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On **August 5, 2020**, Intelligent Wave Inc. (IWI) announced earnings results for full-year FY06/20, dividend of surplus, a new medium-term business plan, and a change in its reporting segments.

Quarterly performance (JPYmn)	FY06/18 (parent)				FY06/19 (parent)				FY06/20 (parent)				FY06/20 (parent)	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of Est.	FY Est.
Sales	2,322	2,371	3,136	2,775	2,337	2,702	2,650	2,754	2,417	2,550	2,838	3,115		
YoY	40.4%	10.8%	38.6%	15.0%	0.7%	14.0%	-15.5%	-0.8%	3.4%	-5.6%	7.1%	13.1%		
Gross profit	551	472	564	636	526	672	884	725	622	712	689	958		
YoY	61.1%	-17.4%	-14.0%	13.0%	-4.6%	42.3%	56.9%	14.0%	18.3%	6.0%	-22.1%	32.2%		
GPM	23.7%	19.9%	18.0%	22.9%	22.5%	24.9%	33.4%	26.3%	25.7%	27.9%	24.3%	30.7%		
SG&A expenses	422	411	387	455	455	474	478	479	480	485	472	507		
YoY	38.8%	13.5%	1.7%	18.8%	7.8%	15.3%	23.4%	5.2%	5.6%	2.4%	-1.3%	6.0%		
SG&A ratio	18.2%	17.3%	12.3%	16.4%	19.5%	17.5%	18.0%	17.4%	19.9%	19.0%	16.6%	16.3%		
Operating profit	129	61	177	181	71	198	406	246	141	228	217	451		
YoY	239.6%	-70.7%	-35.7%	0.5%	-45.1%	222.8%	130.1%	36.0%	100.1%	14.6%	-46.6%	83.1%		
OPM	5.5%	2.6%	5.6%	6.5%	3.0%	7.3%	15.3%	8.9%	5.8%	8.9%	7.6%	14.5%		
Recurring profit	128	69	176	201	79	203	407	265	141	219	241	474		
YoY	243.1%	-71.0%	-39.1%	-1.0%	-38.7%	195.2%	130.9%	32.3%	79.3%	7.9%	-40.7%	78.6%		
RPM	5.5%	2.9%	5.6%	7.2%	3.4%	7.5%	15.3%	9.6%	5.8%	8.6%	8.5%	15.2%		
Net income	83	46	109	139	48	157	262	217	91	146	161	364		
YoY	313.8%	-73.2%	-49.2%	-1.2%	-42.3%	240.7%	140.1%	56.1%	89.6%	-6.9%	-38.4%	67.5%		
Net margin	3.6%	1.9%	3.5%	5.0%	2.1%	5.8%	9.9%	7.9%	3.8%	5.7%	5.7%	11.7%		
Cumulative	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
Sales	2,322	4,693	7,829	10,604	2,337	5,039	7,689	10,443	2,417	4,967	7,805	10,921	103.0%	10,600
YoY	40.4%	23.7%	29.3%	25.2%	0.7%	7.4%	-1.8%	-1.5%	3.4%	-1.4%	1.5%	4.6%		1.5%
Gross profit	551	1,023	1,587	2,223	526	1,198	2,082	2,807	622	1,334	2,023	2,981		
YoY	61.1%	12.0%	1.1%	4.2%	-4.6%	17.1%	31.2%	26.3%	18.3%	11.4%	-2.9%	6.2%		
GPM	23.7%	21.8%	20.3%	21.0%	22.5%	23.8%	27.1%	26.9%	25.7%	26.9%	25.9%	27.3%		
SG&A expenses	422	833	1,220	1,675	455	929	1,407	1,885	480	965	1,437	1,944		
YoY	38.8%	25.0%	16.5%	17.1%	7.8%	11.5%	15.3%	12.5%	5.6%	3.9%	2.2%	3.1%		
SG&A ratio	18.2%	17.8%	15.6%	15.8%	19.5%	18.4%	18.3%	18.1%	19.9%	19.4%	18.4%	17.8%		
Operating profit	129	190	367	548	71	269	676	922	141	369	586	1,036	103.6%	1,000
YoY	239.6%	-23.3%	-29.8%	-22.0%	-45.1%	41.5%	84.2%	68.3%	100.1%	37.1%	-13.3%	12.5%		8.5%
OPM	5.5%	4.1%	4.7%	5.2%	3.0%	5.3%	8.8%	8.8%	5.8%	7.4%	7.5%	9.5%		9.4%
Recurring profit	128	197	373	574	79	282	688	954	141	360	601	1,075	103.3%	1,040
YoY	243.1%	-28.3%	-33.8%	-25.1%	-38.7%	43.0%	84.5%	66.2%	79.3%	27.8%	-12.7%	12.7%		9.1%
RPM	5.5%	4.2%	4.8%	5.4%	3.4%	5.6%	9.0%	9.1%	5.8%	7.2%	7.7%	9.8%		9.8%
Net income	83	129	238	377	48	205	467	684	91	237	398	762	105.8%	720
YoY	313.8%	-32.5%	-41.3%	-31.0%	-42.3%	58.4%	95.8%	81.2%	89.6%	15.8%	-14.7%	11.4%		5.3%
Net margin	3.6%	2.8%	3.0%	3.6%	2.1%	4.1%	6.1%	6.5%	3.8%	4.8%	5.1%	7.0%		6.8%

Source: Shared Research based on company data

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

Note: Company estimates based on most recent figures

Note: The company switched to non-consolidated reporting starting in Q1 FY06/17. YoY comparisons are made with consolidated results for Q1 FY06/16 since differences between consolidated and parent earnings for that period were negligible.

Results by segment

Quarterly (JPYmn)	FY06/18 (parent)				FY06/19 (parent)				FY06/20 (parent)				FY06/20 (parent)	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
Sales	2,322	2,371	3,136	2,775	2,337	2,702	2,650	2,754	2,417	2,550	2,838	3,115		
Financial Systems Solutions	2,146	1,931	2,929	2,326	2,140	2,475	2,454	2,269	2,243	2,284	2,617	2,713		
Product Solutions	177	439	207	449	197	227	196	485	174	266	221	402		
Operating profit	129	61	177	181	71	198	406	246	141	228	217	451		
Financial Systems Solutions	164	107	225	103	105	213	431	142	208	286	239	391		
Product Solutions	-36	-46	-48	78	-34	-14	-25	104	-66	-59	-22	59		
OPM	5.5%	2.6%	5.6%	6.5%	3.0%	7.3%	15.3%	8.9%	5.8%	8.9%	7.6%	14.5%		
Financial Systems Solutions	7.7%	5.6%	7.7%	4.4%	4.9%	8.6%	17.6%	6.3%	9.3%	12.5%	9.1%	14.4%		
Product Solutions	-	-	-	17.4%	-	-	-	21.4%	-	-	-	14.8%		
Sales breakdown														
Financial Systems Solutions	2,146	1,931	2,929	2,326	2,140	2,475	2,454	2,269	2,243	2,284	2,617	2,713		
Software development	1,487	1,208	2,328	1,416	1,311	1,480	1,354	1,523	1,251	1,323	1,808	1,409		
Maintenance	239	264	276	262	268	273	288	295	301	305	320	320		
Hardware	324	226	129	244	265	485	239	151	353	327	189	657		
In-house packaged software	3	96	31	112	103	37	343	7	98	81	28	37		
Cloud services	81	95	101	109	126	159	174	178	178	212	219	219		
Third-party packaged software	8	43	66	182	64	41	56	93	61	34	53	72		
Product Solutions	177	439	207	449	197	227	196	485	174	266	221	402		
Software development	10	11	46	22	15	14	9	34	5	23	18	-		
Maintenance	23	28	31	130	23	25	84	150	17	27	80	-		
Hardware	5	248	30	82	1	1	0	80	1	0	0	-		
In-house packaged software	40	3	2	13	42	71	2	18	49	13	7	-		
Third-party packaged software	97	149	97	202	115	115	103	201	100	202	117	-		
Cumulative	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of Est.	FY Est.
Sales	2,322	4,693	7,829	10,604	2,337	5,039	7,689	10,443	2,417	4,967	7,805	10,921	103.0%	10,600
Financial Systems Solutions	2,146	4,077	7,006	9,332	2,140	4,615	7,068	9,337	2,243	4,527	7,144	9,858	104.9%	9,400
Product Solutions	177	616	823	1,272	197	425	621	1,106	174	440	661	1,063	88.6%	1,200
Operating profit	129	190	367	548	71	269	676	922	141	369	586	1,036	103.6%	1,000
Financial Systems Solutions	164	272	496	599	105	317	748	890	208	494	733	1,124	117.1%	960
Product Solutions	-36	-81	-129	-51	-34	-48	-73	31	-66	-125	-147	-88	-	40
OPM	5.5%	4.0%	4.7%	5.2%	3.0%	5.3%	8.8%	8.8%	5.8%	7.4%	7.5%	9.5%	-	9.4%
Financial Systems Solutions	7.7%	6.7%	7.1%	6.4%	4.9%	6.9%	10.6%	9.5%	9.3%	10.9%	10.3%	11.4%	-	10.2%
Product Solutions	-	-	-	-	-	-	-	2.8%	-	-	-	-	-	3.3%
Sales breakdown														
Financial Systems Solutions	2,146	4,077	7,006	9,332	2,140	4,615	7,068	9,337	2,243	4,527	7,144	9,858	104.9%	9,400
Software development	1,487	2,695	5,023	6,439	1,311	2,791	4,145	5,668	1,251	2,574	4,382	5,791	97.2%	5,960
Maintenance	239	503	779	1,041	268	541	829	1,124	301	606	926	1,246	102.1%	1,220
Hardware	324	550	679	923	265	750	989	1,140	353	680	869	1,526	175.4%	870
In-house packaged software	3	99	130	242	103	140	483	490	98	179	207	244	101.7%	240
Cloud services	81	176	277	386	126	285	459	637	178	390	609	828	103.5%	800
Third-party packaged software	8	51	117	299	64	105	161	254	61	95	148	220	71.0%	310
Product Solutions	177	616	823	1,272	197	425	621	1,106	174	440	661	1,063	88.6%	1,200
Software development	10	21	67	89	15	29	38	72	5	28	46	-	-	60
Maintenance	23	51	82	212	23	48	132	282	17	44	124	-	-	290
Hardware	5	253	283	365	1	2	2	82	1	1	1	-	-	40
In-house packaged software	40	43	45	58	42	113	115	133	49	62	69	-	-	80
Third-party packaged software	97	246	343	545	115	230	333	534	100	302	419	-	-	730

Source: Shared Research based on company data

Note: New segments from Q1 FY06/16. Sales and costs of Face Concierge were transferred from the Product Solutions segment to the Financial Systems Solutions segment.

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

Full-year FY06/20 results (out August 5, 2020)

- ▷ In FY06/20, the company reported parent sales of JPY10.9bn (+4.6% YoY), operating profit of JPY1.0bn (+12.5% YoY), recurring profit of JPY1.1bn (+12.7% YoY), and net income of JPY762mn (+11.4% YoY).
- ▷ Performance versus plan: Sales achieved 103.0% of the company's full-year target, operating profit 103.6%, recurring profit 103.3%, and net income 105.8%.
- ▷ Sales: The 4.6% YoY rise in parent sales reflected a combination of higher sales at the Financial Systems Solutions segment (up 5.6% YoY and 4.9% above plan) and lower sales at the Product Solutions segment (down 3.9% YoY and 11.4% below plan). The sales growth at the Financial Systems Solutions segment was driven by hardware sales and cloud services. Sales of proprietary package software were down but this was due not to changes in business conditions but rather to tough comparisons with elevated sales levels in FY06/19, when the company booked multiple sales of package software in conjunction with the progress of its work on systems development projects. The decline in sales at the Product Solutions segment was attributed in part to delays in booking sales of proprietary products under projects that were pushed out into FY06/21 as a result of disruptions caused by the COVID-19 pandemic.
- ▷ Operating profit: The 12.5% YoY rise in parent operating profit was driven by the Financial Systems Solutions segment, where operating profit was up 26.2% YoY and 17.1% above plan. Profitability improved thanks to solid growth at its software development business (which further benefited from the absence unprofitable projects) and higher sales at its cloud services business. Increased hardware sales (as detailed under segment results below) also contributed to higher profit. The Product Solutions segment reported an operating loss of JPY88mn (versus profit of JPY31mn in FY06/19) as its gross profit margin was squeezed by higher percentage of sales of low-margin products from third-party vendors. The gross profit margin rose 0.4pp YoY to 27.3% and the SG&A ratio fell 0.3pp YoY to 17.8%. As a result, the operating profit margin improved 0.7pp YoY to 9.5%.
- ▷ Dividend forecast: For FY06/20, the company plans to pay an annual dividend of JPY10 per share, an increase of JPY1 over FY06/19.

External operating environment

- ▷ In FY06/20, the company's external operating environment took a turn for the worse as what had been a slowly expanding domestic economy turned decidedly down as the COVID-19 pandemic hit the shores of Japan.
- ▷ Businesses hit by the pandemic included major credit card companies, which saw their monthly transaction volumes fall sharply below year-ago levels in the months of March, April, and May 2020.
- ▷ Statistics from Ministry of Economy, Trade and Industry released on April 1, 2020 show credit card transactions totaling JPY1.4tn between October 1, 2019 and December 2, 2019, with this figure rising to JPY4.6tn by March 16, 2020. In October 2019, the Japanese government put in place the "cashless point rebate" to encourage greater use of cashless payment systems. This system ended on June 30, 2020. From October 2019 to April 2020, merchants participating in the program saw the proportion of their sales paid for using some form of cashless payment system rise from roughly 26% to 33%. As in the past, credit cards were the preferred form of cashless payment, accounting for more than 60% of all cashless transactions among merchants participating in the program.
- ▷ While the pandemic led to fewer credit card transactions at brick-and-mortar stores, credit cards use in online shopping appears to be on the rise, with credit card transaction volume expected to continue to expand as a portion of consumer spending moving forward.

- Despite the sudden changes in its external operating environment, the company's businesses were robust in Q4 and were largely in line with its initial expectations. The pandemic reduced sales only modestly as part of projects that been expected to be finished by end-FY06/20 were pushed out into FY06/21.

Results by segment

Financial Systems Solutions segment

In FY06/20, the Financial Systems Solutions segment reported sales of JPY9.9bn (+5.6% YoY) and an operating profit of JPY1.1bn (+26.2% YoY).

- The top-line gains were driven in large part by development projects for existing clients.
- Sales from software development were JPY5.8bn (+2.2% YoY).
- Hardware sales were JPY1.5bn (+33.9% YoY). The growth in hardware sales reflected replacement orders in Q4 for servers used in its front-end processing (FEP) systems, a number of which were approaching the end-date for support by the manufacturer. The company is expecting still more replacement orders of this type in FY06/21.
- Sales in the cloud services business were JPY828mn (+30% YoY), aided by the startup of services for new clients.
- Sales of proprietary package software were JPY226mn (-53.9% YoY). The decline in sales reflected not a change in business conditions but rather tough comparisons with elevated sales levels in FY06/19, when it booked multiple sales of package software in conjunction with the progress of its work on systems development projects. NET+1, the company's flagship internally developed software, is a core product of the company's front-end processing (FEP) system, and is utilized in new or replacement FEP projects orders. In FY06/19, the company booked sales of proprietary package software for FEP systems made to multiple customers. Normally, sales are recorded based on the progress of their respective projects.
- The rise in operating profit was attributed to improved profitability supported by solid growth at its software development business (which also benefited from the absence unprofitable projects) and rising sales at its cloud services business. The sharp jump in hardware sales also contributed.

Financial Systems Solutions segment: sales and operating profit

(JPYmn)	FY06/19			FY06/20		
	1H Act.	2H Act.	FY Act.	1H Act.	2H Act.	FY Act.
Sales	4,615	4,722	9,337	4,527	5,330	9,858
Operating profit	317	573	890	494	630	1,124
OPM	6.9%	12.1%	9.5%	10.9%	11.8%	11.4%

Source: Shared Research based on company data

Factors influencing segment profit margin

- At the Financial Systems Solutions segment, order size can vary from one development project to another, costs may come in over-budget at different stages of the project, and the gross profit margin varies from project to project. All these factors contribute to changes in earnings at the segment as a whole.
- Since the company sells servers and other equipment when clients order new systems or upgrade existing systems, hardware sales also vary from project to project, and this also contributes to fluctuations in the segment's overall profit margin.

Product Solutions segment

In FY06/20, the Product Solutions segment reported sales of JPY1.1bn (-3.9% YoY) and an operating loss of JPY88mn (versus profit of JPY31mn in FY06/19).

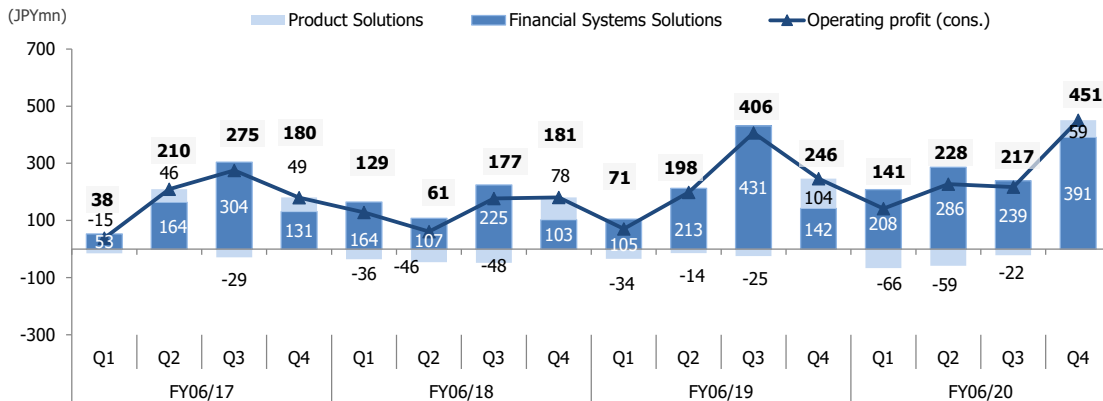
- ▷ Segment sales represent a combination of sales of its own proprietary CWAT system (to prevent internal data leaks) and sales of third-party cybersecurity software products.
- ▷ Sales of proprietary products finished down, as some sales that had been expected to be finalized in FY06/20 were pushed out into FY06/21, having been delayed by the disruptions caused by the COVID-19 pandemic. Sales of third-party products rose YoY, but the segment reported an operating loss due to higher percentage of sales of low-margin products from third-party vendors.

Product Solutions segment: sales and operating profit

(JPYmn)	FY06/19			FY06/20		
	1H Act.	2H Act.	FY Act.	1H Act.	2H Act.	FY Act.
Sales	425	682	1,106	440	623	1,063
Operating profit	-48	80	31	-125	38	-88
OPM	-	11.7%	2.8%	-	6.0%	-

Source: Shared Research based on company data

Operating profit by segment



Source: Shared Research based on company data

Full-year company forecast

(JPYmn)	FY06/19 (parent)			FY06/20 (parent)			FY06/21 (parent)		
	1H	2H	FY	1H	2H	FY	1H Est.	2H Est.	FY Est.
Sales	5,039	5,404	10,443	4,967	5,954	10,921	5,000	6,000	11,000
YoY	7.4%	-8.6%	-1.5%	-1.4%	10.2%	4.6%	0.7%	0.8%	0.7%
Cost of sales	3,842	2,351	6,193	3,633	4,307	7,940			
Gross profit	1,198	1,609	2,807	1,334	1,647	2,981			
YoY	17.1%	34.1%	26.3%	11.4%	2.3%	6.2%			
GPM	23.8%	29.8%	26.9%	26.9%	27.7%	27.3%			
SG&A expenses	929	956	1,885	965	979	1,944			
SG&A ratio	18.4%	17.7%	18.1%	19.4%	16.4%	17.8%			
Operating profit	269	653	922	369	668	1,036	380	770	1,150
YoY	41.5%	82.5%	68.3%	37.1%	2.3%	12.5%	3.0%	15.3%	11.0%
OPM	5.3%	12.1%	8.8%	7.4%	11.2%	9.5%	7.6%	12.8%	10.5%
Recurring profit	282	672	954	360	715	1,075	400	790	1,190
YoY	43.0%	78.4%	66.2%	27.8%	6.4%	12.7%	11.1%	10.5%	10.7%
RPM	5.6%	12.4%	9.1%	7.2%	12.0%	9.8%	8.0%	13.2%	10.8%
Net income	205	479	684	237	525	762	280	540	820
YoY	58.4%	93.0%	81.2%	15.8%	9.6%	11.4%	18.1%	2.9%	7.6%

Source: Shared Research based on company data

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

Note: Company estimates based on most recent figures

Note: On June 28, 2016, the company finished liquidating consolidated subsidiary Intelligent Wave Korea Inc. FY06/17 estimates apply only to the parent company and are not consolidated (YoY growth rate figures for FY06/17 are for reference).

Company forecast for FY06/21 (out August 5, 2020)

Overview

- ▷ For FY06/21, the company forecasts sales of JPY11.0bn (+0.7% YoY), operating profit of JPY1.2bn (+11.0% YoY), recurring profit of JPY1.2bn (+10.7% YoY), and net income of JPY820mn (+7.6% YoY).
- ▷ The company expects sales from the systems development business to fall YoY, but projects solid growth in sales of proprietary products, hardware, and products from third-party vendors.
- ▷ At its cloud services business, IWI received no new orders for acquiring business services in FY06/20, but expects an influx of new orders in FY06/21 from a number of customers, including regional banks and new entrants to the credit card business. It forecasts cloud services sales of JPY940mn (+13.5% YoY) in FY06/21, and aims to achieve sales of JPY1.3bn (+38.3% YoY) in FY06/22 and JPY1.6bn (+23.1% YoY) in FY06/23.

Change in reporting segments

- ▷ Up until now, IWI has had two reporting segments, the Financial Systems Solutions segment and the Product Solutions segment, and has managed operations accordingly. However, it has recently decided to step up its sales outreach and its product development efforts in both of these businesses to support further growth.
- ▷ The company will expand its sales efforts by making use of client data that had formally not been shared between the two businesses, and expand its R&D staff in the area of cybersecurity technology to facilitate the development of new products and services.
- ▷ Effective July 1, 2020, the company changed its organizational structure and made changes in its management organization scheme and, along with this, changed its reporting segmentation scheme.

Management strategy and long-term outlook

New medium-term business plan: FY06/21–FY06/23 (out August 5, 2020)

Overview

In the wake of the COVID-19 pandemic, IWI decided to revise the medium-term business plan it announced on August 7, 2019 and formulate a new medium-term plan covering the years from FY06/21 through FY06/23. Under the new medium-term plan, the company has set a final-year target for sales of JPY13.5bn (+23.6% versus FY06/20), an operating profit of JPY1.5bn (+44.8%), and an operating profit margin of 11.1%.

Reasons for revision to medium-term business plan

On the production side, the company's systems development business and systems operations business are all doing well, having experienced no major disruptions as a result of the COVID-19 pandemic. On the marketing and sales front, however, opportunities for direct contacts with clients have declined and there are some delays in negotiations for new projects owing to the circumstances at client companies.

The company says it is hard to make precise estimates as to the impact of the pandemic on its businesses. However, it expects the possibility that the pandemic will slow the overall pace of sales growth because of delays in winning new project orders.

As for the operating environment, the company sees no major changes, with prospects still looking good for a continued rise in credit card transaction volumes over the long term, and this in turn promising continued growth opportunities for its own business. The company sees sales running basically flat YoY in FY06/21, then getting back on the growth track in FY06/22 and FY06/23 as it expects to win orders for development projects from major credit card companies and from new client companies that are looking to move into the credit card business, as well as for new projects for cloud services. In terms of profitability, the company is looking to keep its operating profit margin consistently above 10% and push it up to around 11% in FY06/23 for an operating profit of JPY1.5bn.

Long term, IWI aims to achieve an operating profit margin of 15%. It strives to gain stable sales growth and improve profit margins by building on its profitable systems development business with various recurring-revenue and subscription-type businesses.

New and previous medium-term business plans

(New plan)

(JPYmn)	FY06/20 Act.	FY06/21 Est.	FY06/22 MTP	FY06/23 MTP	CAGR FY06/20–FY06/23
Sales	10,921	11,000	12,000	13,500	7.3%
Operating profit	1,036	1,150	1,250	1,500	13.1%
OPM	9.4%	10.5%	10.4%	11.1%	-

(Old plan)

(JPYmn)	FY06/19 Act.	FY06/20 MTP	FY06/21 MTP	FY06/22 Act.	CAGR FY06/19–FY06/22
Sales	10,443	10,600	11,200	12,000	4.7%
Financial Systems Solutions	9,337	9,400	9,900	10,600	4.3%
Product Solutions	1,106	1,200	1,300	1,400	8.2%
Operating profit	922	1,000	1,080	1,200	9.2%
OPM	8.8%	9.4%	9.6%	10.0%	-

Source: Shared Research based on company data

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

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