

TOWCO.,LTD.

Report for the 43rd Business Term

(July 1, 2018 to June 30, 2019)

English Translation – Reference Purpose Only

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If there is any discrepancy between the Japanese original and this translation, the Japanese original will always prevail.

| To Our Shareholders

We would like to extend our sincere gratitude to all shareholders for your continued support for TOW Co., Ltd.

On June 30, 2019, the Company concluded its 43rd business term (from July 1, 2018 to June 30, 2019) and it is our pleasure to present you with the report for the term.

During the term under review, the Japanese economy remained on a moderate recovery track in line with the continued improvement of the employment and personal income environment. However, the outlook is unclear mainly because of uncertainties concerning overseas economies due to the U.S.-China trade friction and other political factors affecting various countries. In the advertising industry to which the Group belongs, total domestic advertising expenditures in 2018 (from January to December) amounted to ¥6,530.0 billion (an increase of 2.2% over the previous year^{*1}), a slight rise compared with the previous year, and positive growth was recorded for the seventh consecutive year.

In this business environment, continued from the previous year, in order to address the ongoing major shift in client needs from mass advertising to comprehensive promotion, we have been promoting initiatives to become an “experience design^{*2} production company” by combining new fields such as digital technologies, video, PR, and data, centered on our strength in real-world (experiential) promotion.

Regarding sales, in addition to robust order-taking from existing accounts, winning of orders for several medium and large projects from new accounts led to orders in wider fields and an increased price per project. However, net sales edged lower because of the base effect of previous year's regional large project.

Regarding profits, as a result of the company-wide efforts to promote “securing of appropriate profit based on high-value-added proposals,” “decrease of large projects with low profit margin,” “thorough cost control,” and “strict management of selling, general and administrative expenses,” profitability increased from the previous year's level. The operating income ratio increased from 10.94% to 12.26%.

As a result, consolidated net sales for the term under review amounted to ¥16,278 million (down 2.5% year-on-year), operating income was ¥1,995 million (up 9.3% year-on-year), recurring profit was ¥2,017 million (up 7.7% year-on-year) and profit attributable to owners of parent was ¥1,345 million (up 11.4% year-on-year).

Operating income, recurring profit, and profit attributable to owners of parent were the highest ever for the fourth consecutive year.

We would appreciate your continuous cooperation and support to the Group.

September 2019

Notes:

1. According to “Advertising Expenditures in Japan” released by DENTSU INC. in February 2019
2. To design a mechanism offering consumers a brand experience that captivates them and encourages them to become fans of the brand and maximizing the spread and sharing of the brand experience through diverse media, centering on social media



President and Chief Executive Officer (CEO)



Business Summary

Business Summary by Sector

Sales Promotion

Consolidated sales for the term under review decreased 29.4% year-on-year, although an order was received for an exhibition overseas from a major mobile phone manufacturer and orders for large projects were received, such as for pop-up stores where consumers can try out products from a major cosmetics manufacturer and an event from an amusement machine manufacturers' association, which is a new account.

Public Relations

Consolidated sales for the term under review increased 42.1% year-on-year, mainly owing to the receiving of orders for large projects, such as an anniversary event from a major electronics manufacturer, a nationwide caravan from a major life insurance company, and a new product launch event from an overseas manufacturer of discretionary items.

Culture- and Sports-related Projects

Consolidated sales for the term under review decreased 7.0% year-on-year, although orders were received for major events for 2019 and 2020, from public offices for PR events to spread the appeal of Japanese foods, and for other events.

Materials Production

Consolidated sales for the term under review increased 9.3% year-on-year, as orders were received for production of Web and video content from a major electronics manufacturer and a major cosmetics manufacturer, for office administration work from public offices.

Event Planning

Consolidated sales for the term under review decreased 14.9% year-on-year.

Consolidated Sales Breakdown

Years ended June 30

Event category		2018		2019		Year-on-year (%)
		Amount (¥ million)	Percentage of total (%)	Amount (¥ million)	Percentage of total (%)	
Event production	Sales promotions	9,221	55.3	6,512	40.0	(29.4)
	Public relations	5,253	31.5	7,463	45.9	42.1
	Culture- and sport-related projects	578	3.5	537	3.3	(7.0)
	Exhibitions & shows	-	-	-	-	-
	Materials production	1,541	9.2	1,684	10.3	9.3
Subtotal		16,594	99.4	16,198	99.5	(2.4)
Revenue from event planning		94	0.6	80	0.5	(14.9)
Total		16,688	100.0	16,278	100.0	(2.5)

| Business Summary

Tasks Ahead

In Japan, a recovery trend is seen in total domestic advertising expenditures, and above all, year by year, there is a growing tendency for customers (advertisers) to have strong expectation for their promotions to have an immediate impact on sales. As a result, with regard to advertising expenditures for the non-mass media (i.e. media other than the four forms of mass media such as television: event promotion, digital, creative, outdoors, and sports), the trend toward expansion continues in terms of amount and shares, and this trend is particularly significant in terms of the composition of the sales of major advertising agencies.

In addition, there have been changes in the way consumers buy things, as the purpose of consumption is shifting “from product value to experience value (from things to experiences).” In response to these trends, we will focus on implementing the following initiatives.

1. To become “Japan’s first experience design production company”

In an age of abundance, we have an environment in which people buy things not only for “obtaining the physical object,” but also for “experience value” gained through the selection process of the product. Within such an environment, the design of the whole brand experience including the ways things are bought, made, and sold is what we mean by “experience design.” Up until now we have strengthened our interactive promotion (IP) capabilities by combining “social media promotion,” “experience-based events utilizing digital technologies including augmented reality (AR), virtual reality (VR) and apps,” “video production and promotion,” and “data-based PR promotion,” etc. centered on our strength in real-world promotion. Going forward, we will further evolve these capabilities to become “Japan’s first experience design production company” that offers promotions that combine data analysis and the verification of effect.

2. Growth strategy

We will implement the following measures for medium- to long-term growth.

1) Strengthening our position as “Japan’s first experience design production company”

We will further strengthen our capabilities to propose and implement integrated, creative experience design by mid-career hiring of image producers, PR producers, art directors, art designers, and data analysts.

2) Pursuit of projects during the period 2019 to 2025 when a number of high-profile international events take place

We will continue our efforts to actively secure orders for these projects so as to enhance financial performance.

3) Maintaining high profitability and increasing the workforce to enhance financial performance

We will actively conduct periodic hiring of new university graduates and mid-career professionals every term to strengthen earnings power while maintaining the current level of profitability.

4) Alliances and M&A

We will actively seek business and capital alliances, M&A opportunities, and other tie-up opportunities with companies in various fields including “digital,” “video,” “PR,” and “data,” as well as with industry peers in order to enhance the value of “real-world promotion,” which is the Company’s core business.

5) Development of a new business with a view to the period from 2020 onward

We will establish a taskforce to cultivate businesses conducted directly with clients. Moreover, we are developing the Company’s original content.

Consolidated Balance Sheets

As of June 30, 2018 and 2019

Thousands of yen

	2018	2019		2018	2019
Assets			Liabilities		
Current assets:	11,265,464	12,100,605	Current liabilities:	3,702,687	3,846,649
Cash and deposits	4,098,717	4,754,865	Electronically recorded obligations – operating	21,080	61,548
Electronically recorded monetary claims – operating	2,252,935	2,092,211	Accounts payable - trade	1,847,078	1,966,871
Notes and accounts receivable	3,420,460	3,404,389	Short-term loans	840,000	840,000
Prepaid expenses for ongoing projects	245,683	467,933	Income taxes payable	369,470	302,907
Accounts receivable - other	1,178,417	1,290,084	Reserve for employees' bonuses	28,682	95,201
Prepaid expenses	31,242	32,219	Other	596,377	580,119
Other	38,524	58,901	Long-term liabilities:	461,380	416,477
Allowance for doubtful accounts	(516)	-	Net defined benefit liability	229,802	213,594
Noncurrent assets:	1,730,731	1,578,952	Reserve for directors' retirement allowances	175,051	185,670
Tangible fixed assets:	84,285	102,161	Deferred tax liabilities	42,851	-
Building	32,178	34,162	Other	13,675	17,211
Tools, furniture and fixtures	46,079	57,634	Total liabilities	4,164,067	4,263,126
Leased assets	0	4,336	Net assets		
Land	6,027	6,027	Shareholders' equity:	8,189,404	8,928,201
Intangible assets:	21,218	16,139	Capital stock	948,994	948,994
Investment and others:	1,625,227	1,460,651	Capital surplus	1,089,236	1,089,236
Investments in securities	1,200,130	994,560	Retained earnings	6,532,211	7,271,033
Refundable insurance premium	224,085	225,489	Treasury stock	(381,038)	(381,063)
Deferred tax assets	42,971	86,625	Accumulated other comprehensive income:	549,950	400,706
Leasehold deposits	153,730	149,665	Net unrealized gains (losses) on other securities	596,564	447,321
Other	4,310	4,310	Revaluation reserve for land	(46,614)	(46,614)
			Subscription rights to shares:	77,263	87,523
			Non-controlling interests	15,509	-
			Total net assets	8,832,128	9,416,431
Total assets	12,996,196	13,679,557	Total liabilities and net assets	12,996,196	13,679,557

Note: The amounts listed above are rounded down to the nearest thousand yen.

Consolidated Statements of Income

Years ended June 30, 2018 and 2019

Thousands of yen

	2018	2019
Net sales	16,688,881	16,278,697
Cost of sales	13,997,040	13,453,554
Gross profit	2,691,841	2,825,143
Selling, general and administrative expenses	866,146	829,494
Operating income	1,825,694	1,995,648
Non-operating income	53,106	25,751
Non-operating expenses	5,548	4,018
Recurring profit	1,873,251	2,017,381
Extraordinary income	754	-
Extraordinary losses	-	3,232
Income before income taxes	1,874,006	2,014,149
Income taxes - current	691,575	692,356
Income taxes - deferred	(25,791)	(20,700)
Income before minority interests	1,208,222	1,342,493
Profit (loss) attributable to non-controlling interests	556	(2,975)
Profit attributable to owners of parent	1,207,666	1,345,469

Note: The amounts listed above are rounded down to the nearest thousand yen.

Consolidated Statement of Changes in Net Assets

Year ended June 30, 2019

Thousands of yen

	Shareholders' equity					Accumulated other comprehensive income			Subscription rights to shares	Non-controlling interests	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains (losses) on other securities	Revaluation reserve for land	Total accumulated other comprehensive income			
Balance as of July 1, 2018	948,994	1,089,236	6,532,211	(381,038)	8,189,404	596,564	(46,614)	549,950	77,263	15,509	8,832,128
Changes during the term											
Dividends			(606,647)		(606,647)						(606,647)
Profit attributable to owners of parent			1,345,469		1,345,469						1,345,469
Acquisition of treasury stock				(25)	(25)						(25)
Net changes of items other than shareholders' equity						(149,243)	-	(149,243)	10,259	(15,509)	(154,493)
Total changes during the term	-	-	738,821	(25)	738,796	(149,243)	-	(149,243)	10,259	(15,509)	584,303
Balance as of June 30, 2019	948,994	1,089,236	7,271,033	(381,063)	8,928,201	447,321	(46,614)	400,706	87,523	-	9,416,431

Note: The amounts listed above are rounded down to the nearest thousand yen.

Consolidated Statements of Cash Flows

Years ended June 30, 2018 and 2019

Thousands of yen

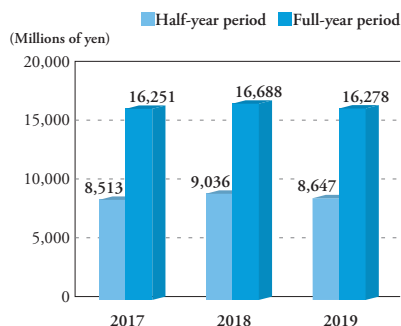
	2018	2019
Cash flows from operating activities	1,240,674	1,310,483
Cash flows from investing activities	(53,660)	(34,076)
Cash flows from financing activities	(585,153)	(620,258)
Net increase (decrease) in cash and cash equivalents	601,859	656,148
Cash and cash equivalents at beginning of year	3,496,857	4,098,717
Cash and cash equivalents at end of year	4,098,717	4,754,865

Note: The amounts listed above are rounded down to the nearest thousand yen.

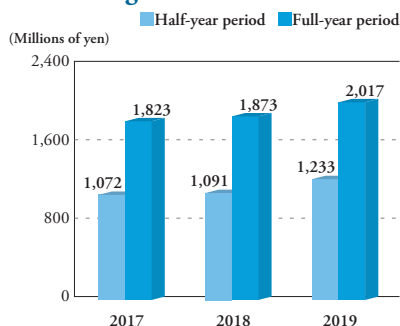
Financial Highlights (consolidated)

Years ended June 30

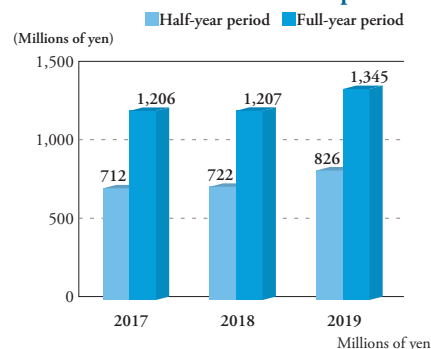
Net Sales



Recurring Profit



Profit attributable to owners of parent



	2017	2018	2019
Net sales	16,251	16,688	16,278
Operating income	1,811	1,825	1,995
Recurring profit	1,823	1,873	2,017
Profit attributable to owners of parent	1,206	1,207	1,345
Total assets	11,807	12,996	13,679
Net assets	8,133	8,832	9,416

Non-Consolidated Balance Sheets

As of June 30, 2018 and 2019

Thousands of yen

	2018	2019		2018	2019
Assets			Liabilities		
Current assets:	9,660,076	10,738,064	Current liabilities:	2,845,062	3,158,364
Cash and deposits	3,878,854	4,500,616	Electronically recorded obligations – operating	21,080	61,548
Electronically recorded monetary claims – operating	2,004,014	2,012,750	Accounts payable - trade	1,274,001	1,347,698
Notes receivable	366,306	388,299	Accounts payable to affiliated company	318,844	468,218
Accounts receivable - trade	2,100,031	2,127,293	Short-term loans	540,000	540,000
Prepaid expenses for ongoing projects	174,510	436,134	Lease obligations	-	1,146
Accounts receivable - other	1,072,503	1,187,328	Accounts payable - other	230,385	153,161
Prepaid expenses	26,365	27,599	Income taxes payable	164,369	182,837
Other	38,007	58,042	Consumption taxes payable	33,635	54,698
Allowance for doubtful accounts	(516)	-	Accrued expenses	158,866	184,759
Noncurrent assets:	1,806,122	1,642,378	Advances payment for ongoing projects	55,336	61,273
Tangible fixed assets:	66,848	73,561	Deposits received	25,856	24,770
Building	25,080	24,238	Reserve for employees' bonuses	22,686	78,252
Tools, furniture and fixtures	35,740	38,959	Long-term liabilities:	432,678	390,195
Leased assets	0	4,336	Reserve for employees' retirement benefits	206,780	194,053
Land	6,027	6,027	Reserve for directors' retirement allowances	169,371	178,930
Intangible assets:	9,821	10,214		-	3,536
Telephone subscription rights	2,652	2,652	Deferred tax liabilities	42,851	-
Software	7,168	7,562	Other	13,675	13,675
Investment and other assets:	1,729,452	1,558,602	Total liabilities	3,277,741	3,548,560
Investments in securities	1,200,130	994,560	Net assets		
Investments in stock of affiliated company	165,300	150,000	Shareholders' equity:	7,561,244	8,343,652
Membership rights	4,310	4,310	Capital stock	948,994	948,994
Refundable insurance premium	224,085	225,489	Capital surplus	1,055,958	1,055,958
Deferred tax assets	-	48,671	Additional paid-in capital	1,027,376	1,027,376
Leasehold deposits	135,626	135,570	Other capital surplus	28,581	28,581
			Gain on disposal of treasury stock	61,859	61,859
			Other capital surplus	(33,277)	(33,277)
			Retained earnings	5,937,329	6,719,762
			Legal reserve	22,845	22,845
			Other retained earnings	5,914,484	6,696,917
			General reserve	4,600,000	5,100,000
			Retained earnings carried forward	1,314,484	1,596,917
			Treasury stock	(381,038)	(381,063)
			Valuation and translation adjustments:	549,950	400,706
			Net unrealized gains (losses) on other securities	596,564	447,321
			Revaluation reserve for land	(46,614)	(46,614)
			Subscription rights to shares:	77,263	87,523
Total assets	11,466,199	12,380,443	Total net assets	8,188,458	8,831,882
			Total liabilities and net assets	11,466,199	12,380,443

Note: The amounts listed above are rounded down to the nearest thousand yen.

Non-Consolidated Statements of Income

Years ended June 30, 2018 and 2019

Thousands of yen

	2018	2019
Net sales	12,897,392	13,283,646
Cost of sales	11,129,792	11,309,630
Gross profit	1,767,599	1,974,015
Selling, general and administrative expenses	811,920	775,831
Operating income	955,678	1,198,184
Non-operating income	472,222	586,605
Non-operating expenses	4,154	3,171
Recurring profit	1,423,747	1,781,617
Extraordinary income	754	-
Extraordinary losses	-	2,255
Income before income taxes	1,424,501	1,779,362
Income taxes - current	375,506	416,000
Income taxes - deferred	(17,543)	(25,718)
Net income	1,066,539	1,389,080

Note: The amounts listed above are rounded down to the nearest thousand yen.

Non-Consolidated Statement of Changes in Net Assets

Year ended June 30, 2019

Thousands of yen

	Shareholders' equity							Valuation and translation adjustments					Subscription rights to shares	Total net assets	
	Capital stock	Capital surplus			Legal reserve	Retained earnings			Treasury stock	Total Shareholders' equity	Net unrealized gains (losses) on other securities	Revaluation reserve for land			Total valuation and translation adjustments
		Capital reserves	Other capital surplus	Total capital surplus		General reserve	Retained earnings carried forward	Total retained earnings							
Balance as of July 1, 2018	948,994	1,027,376	28,581	1,055,958	22,845	4,600,000	1,314,484	5,937,329	(381,038)	7,561,244	596,564	(46,614)	549,950	77,263	8,188,458
Changes during the term															
Dividends							(606,647)	(606,647)		(606,647)					(606,647)
Net income							1,389,080	1,389,080		1,389,080					1,389,080
Provision of general reserve						500,000	(500,000)	-		-					-
Acquisition of treasury stock									(25)	(25)					(25)
Net changes of items other than shareholders' equity											(149,243)	-	(149,243)	10,259	(138,983)
Total changes during the term	-	-	-	-	-	500,000	282,432	782,432	(25)	782,407	(149,243)	-	(149,243)	10,259	643,424
Balance as of June 30, 2019	948,994	1,027,376	28,581	1,055,958	22,845	5,100,000	1,596,917	6,719,762	(381,063)	8,343,652	447,321	(46,614)	400,706	87,523	8,831,882

Note: The amounts listed above are rounded down to the nearest thousand yen.

Corporate Profile

As of June 30, 2019

Name: TOW Co., Ltd.

Head Office: Kamiyacho Central Place, 3-13, Toranomon 4-chome, Minato-ku, Tokyo 105-0001

Establishment: July 6, 1976

Paid-in Capital: ¥948,994 thousand

Number of Employees: 198

- Main Business Lines:**
1. Planning, production, construction, creation and management of events and seminars
 2. Construction of buildings and erection of other structures, interior decoration, and electrical installation work performed under contract for promotional and other events
 3. Planning and production of advertising and public relations events
 4. Planning and production of sales promotion campaigns, and planning and publishing of exhibitions and interior decoration
 5. Planning, production, sales, and import/export of advertisements, promotional goods and premiums related to sales promotion
 6. Planning, production and publishing of various printed matters

Directors and Corporate Auditors (As of September 25, 2019)

Chairman

President and Chief Executive Officer (CEO)

Managing Director and Corporate Officer

Managing Director and Corporate Officer

Director and Corporate Officer

Director and Corporate Officer

Outside Director

Corporate Officer

Corporate Officer

Outside Director, Audit and Supervisory Committee Member

Outside Director, Audit and Supervisory Committee Member

Outside Director, Audit and Supervisory Committee Member

Osamu Kawamura

Kouji Egusa

Kenichi Murazu

Michihiro Akimoto

Kimihiko Ichikawa

Jiro Kajioka

Daisuke Yanasawa

Takehito Masumori

Junpei Amemiya

Shintaro Hagiwara

Shigeo Yoshida

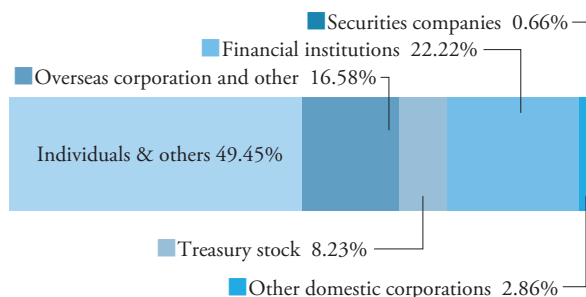
Toru Hirano

Stock Information

As of June 30, 2019

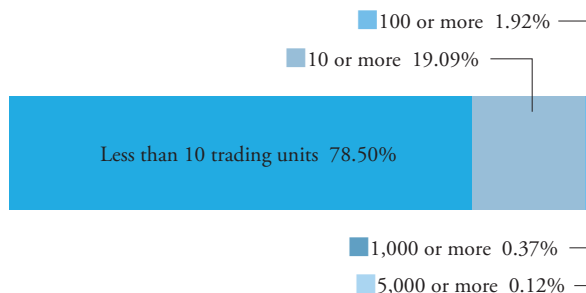
1. Number of shares authorized to be issued..... 60,000,000 shares
2. Number of shares issued..... 24,484,548 shares
3. Number of shareholders6,418

Shareholders by Type



Shareholders by Number of Shares Held

(Breakdown of shareholders by number of shares held.)



Shareholder Information

Business year: From July 1 to June 30 of the following year

Regular general meeting of shareholders: September every year

Administrator of stockholders' register and Mitsubishi UFJ Trust and Banking Corporation
special account management institution: 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo

Contact: Corporate Agency Div., Mitsubishi UFJ Trust and Banking Corporation
7-10-11, Higashisuna, Koto-ku, Tokyo 137-8081, Japan

Tel (toll free number): 0120-232-711

Mailing address: Corporate Agency Div., Mitsubishi UFJ Trust and Banking Corporation
P.O. Box No. 29, Shin-Tokyo Post Office, 137-8081, Japan

One trading unit: 100 shares

Method of public notices: <http://www.tow.co.jp/>

(When electronic public notices are not possible due to accidents or other unavoidable reasons, they will be made available in the newspaper, the Nihon Keizai Shimbun.)



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