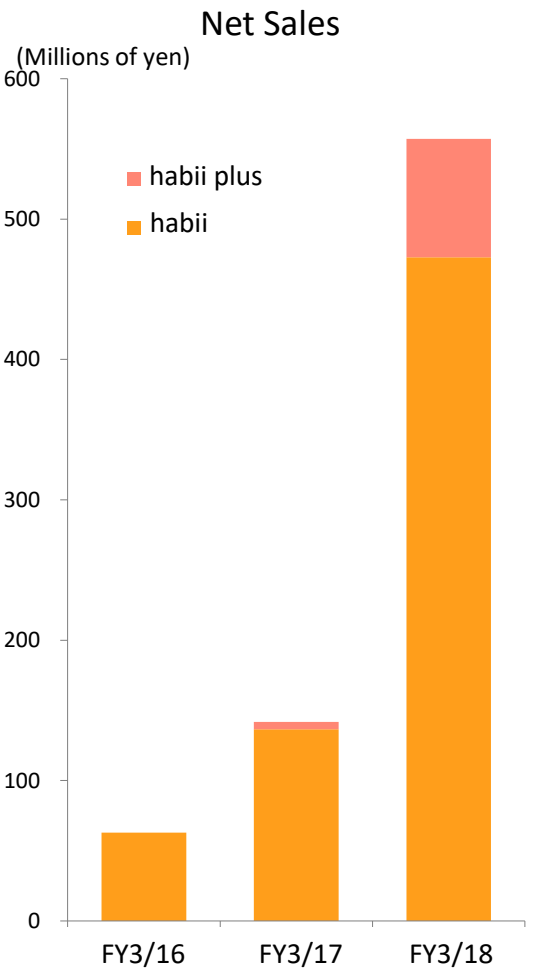
(As of March 2018)



Kansai area
Osaka habii: 2
Hyogo habii: 1

Kanto area
Saitama habii: 5, habii plus: 3
Chiba habii: 3
Kanagawa habii: 4
Tokyo habii: 1





Source: Welbe website

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FY3/18 Highlights

Results of operations

- Net sales: ¥4,364 million; Operating profit: ¥1,012 million; Ordinary profit: ¥1,042 million; Profit: ¥704 million
  - ✓ Net sales up 52.7%, operating profit up 86.8%, ordinary profit up 94.2% and profit up 105.8%
  - ✓ Operating profit on sales: 23.2%, ordinary profit on sales: 23.9%

Number of locations

- Opened 19 locations totaling 82 locations
  - ✓ **8 welbe centers** were opened.
  - ✓ The first self-reliance training (lifestyle training) office **welbe challenge** was opened in kokura, Kitakyushu City.
  - ✓ **8 habii centers** and **2 habii plus classrooms** were opened.

FY3/19 forecasts

- FY3/19 forecast:
  Net sales: ¥5,565 million; Operating profit: ¥1,295 million; Ordinary profit ¥1,291 million; Profit ¥834 million
- Plan to open 14 locations including 7 employment transition support offices and 7 Habilitation centers

Others

- Listed on the TSE Mothers Market on October 5, 2017.
- Plan for the FY3/18 year-end dividend: Ordinary dividend: 16.00 yen; Commemorative dividend: 8.00 yen

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Financial Overview

In FY3/18, net sales and all the level of profits reached record high.

Compared with **the FY3/17 results,** net sales up ¥1,505 million, operating profit up ¥470 million, ordinary profit up ¥505 million and profit up ¥362 million

Compared with **the FY3/18 forecast,** net sales up ¥224 million, operating profit up ¥42 million, ordinary profit up ¥42million and profit up ¥95 million

Item	FY3/17		FY3/18				YoY change		Vs. FY3/18 forecast	
	Results		Initial forecast		Results					
	Amount (Millions of yen)	Comp.	Amount (Millions of yen)	Comp.	Amount (Millions of yen)	Comp.	Change (Millions of yen)	Change (%)	Change (Millions of yen)	Change (%)
Net sales	2,858	100.0%	4,139	100.0%	4,364	100.0%	1,505	52.7%	224	5.4%
Gross profit	1,110	38.8%	1,632	39.4%	1,730	39.7%	620	55.9%	97	6.0%
Operating profit	542	19.0%	969	23.4%	1,012	23.2%	470	86.8%	42	4.4%
Ordinary profit	537	18.8%	1,000	24.2%	1,042	23.9%	505	94.2%	42	4.3%
Profit	342	12.0%	609	14.7%	704	16.1%	362	105.8%	95	15.6%

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Quarterly Results

Although the number of business days in January and February is smaller, sales in the fourth quarter reached a quarterly record high because of growth in the number of users.

Item	FY3/18 1Q (Apr.-Jun.)		FY3/18 2Q (Jul.-Sep.)		FY3/18 3Q (Oct.-Dec.)		FY3/18 4Q (Jan.-Mar.)		FY3/18 Total	
	Amount (Millions of yen)	Comp.	Amount (Millions of yen)	Comp.	Amount (Millions of yen)	Comp.	Amount (Millions of yen)	Comp.	Amount (Millions of yen)	Comp.
Net sales	980	100.0%	1,091	100.0%	1,135	100.0%	1,156	100.0%	4,364	100.0%
Gross profit	396	40.4%	449	41.2%	451	39.8%	432	37.4%	1,730	39.7%
Operating profit	254	26.0%	276	25.3%	223	19.6% *1	258	22.3%	1,012	23.2%
Ordinary profit	255	26.1%	273	25.1%	257	22.7%	256	22.2%	1,042	23.9%
Profit	164	16.8%	168	15.5%	152	13.4%	219	19.0% *2	704	16.1%

***1.** Decreased because of an increase in SG&A expenses caused by higher tax and dues as Welbe became subject to the size-based business tax

***2.** Increased because of lower income taxes caused by the use of tax credits for salary growth and a decrease in the retained earnings tax due to the payment of a dividend

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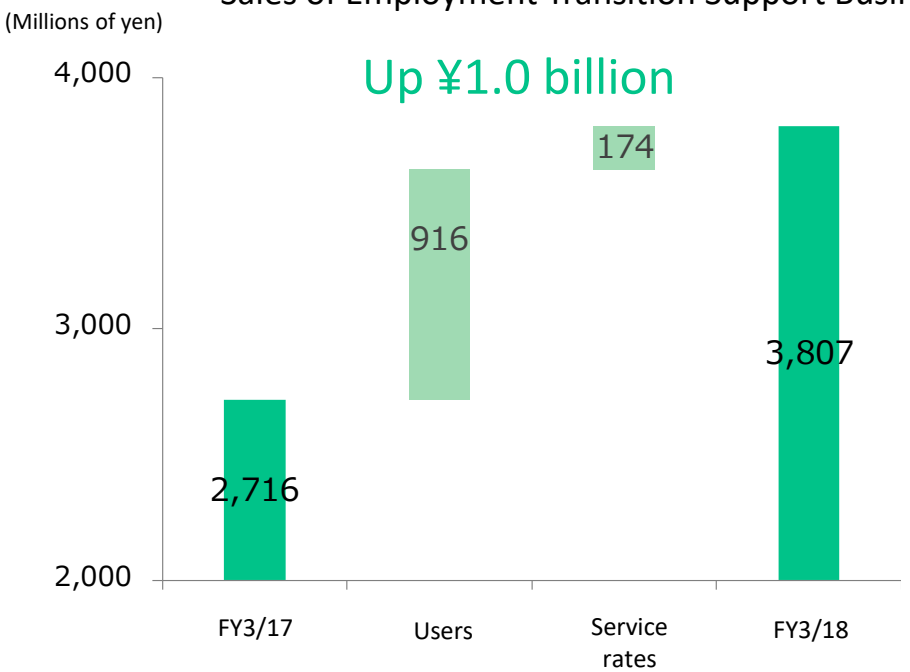
Factors Impacted in an Increase in Net Sales

Sales in **the Employment Transition Support Business** increased 40%.

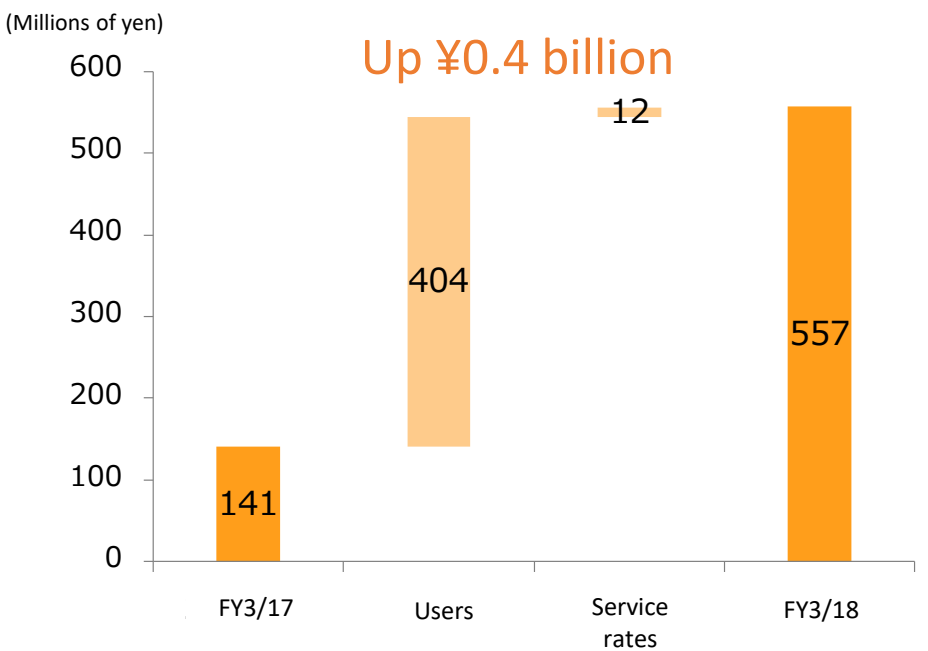
Sales in **the Habilitation Business** increased 293%.

The number of users and the operating ratio continued to increase at all locations. Another reason for sales growth was higher rates for services in the Employment Transition Support Business because of the receipt of additional payments for job retention support.

Sales of Employment Transition Support Business



Sales of Habilitation Business



* Components of changes in sales are reference figures based on approximations and used for internal management purposes.
All sales at locations opened during FY3/18 are included in the increase in users.

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Cost of Sales

The cost of sales increased because of the growth of the number of locations and the establishment of a bonus system, more payments for workers with professional qualifications and other items also contributed to the increase in personnel expenses.

Item	FY3/17		FY3/18		YoY change
	Amount (Millions of yen)	Comp.	Amount (Millions of yen)	Comp.	Change (Millions of yen)
Personnel	1,163	66.6%	1,810	68.7%	646
Rent	192	11.0%	277	10.5%	85
Supplies	183	10.5%	242	9.2%	58
Travelling	78	4.5%	108	4.1%	30
Depreciation	43	2.5%	69	2.6%	25
Utilities	18	1.1%	27	1.0%	9
Others	68	3.9%	98	3.7%	29
Total	1,748	100.0%	2,633	100.0%	885

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SG&A Expenses

Selling, general and administrative expenses increased ¥149 million.

The ¥91 million increase in personnel expenses was mainly due to upgrading of head office functions associated with preparations for the initial public offering and the stock listing.
Tax and dues increased ¥44 million due to higher consumption taxes resulting from an increase in taxable procurement activities and to the start of payments required by Japan's size-based business tax system.

Item	FY3/17 Results		FY3/18 Results		YoY change	
	Amount (Millions of yen)	Comp.	Amount (Millions of yen)	Comp.	Change (Millions of yen)	Change (%)
Personnel	261	46.1%	353	49.2%	91	34.9%
Advertising/promotion	84	14.9%	80	11.2%	- 4	- 5.6%
Commission paid	48	8.5%	61	8.5%	12	26.3%
Rent	14	2.5%	26	3.6%	11	81.9%
Depreciation	1	0.3%	2	0.4%	0	47.3%
Tax and dues	62	11.0%	107	14.9%	44	72.2%
Travelling	18	3.2%	20	2.9%	2	13.1%
Others	76	13.4%	66	9.3%	- 9	- 12.3%
Total	568	100.0%	717	100.0%	149	26.4%

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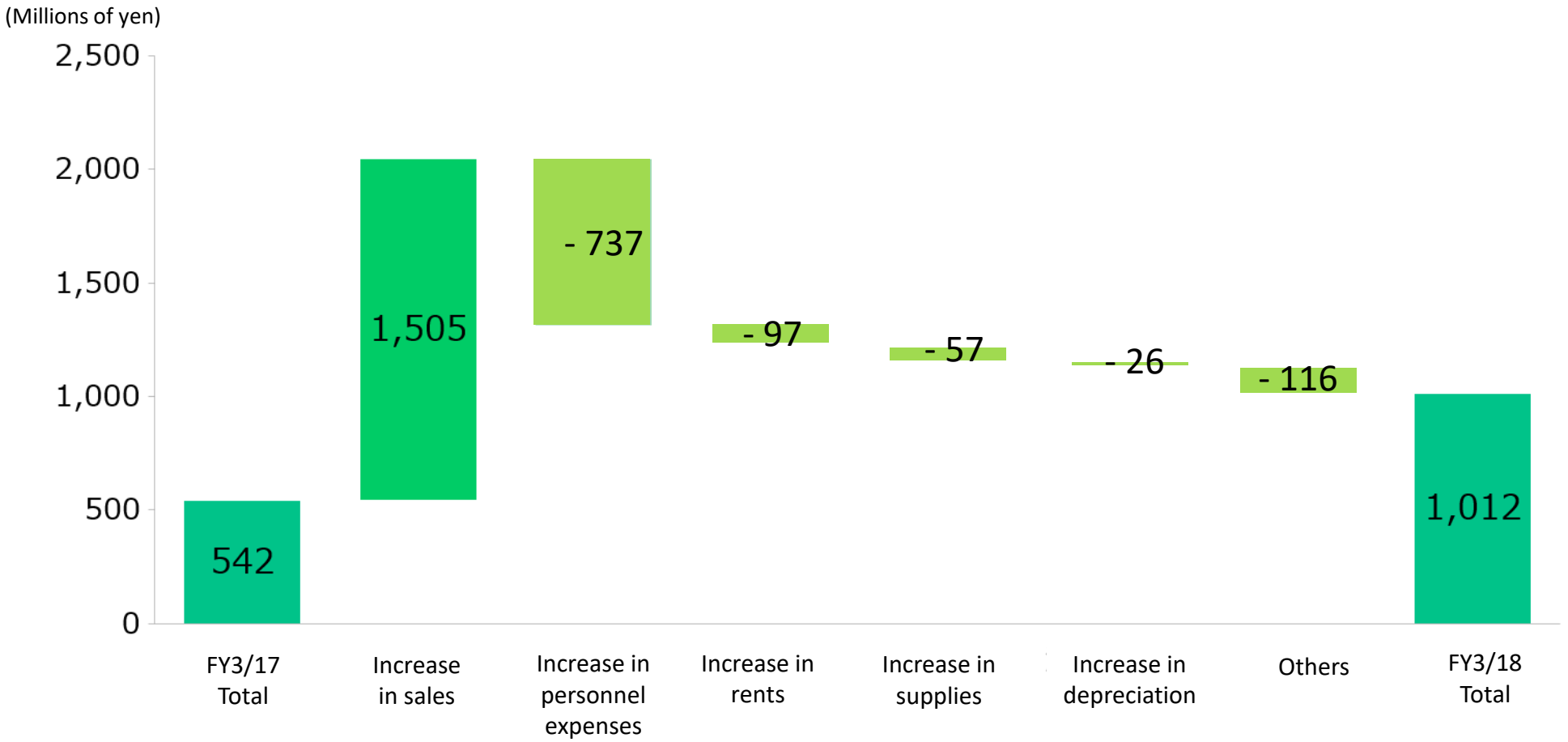
Factors Impacted in an Increase in Operating Profit – YoY Comparison

Operating profit increased ¥470 million YoY.



* Above amounts are total for cost of sales and SG&A expenses

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Balance Sheet –Assets

Total assets increased ¥1,340 million.

Cash and deposits increased significantly due to fund procurement by operating activities and IPO.

Non-current assets increased due to openings of new locations.

(Millions of yen)

	FY3/17	FY3/18	YoY change	Main factors
Assets				
Current assets				
Cash and deposits	765	1,592	826	Increased due to fund procurement by operating activities and IPO
Accounts receivable-trade	529	784	255	
Other	56	79	22	
Total current assets	1,351	2,457	1,105	
Non-current assets				
Property, plant and equipment				
Building and structures	80	221	140	Increased due to HQ relocation and openings of new locations
Tools, furniture and fixtures	76	103	26	Increased due to openings of new locations
Leased assets	81	55	- 25	
Total property, plant and equipment	239	380	141	
Total intangible assets	-	5	5	Increased due to purchase of software
Investment and other assets				
Guarantee and deposits	108	186	77	Increased due to HQ relocation and openings of new locations
Other	19	29	10	
Total investments and other assets	128	216	88	
Total non-current assets	367	602	235	
Total assets	1,718	3,059	1,340	

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Balance Sheet –Liabilities and Net Assets

Capital stock increased ¥1,298 million.

Capital stock and capital surplus increased ¥296 million each resulting from the share issuance for IPO

Retained earnings increased ¥704 million due to profit

(Millions of yen)

	FY3/17	FY3/18	YoY change	Main factors
Liabilities				
Current liabilities				
Current portion of bonds	28	28	-	
Current portion of long-term loans payable	148	180	32	
Other	360	514	154	+¥48 million: increase in income tax payable, etc.
Total current liabilities	537	724	186	
Non-current liabilities				
Bonds payable	157	129	- 28	Decrease due to redemption of bonds
Long-term loans payable	334	254	- 80	+¥100 million: increase due to new loans -¥180 million: decrease due to repayment of loans
Other	151	116	- 35	Decrease due to installment payables and repayment of lease obligations
Total non-current liabilities	644	500	- 143	
Total liabilities	1,181	1,224	42	
Net assets				
Shareholders' equity				
Capital stock	31	328	296	Increase due to issuance of shares for IPO
Capital surplus	28	325	296	
Retained earnings	476	1,181	704	Increase due to profit
Total shareholders' equity	536	1,834	1,298	
Total net assets	537	1,835	1,298	
Total liabilities and net assets	1,718	3,059	1,340	

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Cash Flows

Cash and cash equivalents increased ¥826 million.

Cash flows provided by operating activities were ¥609 million mainly due to profit

Cash flows used in investing activities were ¥230 million mainly due to the purchase of property, plant and equipment

Cash flows provided by financing activities were ¥447 million yen due to proceeds from the issuance of shares

(Millions of yen)

	FY3/17	FY3/18
Ⅰ Cash flows from operating activities		
Profit before income taxes	537	1,038
Depreciation	45	72
Increase (decrease) in provision for bonuses	6	25
Decrease (increase) in notes and accounts receivable-trade	- 188	- 255
Increase (decrease) in accrued expenses	6	60
Other, net	- 14	- 331
Net cash provided by (used in) operating activities	391	609
Ⅱ Cash flows from investing activities		
Purchase of property, plant and equipment	- 33	- 169
Other, net	- 29	- 60
Net cash provided by (used in) investing activities	- 62	- 230
Ⅲ Cash flows from financing activities		
Proceeds from issuance of common shares	57	593
Other, net	- 80	- 145
Net cash provided by (used in) financing activities	- 23	447
Ⅳ Net increase (decrease) in cash and cash equivalents	305	826
Ⅴ Cash and cash equivalents at beginning of period	460	765
Ⅵ Cash and cash equivalents at end of period	765	1,592

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New Locations

During FY3/18, **the Employment Transition Support Business** opened **9 welbe centers** (original plan was 5 new centers) and **the Habilitation Business** added **10 habii classrooms** as planned.

At the end of March 2018, our network included **82 locations**.

This expansion includes locations in Osaka and Hyogo prefectures, the first **habii** locations outside the Tokyo area.

Employment Transition Support Business

May 2017	welbe Challenge Kokura center
Jun. 2017	welbe Shin-Yokohama center II
Aug. 2017	welbe Matsudo center II
Nov. 2017	welbe Chiba Ekimae center II
Nov. 2017	welbe Chikusa center
Dec. 2017	welbe Hakata center
Jan. 2018	welbe Kagoshima-Chuo center
Feb. 2018	welbe Kyoto Shijyo-Karasuma center
Mar. 2018	welbe Fujisawa center II

Habilitation Business

May 2017	habii Matsudo
May 2017	habii Fujisawa
Jul. 2017	habii Kannai
Aug. 2017	habii Urayasu
Oct. 2017	habii Shiki
Oct. 2017	habii Kyobashi
Nov. 2017	habii Shinsaibashi
Nov. 2017	habii Kobe-Sannomiya
Apr. 2017	habii plus Omiya
Jun. 2017	habii plus Kawaguchi

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Forecast for the Fiscal Year Ending March 2019

Forecast

- Forecast sales of ¥5,565 million, operating profit of ¥1,295 million, ordinary profit of ¥1,291 million and profit of ¥834 million in FY3/19.
- Forecast higher sales and earnings as the number of users in the Employment Transition Support Business and Habilitation Business is expected to increase steadily.
- Plan to open **7 welbe centers**, **6 habii classrooms**, **1 habii plus classrooms**

(Millions of yen)

Item	FY3/18 Results		FY3/19 Forecast			
	Amount (Millions of yen)	Comp.	Amount (Millions of yen)	Comp.	Change (Millions of yen)	Change (%)
Net sales	4,364	100.0%	5,565	100.0%	1,201	27.5%
Operating profit	1,012	23.2%	1,295	23.3%	282	27.9%
Ordinary profit	1,042	23.9%	1,291	23.2%	248	23.8%
Profit	704	16.1%	834	15.0%	129	18.4%

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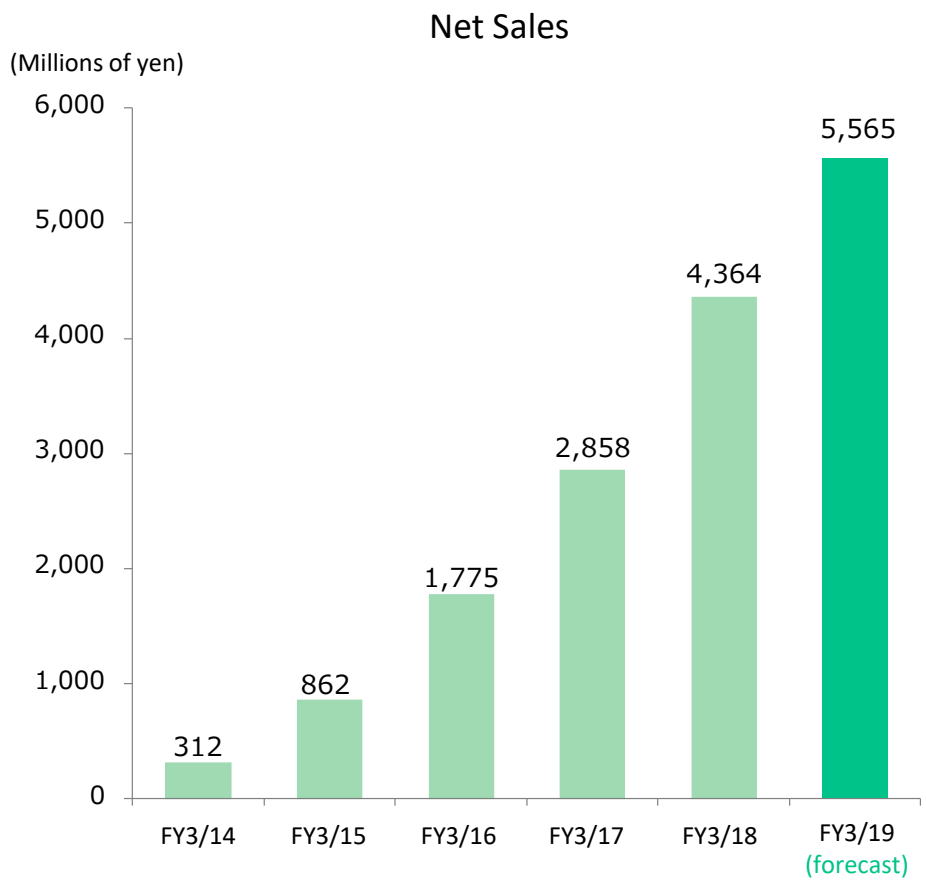
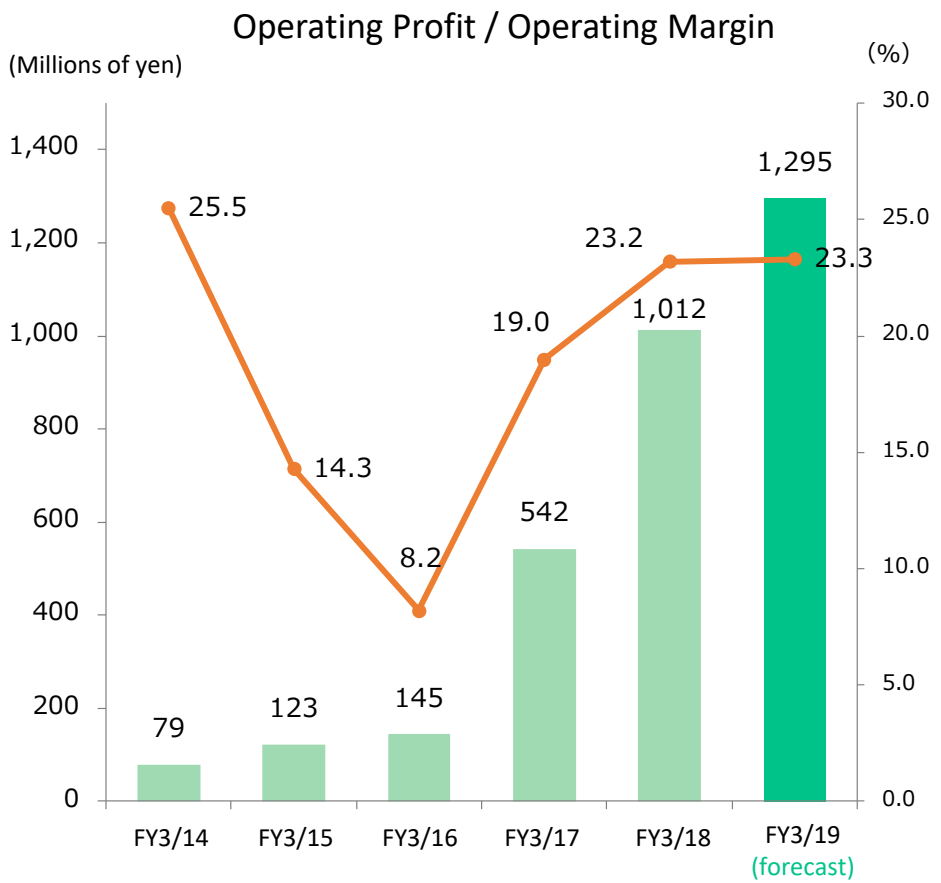
Net Sales and Operating Profit

- Forecast net sales up 27.5% to ¥5,565 million, operating profit up 27.9% to ¥1,295 million, operating margin 23.3%
- Net sales and operating profit are expected to increase; no change in operating margin





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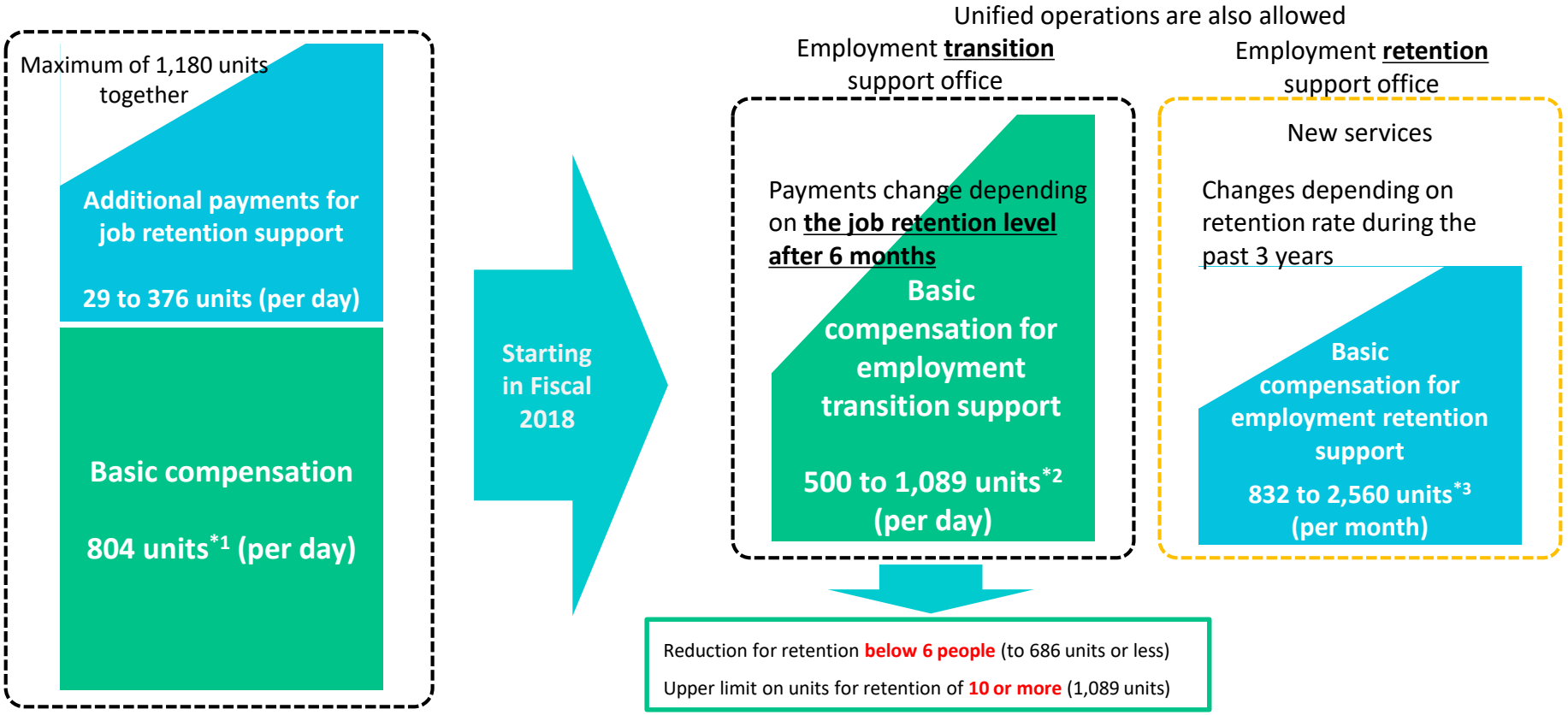
Revisions to Disability and Welfare Service Compensation in Fiscal 2018

In April 2018, Japan replaced the system of additional payments for job retention support with the job retention support service system. As a result, basic compensation for employment transition support changes depending on the level of job retention.



*1. Reduction of 15%-50% based on number of employment transitions and job retentions

*2. For up to 20 people

*3. For 21 to 40 users

Source: Prepared by Welbe based on the Summary of Fiscal 2018 Revisions to Compensation for Disability and Welfare Services

At employment **transition** support offices, the priority is **constantly supplying** people who can remain in their jobs for at least 6 months.
At employment **retention** support offices, the priority is providing effective support that **raises the job retention ratio**.

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Growth in the Number of Locations

Plan to open **7 welbe centers**, **6 habii classrooms** **and** **1 habii plus classroom**.

This includes a location in Sendai, the first welbe location in the Tohoku region.

welbe

Apr. 2018	welbe Takasaki Ekimae center II
May 2018	welbe Tokorozawa purope-dori center
Jun. 2018	welbe Hon-Atsugi Ekimae center II (planned)
Jun. 2018	welbe Sendai Ekimae center (planned)

Considering opening **3 more locations**

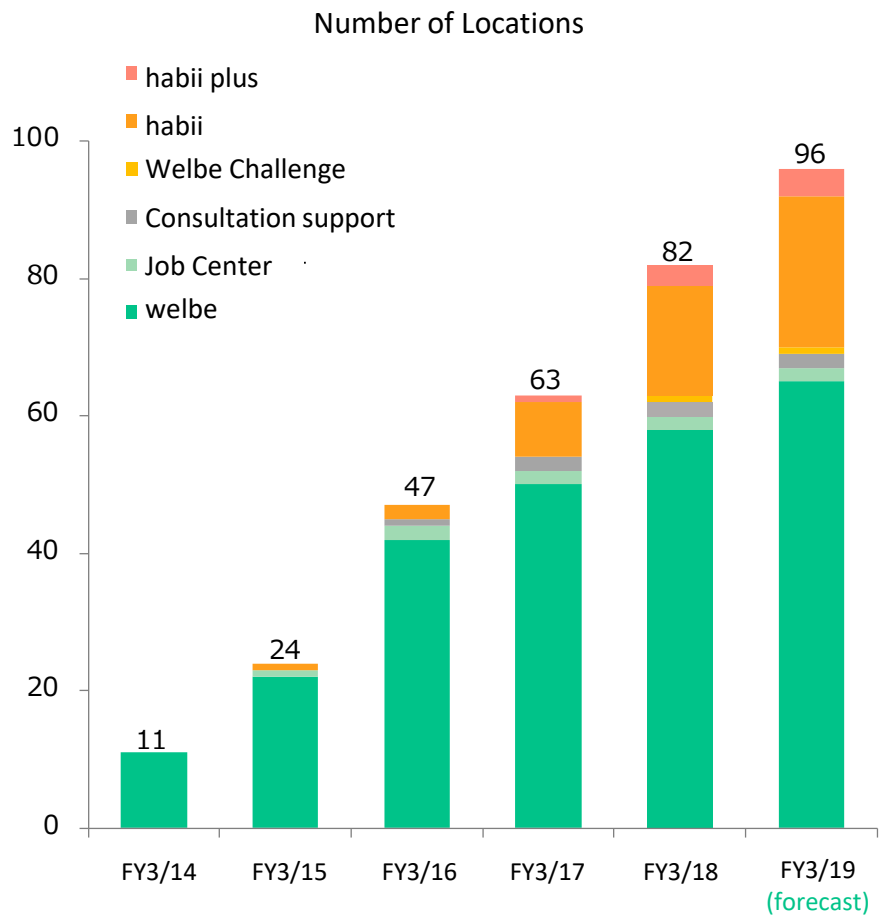
habii

Apr. 2018	habii Shiki II
May 2018	habii Shonandai
May 2018	habii Kashiwa
Jun. 2018	habii Koshigaya (planned)

Considering opening **2 more locations**

habii plus

Considering opening **1 location**



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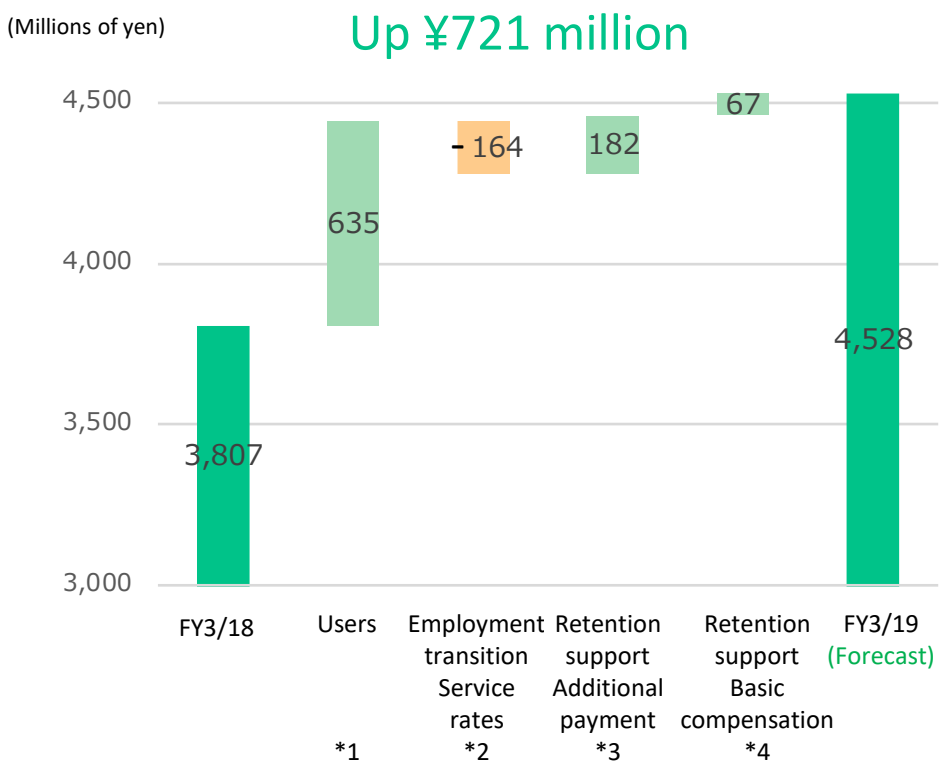
Sales Forecast – Employment Transition Support Business

Sales in **the Employment Transition Support Business** are expected to increase 19% mainly because of the outlook for steady growth in the number of users. An employment retention support business will start in October 2018 at most locations.

Sales of Employment Transition Support Business



*1	Outlook for **an increase in the number of users** is based on expectations for new users at newly opened locations and measures at existing locations to maintain and improve the operating ratio
*2	Forecast a small **decrease in** the overall **utilization rates** at employment transition support offices because of changes in basic compensation at individual locations and the termination of system of additional payments for job retention support
*3	The fiscal year's first half (ends Sep. 2018) is a period to prepare for the start of the employment retention support business. During this period, half of the previous additional payment for job retention support can be received (selective use of employment retention support basic compensation). Welbe plans to start an employment retention support business after completing thorough preparations. As a result**, in principle, the additional payment for employment retention support is** expected to be **received until the end of September 2018.**
*4	Welbe will **start an employment retention support business in October 2018** and start this business on a trial basis before that time at some locations. The number of users is estimated based on the number of people placed in jobs since October 2016 who were employed in the same job at the end of March 2018. Basic compensation is estimated based on the job retention rate in the past three years at employment transition support offices operated as a single organizational unit.

* Components of changes in sales are reference figures based on approximations and used for internal management purposes.

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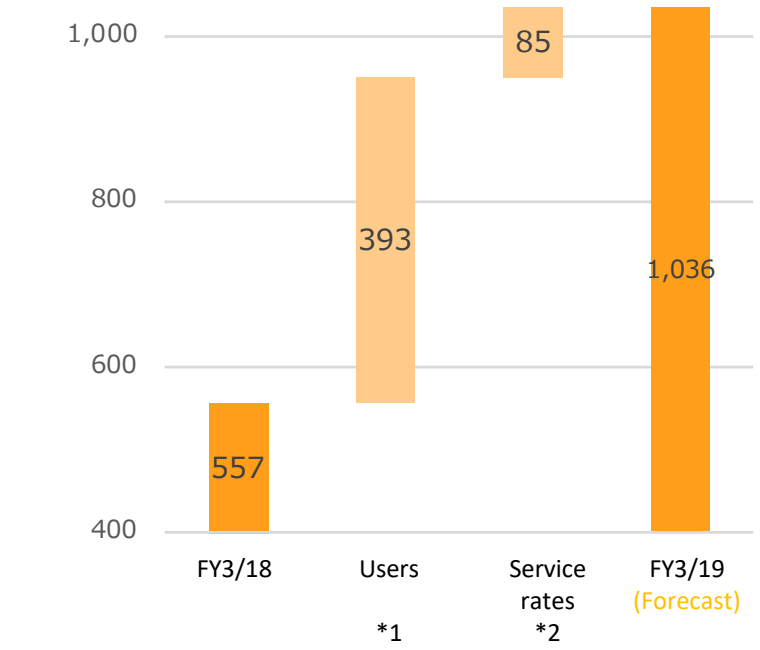
Sales Forecast – Habilitation Business

Sales in **the Habilitation Business** are expected to increase 86% and account for 19% of total sales, mainly because of the outlook for an increase in the number of users. This outlook is based on the goal of receiving substantial additional payments for the placement of large numbers of childcare workers and other people with professional qualifications.

Sales of Habilitation Business

Up ¥479 million



*1 Outlook for **a steady increase in the number of users** is based on expectations for new users at newly opened locations and measures at existing locations to maintain and improve the operating ratio

*2 For habii child development support centers, the additional guidance personnel has been increased for locations where more than the designated standard number of people in childcare positions requiring professional certifications are assigned. Now a number of units **up to the amount for two people is allowed**.

(Previous system)		→	(Since April 2018)			
Child guidance, etc. personnel	**195 units**		Specialists (nursery school teachers, etc.)	**209 units**	x2	**Maximum of 418 units**
Guidance personnel	**185 units**		Child guidance, etc. personnel	**155 units**		
			Other employees	**91 units**		

Utilization rates have been estimated for individual locations and months while taking into account plans for recruiting personnel for child guidance, etc.

At existing locations, an increase in rates for services is expected because the number of support personnel at these locations is already at least two more than the standard.

* Components of changes in sales are reference figures based on approximations and used for internal management purposes.

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Shareholder Distributions

Welbe's policy is to make consistent earnings distributions that properly reflect results of operations while taking actions aimed at maintaining the long-term soundness of business operations

Increase retained earnings to maintain financial soundness and provide funds for future growth

Reflect results of operations and the financial position in shareholder distributions

Dividend payout ratio target: 20%

Dividend forecast for FY3/19: ¥6 per share (dividend payout ratio: 19.1%)

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New English language IR website

Welbe added an English language IR website.

This website will have the following information:

- First half and year end : Financial results and presentation materials
- First and third quarters : Financial results

[URL]

English IR website : http://ace-consul.co.jp/irshowbox/welbe/

Company website : http://www.welbe.co.jp/ir/

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