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On **November 12, 2019**, Nichi-Iko Pharmaceutical Co., Ltd. announced earnings results for 1H FY03/20.

Cumulative (JPYmn)	FY03/18				FY03/19				FY03/20				FY03/20	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of 1H	1H Est.
[IFRS]														
Sales revenue	42,927	83,060	126,017	164,717	42,278	82,346	127,224	166,592	46,523	91,519			93.4%	98,000
YoY	-	-	-	10.4%	-1.5%	-0.9%	1.0%	1.1%	10%	11%				19.0%
Gross profit	11,753	18,858	30,757	40,803	8,918	18,179	27,475	33,157	9,693	19,009				
GPM	27.4%	22.7%	24.4%	24.8%	21.1%	22.1%	21.6%	19.9%	20.8%	20.8%				
SG&A expenses	6,154	11,813	17,591	23,136	5,869	11,615	17,104	22,504	6,698	12,980				
YoY	-	-	-	7.5%	-4.6%	-1.7%	-2.8%	-2.7%	14%	12%				
SG&A ratio	14.3%	14.2%	14.0%	14.0%	13.9%	14.1%	13.4%	13.5%	14.4%	14.2%				
R&D expenses	1,130	1,977	3,253	4,467	1,220	1,915	2,598	3,503	1,288	2,100				
YoY	-	-	-	-38.6%	8.0%	-3.1%	-20.1%	-21.6%	6%	10%				
R&D ratio	2.6%	2.4%	2.6%	2.7%	2.9%	2.3%	2.0%	2.1%	2.8%	2.3%				
Other operating revenue	571	657	660	948	224	273	463	1,528	223	168				
Other operating expenses	31	3,029	3,061	3,845	16	202	234	455	195	318				
Operating profit	5,008	2,695	7,511	10,301	2,036	4,720	8,001	8,223	1,733	3,777			121.8%	3,100
YoY	-	-	-	61.3%	-59.3%	75.1%	6.5%	-20.2%	-15%	-20%				-34.3%
OPM	11.7%	3.2%	6.0%	6.3%	4.8%	5.7%	6.3%	4.9%	3.7%	4.1%				3.2%
Financial expenses (net)	216	285	419	1,183	73	-10	578	698	489	745				
Equity in earnings of affiliates	214	204	111	-51	932	997	1,431	1,377	46	-31				
Pre-tax profit	5,006	2,613	7,203	9,067	2,897	5,727	8,855	8,903	2,868	4,544				
YoY	-	-	-	52.1%	-42.1%	119.2%	22.9%	-1.8%	-1%	-21%				
Pre-tax margin	11.7%	3.1%	5.7%	5.5%	6.9%	7.0%	7.0%	5.3%	6.2%	5.0%				
Profit attributable to owners of the parent	3,433	2,446	6,677	8,070	2,461	4,620	6,905	6,864	1,813	3,006			93.9%	3,200
YoY	-	-	-	68.3%	-28.3%	88.9%	3.4%	-14.9%	-26%	-35%				-30.7%
Profit margin	8.0%	2.9%	5.3%	4.9%	5.8%	5.6%	5.4%	4.1%	3.9%	3.3%				3.3%
[JGAAP]														
Sales	48,513	94,297	143,466	187,863	-	-	-	-	-	-				
YoY	27.6%	25.5%	22.0%	15.0%	-	-	-	-	-	-				
Gross profit	16,699	32,075	49,717	-	-	-	-	-	-	-				
GPM	34.4%	34.0%	34.7%	-	-	-	-	-	-	-				
SG&A expenses	13,521	26,992	41,221	-	-	-	-	-	-	-				
YoY	22.4%	16.1%	17.3%	-	-	-	-	-	-	-				
SG&A ratio	27.9%	28.6%	28.7%	-	-	-	-	-	-	-				
Operating profit	3,180	4,922	8,208	6,934	-	-	-	-	-	-				
YoY	4.7%	21.9%	17.0%	-18.9%	-	-	-	-	-	-				
OPM	6.6%	5.2%	5.7%	3.7%	-	-	-	-	-	-				
Recurring profit	3,202	5,103	8,178	6,246	-	-	-	-	-	-				
YoY	26.8%	54.0%	22.0%	-25.7%	-	-	-	-	-	-				
RPM	6.6%	5.4%	5.7%	3.3%	-	-	-	-	-	-				
Net income attributable to owners of the parent	1,964	2,449	5,658	3,860	-	-	-	-	-	-				
YoY	-1.8%	12.4%	78.6%	-19.4%	-	-	-	-	-	-				
Net margin	4.0%	2.6%	3.9%	2.1%	-	-	-	-	-	-				
Quarterly performance														
Cumulative (JPYmn)	FY03/18				FY03/19				FY03/20				FY03/20	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
[IFRS]														
Sales revenue	42,927	40,133	42,957	38,700	42,278	40,068	44,878	39,368	46,523	44,996			47.2%	194,000
YoY	-	-	-	-	-1.5%	-0.2%	4.5%	1.7%	10.0%	12.3%				16.5%
Gross profit	11,753	7,105	11,899	10,046	8,918	9,261	9,296	5,682	9,693	9,316				
GPM	27.4%	17.7%	27.7%	26.0%	21.1%	23.1%	20.7%	14.4%	20.8%	20.7%				
SG&A expenses	6,154	5,659	5,778	5,545	5,869	5,746	5,489	5,400	6,698	6,282				
YoY	-	-	-	-	-4.6%	1.5%	-5.0%	-	14.1%	9.3%				
SG&A ratio	14.3%	14.1%	13.5%	14.3%	13.9%	14.3%	12.2%	13.7%	14.4%	14.0%				
R&D expenses	1,130	847	1,276	1,214	1,220	695	683	905	1,288	812				
YoY	-	-	-	-	8.0%	-17.9%	-46.5%	-25.5%	5.6%	16.8%				
R&D ratio	2.6%	2.1%	3.0%	3.1%	2.9%	1.7%	1.5%	2.3%	2.8%	1.8%				
Other operating revenue	571	86	3	288	224	49	190	1,065	223	-55				
Other operating expenses	31	2,998	32	784	16	186	32	221	195	123				
Operating profit	5,008	-2313	4,816	2,790	2,036	2,684	3,281	222	1,733	2,044			44.4%	8,500
YoY	-	-	-	-	-59.3%	-	-31.9%	-92.0%	-14.9%	-23.8%				3.4%
OPM	11.7%	-	11.2%	7.2%	4.8%	6.7%	7.3%	0.6%	3.7%	4.5%				4.4%
Financial expenses (net)	216	69	134	764	73	-83	588	120	73	256				
Equity in earnings of affiliates	214	-10	-93	-162	932	65	434	-54	46	-77				
Pre-tax profit	5,006	-2393	4,590	1,864	2,897	2,830	3,128	48	2,868	1,676				
YoY	-	-	-	-	-42.1%	-	-31.9%	-97.4%	-1.0%	-40.8%				
Pre-tax margin	11.7%	-	10.7%	4.8%	6.9%	7.1%	7.0%	0.1%	6.2%	3.7%				
Profit attributable to owners of the parent	3,433	-987	4,231	1,393	2,461	2,159	2,285	-41	1,813	1,193			50.1%	6,000
YoY	-	-	-	-	-28.3%	-	-46.0%	-102.9%	-26.3%	-44.7%				-12.6%
Profit margin	8.0%	-	9.8%	3.6%	5.8%	5.4%	5.1%	-0.1%	3.9%	2.7%				3.1%
[JGAAP]														
Sales	48,513	45,784	49,169	44,397	-	-	-	-	-	-				
YoY	27.6%	23.3%	15.9%	-3.0%	-	-	-	-	-	-				
Gross profit	16,699	15,376	17,642	-	-	-	-	-	-	-				
GPM	34.4%	33.6%	35.9%	-	-	-	-	-	-	-				
SG&A expenses	13,521	13,471	14,229	-	-	-	-	-	-	-				
YoY	22.4%	10.4%	19.5%	-	-	-	-	-	-	-				
SG&A ratio	27.9%	29.4%	28.9%	-	-	-	-	-	-	-				
Operating profit	3,180	1,742	3,286	-1,274	-	-	-	-	-	-				
YoY	4.7%	73.7%	10.5%	-	-	-	-	-	-	-				
OPM	6.6%	3.8%	6.7%	-2.9%	-	-	-	-	-	-				
Recurring profit	3,202	1,901	3,075	-1,932	-	-	-	-	-	-				
YoY	26.8%	141.2%	-9.2%	-	-	-	-	-	-	-				
RPM	6.6%	4.2%	6.3%	-4.4%	-	-	-	-	-	-				
Net income attributable to owners of the parent	1,964	485	3,209	-1,798	-	-	-	-	-	-				
YoY	-1.8%	172.5%	224.1%	-	-	-	-	-	-	-				
Net margin	4.0%	1.1%	6.5%	-4.0%	-	-	-	-	-	-				

Source: Shared Research based on company data

Note: Figures may differ from company data due to differences in rounding methods.

By channel and product (cumulative)		FY03/18				FY03/19				FY03/20			
(JPYmn)		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
[IFRS]													
Wholesalers		27,489	na	na	109,059	27,669	53,952	na	110,591	34,974	67,008		
YoY		na	na	na	3.9%	0.7%	na	na	1.4%	26%	24%		
Agencies		2,051	na	na	8,018	2,034	3,990	na	8,316	2,235	4,309		
YoY		na	na	na	-12.5%	-0.8%	na	na	3.7%	10%	8%		
Other		2,729	na	na	11,581	2,816	5,909	na	12,168	2,552	5,533		
YoY		na	na	na	-24.2%	3.2%	na	na	5.1%	-9%	-6%		
Sales revenue (excl. Sagent)		32,272	64,184	98,780	128,659	32,518	63,853	99,229	131,076	39,761	76,851		
YoY		na	na	na	-0.6%	0.8%	-0.5%	0.5%	1.9%	22.3%	20.4%		
Generics		29,440	58,247	90,136	119,460	30,101	58,973	91,602	121,192	37,397	72,029		
YoY		na	na	na	2.6%	2.2%	1.2%	1.6%	1.4%	24.2%	22.1%		
Long-listed products (LLPs)		2,081	4,058	6,070	7,769	1,842	3,541	5,327	6,805	1,885	3,601		
YoY		na	na	na	-12.7%	-11.5%	-12.7%	-12.2%	-12.4%	2.3%	1.7%		
Other		750	1,878	2,574	3,282	574	1,337	2,299	3,079	479	1,220		
YoY		na	na	na	-20.6%	-23.5%	-28.8%	-10.7%	-6.2%	-16.6%	-8.8%		
Generics as % of sales revenue		91.2%	90.8%	91.2%	92.9%	92.6%	92.4%	92.3%	92.5%	94.1%	93.7%		
[JGAAP]													
Wholesalers		32,565	64,075	99,387	-	-	-	-	-	-	-		
YoY		3.5%	3.9%	5.0%	-	-	-	-	-	-	-		
Agencies		2,316	4,589	7,022	-	-	-	-	-	-	-		
YoY		-17.1%	-13.6%	-12.4%	-	-	-	-	-	-	-		
Other		2,977	6,760	9,818	-	-	-	-	-	-	-		
YoY		-21.0%	-17.0%	-19.8%	-	-	-	-	-	-	-		
Sales (excl. Sagent)		37,859	75,424	116,229	-	-	-	-	-	-	-		
YoY		-0.4%	0.4%	1.2%	-	-	-	-	-	-	-		
Generics		34,732	68,904	106,689	-	-	-	-	-	-	-		
YoY		1.7%	2.4%	3.8%	-	-	-	-	-	-	-		
Long-listed products (LLPs)		2,456	4,771	7,184	-	-	-	-	-	-	-		
YoY		-13.3%	-13.1%	-12.0%	-	-	-	-	-	-	-		
Other		671	1,749	2,354	-	-	-	-	-	-	-		
YoY		-35.5%	-26.8%	-40.3%	-	-	-	-	-	-	-		
Generics, % of total sales		91.7%	91.4%	91.8%	-	-	-	-	-	-	-		
Sales by channel and product													
(QPYmn)		FY03/18				FY03/19				FY03/20			
(IFRS)		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Wholesalers		27,489	-	-	-	27,669	26,283	na	-	34,974	32,034		
YoY		-	-	-	-	0.7%	na	na	na	26%	22%		
Agencies		2,051	-	-	-	2,034	1,956	na	-	2,235	2,074		
YoY		-	-	-	-	-0.8%	na	na	na	10%	6%		
Other		2,729	-	-	-	2,816	3,093	na	-	2,552	2,981		
YoY		-	-	-	-	3.2%	na	na	na	-9%	-4%		
Sales revenue (excl. Sagent)		32,272	31,912	34,596	29,879	32,518	31,335	35,376	31,847	39,761	37,090		
YoY		-	-	-	-	0.8%	-1.8%	2.3%	6.6%	22.3%	18.4%		
Generics		29,440	28,807	31,889	29,324	30,101	28,872	32,629	29,590	37,397	34,632		
YoY		-	-	-	-	2.2%	0.2%	2.3%	0.9%	24.2%	20.0%		
Long-listed products (LLPs)		2,081	1,977	2,012	1,699	1,842	1,699	1,786	1,478	1,885	1,716		
YoY		-	-	-	-	-11.5%	-14.1%	-11.2%	-13.0%	2.3%	1.0%		
Other		750	1,128	696	708	574	763	962	780	479	741		
YoY		-	-	-	-	-23.5%	-32.4%	38.2%	10.2%	-16.6%	-2.9%		
Generics, % of total revenue		91.2%	90.3%	92.2%	98.1%	92.6%	92.1%	92.2%	92.9%	94.1%	93.4%		
[JGAAP]													
Wholesalers		32,565	31,510	35,312	-	-	-	-	-	-	-		
YoY		3.5%	4.3%	7.2%	na	-	-	-	-	-	-		
Agencies		2,316	2,273	2,433	-	-	-	-	-	-	-		
YoY		-17.1%	-9.7%	-10.2%	na	-	-	-	-	-	-		
Other		2,977	3,783	3,058	-	-	-	-	-	-	-		
YoY		-21.0%	-13.7%	-25.2%	na	-	-	-	-	-	-		
Sales (excl. Sagent)		37,859	37,565	40,805	-	-	-	-	-	-	-		
YoY		-0.4%	1.2%	2.7%	na	-	-	-	-	-	-		
Generics		34,732	34,172	37,785	-	-	-	-	-	-	-		
YoY		1.7%	3.2%	6.4%	na	-	-	-	-	-	-		
Long-listed products (LLPs)		2,456	2,315	2,413	-	-	-	-	-	-	-		
YoY		-13.3%	-12.9%	-9.6%	na	-	-	-	-	-	-		
Other		671	1,078	605	-	-	-	-	-	-	-		
YoY		-35.5%	-20.0%	-61.1%	na	-	-	-	-	-	-		
Generics, % of total sales		91.7%	91.0%	92.6%	-	-	-	-	-	-	-		

Source: Shared Research based on company data
 Note: Figures may differ from company data due to differences in rounding methods.
 Note: A breakdown by sales channel was not disclosed for Q2 FY03/19.

1H FY03/20 earnings results (out November 12, 2019)

Overview

- ▷ In 1H FY03/20, Nichi-Iko reported sales revenue of JPY91.5bn (+11.1% YoY), core operating profit* of JPY3.9bn (-20.7% YoY), operating profit of JPY3.8bn (-20.0% YoY), and profit attributable to owners of the parent of JPY3.0bn (-34.9% YoY).
- ▷ Versus forecasts: Attainment rates versus 1H FY03/20 company forecasts were 93.4% for sales revenue, 121.8% for operating profit, and 93.9% for profit attributable to owners of the parent.
- ▷ Revision of full-year company forecasts **: Nichi-Iko lowered its sales revenue forecast as 1H result fell short of initial plan. However, the company expects progress to be in line with its initial forecasts from Q3. It did not change its forecasts for core operating profit and operating profit despite the 1H overshoot, because it plans to spend the unused portion of the 1H SG&A expense budget. The company also revised down its forecast for profit attributable to owners of the parent, because forex loss stemming from yen appreciation has been greater than expected.
- ▷ Versus full-year forecasts (revised forecasts announced on November 12, 2019), sales revenue reached 47.2% (49.4% of FY03/19 results in 1H FY03/19), operating profit 44.4% (57.4%), and profit attributable to owners of the parent 50.1% (67.3%).
- ▷ Sales revenue up 11.1% YoY: Sales revenue from the US market (Sagent Group) fell 20.7% YoY due to heated price competition and delivery delay for some products supplied by contract manufacturers. Meanwhile, domestic sales revenue increased 20.4% YoY thanks to the consolidation of Elmed Co., Ltd. and higher sales volume driven by the expansion of the generics market.
- ▷ Core operating profit down 20.7% YoY: Although gross profit was up YoY due to sales growth in the domestic business, it was not enough to compensate for the increase in SG&A expenses due to the Elmed consolidation and gross profit decline on lower sales at the Sagent Group.
- ▷ Operating profit down 20.0% YoY: GPM fell 1.3pp YoY to 20.8%, while the SG&A expense ratio rose 0.1pp to 14.4%. The R&D expense ratio was flat at 2.3%. Other operating revenue contracted by JPY105mn YoY while other operating expenses rose JPY116mn YoY. The OPM was down 1.6pp YoY to 4.1%.

*The company adopted core operating revenue (IFRS) as an indicator of recurring profitability. Core operating profit is calculated by deducting profit/loss due to non-recurring factors (non-recurring items) from operating profit.

**Revisions of FY03/20 earnings forecasts (announced on November 12, 2019)

Sales revenue: JPY194.0bn (previous forecast: JPY201.0bn)

Core operating profit: JPY8.5bn (JPY8.5bn)

Operating profit: JPY8.5bn (JPY8.5bn)

Profit attributable to owners of the parent: JPY6.0bn (JPY7.0bn)

In the generic drug industry, the share of generic drug usage is steadily increasing toward the Japanese government's target of 80% by September 2020. A drug price revision accompanying the consumption tax hike took place in October 2019 and NHI drug price revisions, which were previously conducted every two years with a few exceptions, are scheduled to take place annually from April 2021. These are creating an even more difficult earnings environment for the generics industry.

Against this backdrop, in May 2019 the company unveiled its 8th medium-term plan "Nexus∞" (covering FY03/20—FY03/22), and began putting into action the plan's basic strategies with the aim to evolve into a global, comprehensive generic drug manufacturer. They are further deepening and evolution of business fields, pursuit of optimization of operations, enhancing competitiveness and ensuring global quality standards, and become a respected life science company based on ESG activities (see the Medium-term plan section for details).

Results by segment

Nichi-Iko Group

- ▷ Sales revenue up 20.4% YoY to JPY76.9bn; segment profit (core operating profit) up 4.7% YoY to JPY4.6bn.
- ▷ Sales revenue and segment profit were up despite higher SG&A expenses due to the Elmed consolidation, because making Elmed a consolidated subsidiary increased sales revenue and gross profit.
- ▷ The company continued to expand its product range with value-added products of consolidated subsidiary Elmed and 10 products (five ingredients) newly added to the NHI drug price list that went on sale in June 2019.
- ▷ In August 2019, the company concluded comprehensive alliance agreements for optimizing medical expenses with the municipalities of Namerikawa, Toyama Prefecture and Matsudo, Chiba Prefecture to begin initiatives to help solve social and regional problems.
- ▷ In September 2019, the company concluded a comprehensive alliance agreement with Eisai Co., Ltd. (TSE1: 4523) regarding a generic drug business in China. The two companies are preparing to move into the world's second-largest pharmaceutical market.

Sagent Group

- ▷ Sales revenue fell 20.7% YoY to JPY14.7bn; segment loss (core operating loss) of JPY747mn versus core operating profit of JPY483mn in 1H FY03/19.
- ▷ Delivery delay for some products supplied by contract manufacturers led to 20.7% YoY decline in sales revenue.
- ▷ In addition to the lower sales revenue, initiatives to strengthen in-house drug manufacturing such as internalizing production at the Raleigh plant (acquired in February 2019) and working toward production of Infliximab BS resulted in a core operating loss of JPY747mn.

FY03/20 Full-year company forecasts

(JPYmn)	FY03/16		FY03/17			FY03/18			FY03/19			FY03/20		
	---JGAAP---								---IFRS---					
	FY Act.	FY Act.	1H Act.	2H Act.	FY Act.	1H Act.	2H Act.	FY Act.	1H Act.	2H Est.	FY Est.	1H Act.	2H Est.	FY Est.
Sales revenue	143,513	163,372	83,060	81,657	164,717	82,346	84,246	166,592	91,519	102,481	194,000			
YoY	13.0%	13.8%	-	-	10.4%	-0.9%	3.2%	1.1%	11.1%	21.6%	16.5%			
Operating profit					14,368	4,939	8,381	13,320	3,917	4,583	8,500			
YoY						-	-	-7.3%	-20.7%	-45.3%	-36.2%			
OPM						3.0%	9.9%	8.0%	4.3%	4.5%	4.4%			
Operating profit	12,910	8,554	2,695	7,606	10,301	4,720	3,503	8,223	3,777	4,723	8,500			
YoY	34.2%	-33.7%	-	-	61.3%	75.1%	-53.9%	-20.2%	-20.0%	34.8%	3.4%			
OPM	9.0%	5.2%	3.2%	9.3%	6.3%	5.7%	4.2%	4.9%	4.1%	4.6%	4.4%			
Pre-tax profit (RP)	12,289	8,411	2,613	6,454	9,067	5,727	3,176	8,903	4,544					
YoY	27.8%	-31.6%	-	-	52.1%	119.2%	22.9%	-1.8%	-20.7%					
RPM	8.6%	5.1%	3.1%	7.9%	5.5%	7.0%	3.8%	5.3%	5.0%					
Profit (Net income)	11,031	4,788	2,446	5,624	8,070	4,620	2,244	6,864	3,006	2,994	6,000			
YoY	67.3%	-56.6%	-	-	68.3%	88.9%	-60.1%	-14.9%	-34.9%	33.4%	-12.6%			
Net margin	7.7%	2.9%	2.9%	6.9%	4.9%	5.6%	2.7%	4.1%	3.3%	2.9%	3.1%			

Source: Shared Research based on company data

Note: Figures may differ from company data due to differences in rounding methods.

On November 12, 2019, the company announced revisions to its FY03/20 full-year forecasts* along with its 1H FY03/20 results.

The company's FY03/20 forecasts (IFRS) are sales revenue of JPY194.0bn (+16.5% YoY), core operating profit of JPY8.5bn (-36.2% YoY), operating profit of JPY8.5bn (+3.4% YoY), and profit attributable to owners of the parent of JPY6.0bn (-12.6% YoY). The company plans dividend per share of JPY30 (unchanged YoY).

*Revisions of FY03/20 earnings forecasts (announced on November 12, 2019)

Sales revenue: JPY194.0bn (previous forecast: JPY201.0bn)

Core operating profit: JPY8.5bn (JPY8.5bn)

Operating profit: JPY8.5bn (JPY8.5bn)

Profit attributable to owners of the parent: JPY6.0bn (JPY7.0bn)

Reasons for the revision: The company lowered its sales revenue forecast as 1H result fell short of initial plan. However, it expects progress to be in line with its initial forecasts from Q3. It did not change its forecasts for core operating profit and operating profit despite the 1H overshoot, because it plans to spend the unused portion of the 1H SG&A expense budget. The company also revised down its forecast for profit attributable to owners of the parent, because forex loss stemming from yen appreciation has been greater than expected.

This note is the most recent addition to the [full report](#).

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Contact Details

Shared Research Inc.

3-31-12 Sendagi Bunkyo-ku Tokyo, Japan

<https://sharedresearch.jp>

Phone: +81 (0)3 5834-8787

Email: info@sharedresearch.jp