

17-Apr-14

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■ Growing by strengthening the digital marketing business

The main business of Softcreate Holdings Corp. is e-commerce (EC) solutions for corporate e-commerce. The company also offers systems integration services and develops business application software. Softcreate Holdings has provided EC solutions to more than 800 companies, many of which are large companies with famous brands. Softcreate Holdings has maintained the largest share of the Japanese market for EC solutions for the past five years.

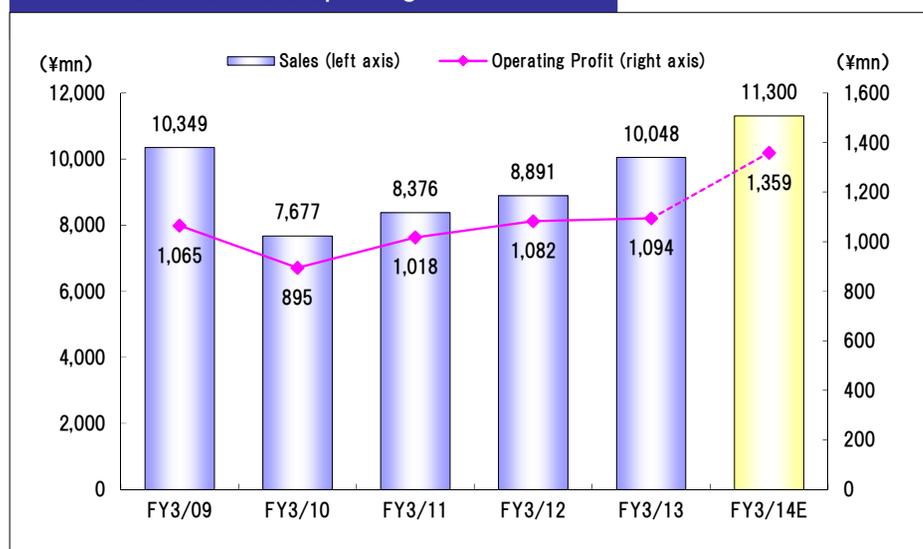
Corporate demand for EC solutions has progressed from the simple building, maintenance and support of websites to marketing support to expand revenue. To take advantage of this change, Softcreate Holdings has established a team of 50 personnel to expand its web promotions business. This business includes Internet advertising agency business and similar businesses, and Softcreate Holdings intends to propose policies to further increase the sales of its corporate customers and thereby expand its web promotions business.

To date, Softcreate Holdings has been evaluated mainly as a systems integration company. This evaluation has also been reflected in its share price. However, Softcreate Holdings is now concentrating on expanding its digital marketing business, providing web operational support, as well as specialized advertising agency business. The digital marketing business is generally valued more than the systems integration business, so the valuation of Softcreate Holdings is likely to increase.

■ Check Points

- The main EC solutions business has served more than 800 companies
- The company is on track to achieve its forecasts for FY3/14
- Management is positive about rewarding shareholders and is likely to continue to increase its annual dividend

Consolidated Sales and Operating Profit



■ Company Outline

In addition to its main EC solutions business, the company provides systems integration services and sells personal computers and peripheral equipment

Company History

In August 1969, the predecessor of Softcreate Holdings, Shirozaka Sangyo Co., was established as a private company with limited liability. However, Softcreate Holdings began its current businesses in information and communications in May 1983 with the establishment of its first Soft Create personal computer shop in the Shibuya area of Tokyo.

After opening its first Soft Create personal computer shop, the company gradually opened six more, but with the release of the Windows 95 operating system in the mid-1990' s, mass retailers of electronic goods began to sell personal computers on a large scale in Japan, and personal computers became an electronic commodity. Therefore, the company stopped selling personal computers retail and concentrated on services for companies and on Internet sales. The company developed its own Internet sales site, which quickly became very successful. The knowhow gained in developing and operating this site formed the basis for the company' s current main business, EC solutions.

The company also offers systems integration services. Since opening its first personal computer shop in 1983, the company sought to develop its own software. In 1985, it began to offer systems integration services on a consigned development basis. As the company concentrated on corporate services from the mid-1990' s, it had to strengthen its systems integration services, and it has continued to do so.

In 2005, the company listed its shares on the Hercules market of the Osaka Securities Exchange. In 2008, it listed its shares on the Second Section of the Tokyo Stock Exchange, and in 2011, it listed its shares on the First Section of the Tokyo Stock Exchange.

Company History

Year	
Aug-69	Established as Shirozaka Sangyo Co. in Yokohama City to engage in real estate business
May-83	Opened the company' s first personal computer shop, called Soft Create, in the Shibuya area of Tokyo
Apr-85	Started offering systems integration services on a consigned development basis
Sep-86	Established a division to sell systems integration services
Apr-93	Started the service of building and maintaining computer networks
Jan-99	Developed the Tokka COM Internet shopping site and began Internet sales
Oct-99	Released the ecshop package for constructing electronic commerce sites
Mar-00	Built a server center and began offering a hosting service
Apr-03	Released the X-point web form work flow system
Apr-05	Listed shares on the Hercules market of the Osaka Securities Exchange
Nov-05	Released the L2 Blocker for detecting and blocking personal computers not authorized to connect to a system
Apr-07	Established subsidiary Atled Co., Ltd.
Dec-08	Listed shares on the Second Section of the Tokyo Stock Exchange
Apr-09	Sold the Tokka COM Internet shopping site business to Stream Co., Ltd
Mar-11	Listed shares on the First Section of the Tokyo Stock Exchange
Oct-12	Reorganized as a holding company, changed company name to Softcreate Holdings Corp., established ecbeing Corp. and Softcreate Corp. as operating companies of the group



Outline of Businesses

In October 2012, Softcreate Holdings reorganized as a holding company. As shown in the table below, the operational companies of the group are ecbeing Corp., Soft Create Corp., and Atled Co., Ltd.

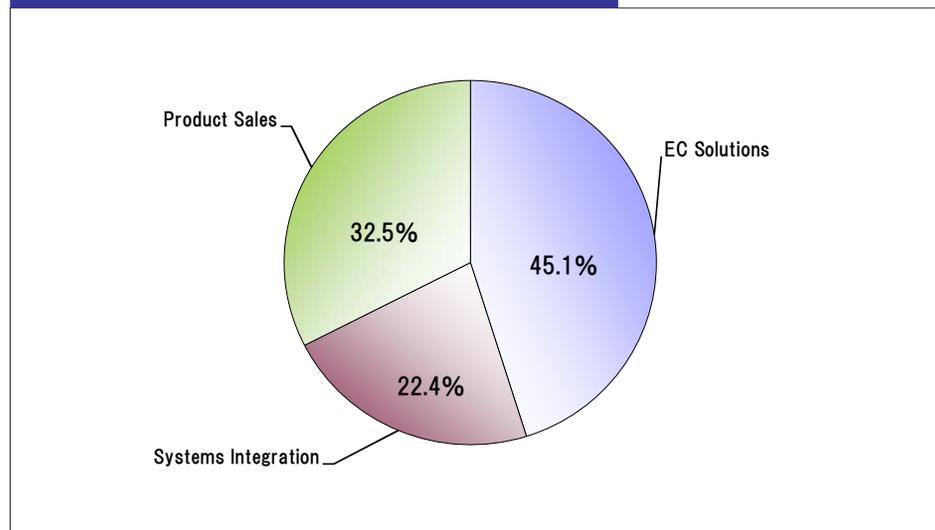
Softcreate Holdings engages in three main businesses: EC solutions, systems integration, and product sales. The EC solutions business is conducted by ecbeing Corp., while the system integration business is conducted by Softcreate Corp. and Atled Co., Ltd. Atled specializes in the development of work flow software, while Softcreate builds computer networks and other hardware systems. As part of its systems integration business, Softcreate also sells hardware, such as personal computers, servers, and peripheral equipment.

Businesses Engaged in by Softcreate Holdings

Segment	Subsidiary	Business	Goods and services provided
EC Solutions	ecbeing	EC Solutions	"ecbeing" and optional services
Systems Integration	Softcreate	Networks/Cloud computing	SC Cloud series / IDCMax series
		Business applications	Installation and support of products from Cybozu, Inc., Obic Business Consultants, PCA Corp., and "X-point"
	Security/Business continuity planning	"L2Blocker" "i-FILTER" "MOKA"	
	Atled	Work flow business	"X-point" "AgileWorks"
Product Sales	Softcreate	Sale	Personal computers, servers, peripheral equipment, software

Note: Products written in blue are original products of Softcreate Holdings

Sales Breakdown by Business, FY3/13



■ Description of Businesses

Has served more than 800 companies

EC Solutions

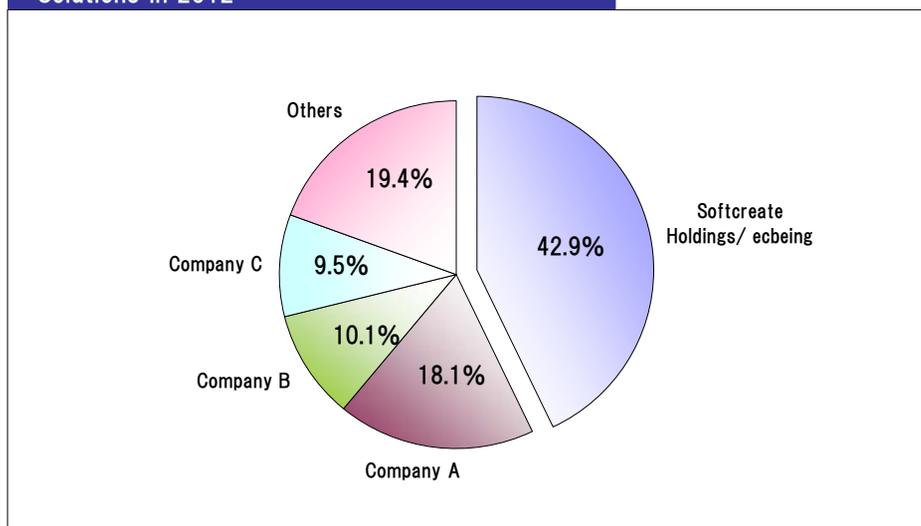
The EC solutions business is conducted by subsidiary *ecbeing Corp.* and derives its sales and profits from supporting the e-commerce business, i.e., sales through the Internet, of corporations. *ecbeing Corp.* provides a service package of the same name (*ecbeing*) for constructing, maintaining and supporting e-commerce web sites and for supplying marketing support for these sites.

Many other companies offer EC solutions services, and the customers for such services range from small and medium-sized companies to large companies. However, Softcreate Holdings sets clear criteria for its targeted customers. The first criterion is that customer companies must already have established strong brands for their goods or services through physical (brick and mortar) operations. Therefore, Softcreate Holdings does not target companies that specialize in e-commerce. This criterion explains at least one of the strengths of the Softcreate Holdings group, as detailed below.

Another criterion used by Softcreate Holdings to target customers is that the company must generate annual revenues from e-commerce of between ¥100mn and ¥10bn. Thus, Softcreate Holdings does not target proprietorships or venture companies. This requirement insures that customer companies can afford the optional EC solutions services provided by Softcreate Holdings. Broadly speaking, Softcreate Holdings' EC solutions services cost ¥15mn up front and require a running cost of ¥300,000 per month.

Many competitors seek to provide EC solutions services to companies with e-commerce revenue of ¥100mn – ¥10bn per year. The three main competitors are S-cubism Inc. (unlisted), System Integrator (3826), and Commerce21 Corp. (unlisted). Although competition is intense, with a customer base of more than 800 companies, Softcreate Holdings has maintained the top share of the Japanese market for EC solutions services over the past five years.

Shares of the Japanese Market for EC Solutions in 2012



Source: Fuji Chimera Research Institute

■Description of Businesses

Leading Corporate Customers for EC Website Support



Advanced technology, a broad scope of services, and cost competitiveness

Strengths of the Softcreate Holdings group

In EC solutions, the Softcreate Holdings group boasts three main strengths: the ability to customize EC solution services to completely satisfy customer needs, the ability to provide marketing support for customers' e-commerce websites, and cost competitiveness.

Ability to customize EC solutions services to completely satisfy customer needs

Ready-made software cannot resolve the e-commerce issues of all companies because corporate needs vary infinitely depending on their products and the state of their businesses. Thus, the EC solutions business of Softcreate Holdings customizes its software to satisfy customer needs, which requires advanced technology.

Most companies that engage in e-commerce require an omnichannel sales capability. That is, they require that their customers can purchase goods or services via the Internet in the same fashion that they could at stores. The ability of the EC solutions business to support omnichannel sales enables it to target as customers companies with successful physical operations. With more than 800 corporate customers, the EC solutions business has experience in supporting the e-commerce websites for a wide range of industries. Based on this industry-specific knowhow, the business can customize its software to satisfy the needs of companies in many industries.

Marketing support for customers' e-commerce websites

Practically every Japanese company now engages in e-commerce. Thus, for a company to boast that it has an online shopping site does not indicate competitive superiority, merely that it may survive. Consequently, companies have gradually expanded their demands of EC solutions providers beyond the construction and maintenance of an online shopping website to include marketing assistance. In other words, they demand a wider range of services.

■ Description of Businesses

Softcreate Holdings offers a wider range of EC services than its competitors. Furthermore, it offers search engine optimization (SEO) and ways to increase the number of online customers or the conversion rate of a website, i.e., the proportion of site visits that results in an order or a request for materials.

Cost competitiveness

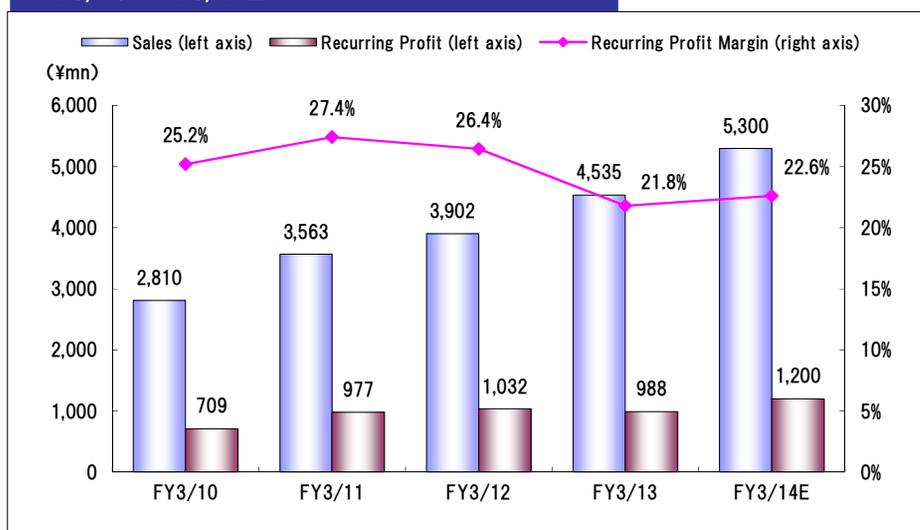
Of course, companies aim to minimize the total cost of their e-commerce businesses, including initial set-up cost, monthly running cost, and occasional unforeseen costs, such as the cost of repairing information leaks. Softcreate Holdings protects and manages the data of its customers at its own data center. More than 90% of its customers consign these tasks to the company. Softcreate Holdings leases the equipment at its data center from a company that specializes in such equipment. Furthermore, the company has contracted with LAC Co., Ltd. (3857), a specialist in information security, to insure the security of its data center. Despite these costs, because the EC solutions business of Softcreate Holdings serves many customers, the cost of its services per customer is low.

Sales in the EC solutions business trending higher**Business trend**

In the fiscal year through March 2013, i.e., in FY3/13, the EC solutions business provided 45.1% of the total sales generated by Softcreate Holdings and 45.6% of the total recurring profit before the elimination of corporate costs. As shown in the bar chart below, sales generated by the EC solutions business have increased consistently accompanying the expansion of Japan's e-commerce market.

Reflecting a year-on-year (y-o-y) increase in R&D cost in FY3/13, the ratio of recurring profit before the elimination of corporate costs to sales fell to 21.8% from 26.4% in FY3/12. However, the company foresees a decline in many costs from FY3/14, and if the proportion of recurring sales to total sales increases, profits should grow steadily from FY3/14 because recurring sales, such as monthly maintenance and support fees, carry high profit margins.

**Trend in the EC Solutions Business,
FY3/10 - FY3/14E**



X-point work flow software program holds a high market share

Systems Integration

The systems integration business builds, operates, and maintains information systems. The business derives most of its sales and profits from the sale of software developed in-house and from the construction of information networks.

The main software programs developed in-house are the X-point and AgileWorks work flow programs developed by subsidiary Atled Co. The X-point program is sold to companies with 300 or fewer employees, while the AgileWorks program is sold to companies with more than 300 employees. Approximately 80 work flow software programs are sold in Japan, so competition is intense, yet the X-point program has amassed a share of 30 – 35% in the market for such software for smaller companies because of its advanced functions. Other leading Japanese systems integration companies include the X-point program in their lines of business application software, serving as sales agents for Softcreate Holdings.

Unlike the EC solutions products, the work flow software programs are not customized. They are all ready-made. Thus, they are very profitable. We estimate that the gross profit margin on these programs substantially exceeds 50%.

The systems integration business has stopped constructing networks to order because this business requires a large number of employees. It now constructs networks using only its existing business application software. Therefore, this business is also very profitable. We estimate its gross profit margin at 40%.

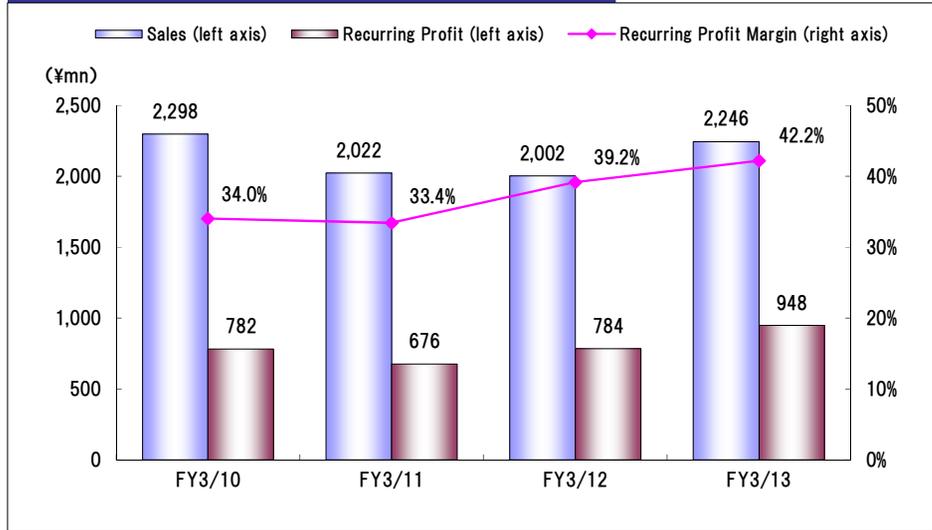
Business trend

From FY3/10 through FY3/13, sales in the systems integration business remained fairly static, but the ratio of recurring profit before the elimination of corporate costs to sales rose to 41.2% from 34.0%, reflecting strong sales of software developed in-house and the business' s withdrawal from low-margin network development to order.

Sales of X-point and other package software programs developed in-house are likely to support modest sales growth for the systems integration business in coming years. However, the business will probably not receive many large systems integration orders now that it has stopped developing networks to order. Given the high profit margins earned on package software, profits in the systems integration business should grow faster than sales.

■ Description of Businesses

Trend in the Systems Integration Business, FY3/10 - FY3/13



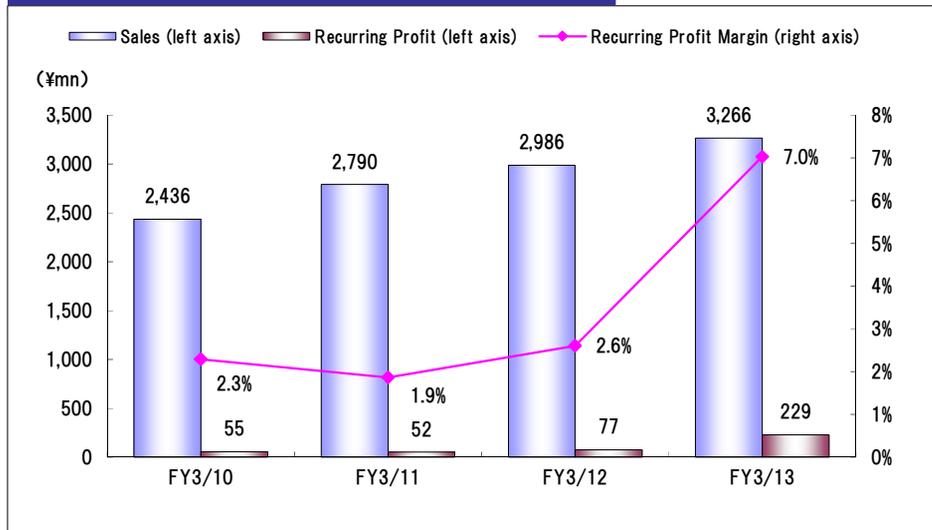
Growing steadily accompanying an increase in the number of customers

Product Sales

The product sales business is an offshoot of the systems integration business. When the systems integration business receives an order to build a network, the product sales business purchases the personal computers, servers, peripheral equipment, and some software required for the network and sells them to the customer. As the number of customers for the systems integration business has increased, product sales have risen. Even if the number of new customers for the systems integration business slows, existing customers have to replace the hardware and software in their networks, so product sales are likely to grow moderately over the medium term.

However, product sales are sensitive to macroeconomic factors, such as the increase in Japan’s consumption tax from 5% to 8% as of April 1, 2014. Thus, these sales may grow strongly in FY3/14, then languish in FY3/15.

Trend in the Product Sales Business, FY3/10 - FY3/13



■ Medium-term Growth Strategy

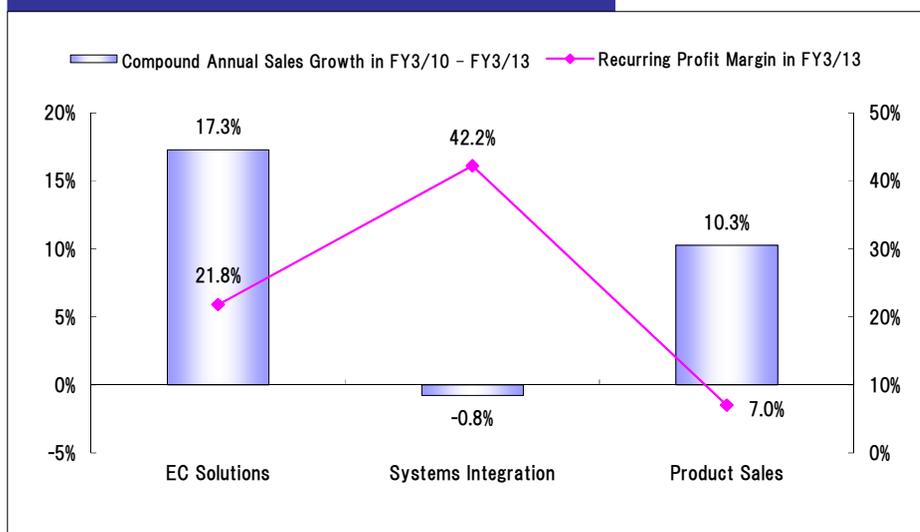
Aiming to become a digital marketing support company

EC Solutions

Comparing the three main businesses of Softcreate Holdings in terms of compound annual sales growth in the three years from FY3/10 to FY3/13 and profitability in FY3/13 as measured by the ratio of recurring profit before the elimination of corporate costs to sales, the EC solutions business achieved the highest sales growth of 17.3% and the second-highest profitability, of 21.8%. Therefore, Softcreate Holdings expects this business to lead its growth over the medium term. The company is considering means of promoting the growth of the EC solutions business.

As mentioned earlier, in recent years, Japanese companies have demanded Internet marketing support in addition to the conventional EC solution services of building, maintaining and supporting online shopping websites. The management of Softcreate Holdings did not merely react to this change passively, but it actively adapted its plans to benefit from the change. The EC solutions business has been acquiring 70-80 new corporate customers each year, and management intends to maintain this pace of expansion. However, it plans to strengthen its digital marketing business to acquire more of the advertising expenditures of its existing customers. It is not considering entering the Internet advertising agency business on a full scale, but it plans to compete with Internet advertising agencies for business from its current customers. Toward this end, it has adopted the slogan, “from a simple EC systems company to a digital marketing company” .

Comparison of Businesses in Terms of Compound Annual Sales Growth and



Note: Recurring profit is before the elimination of corporate costs to sales

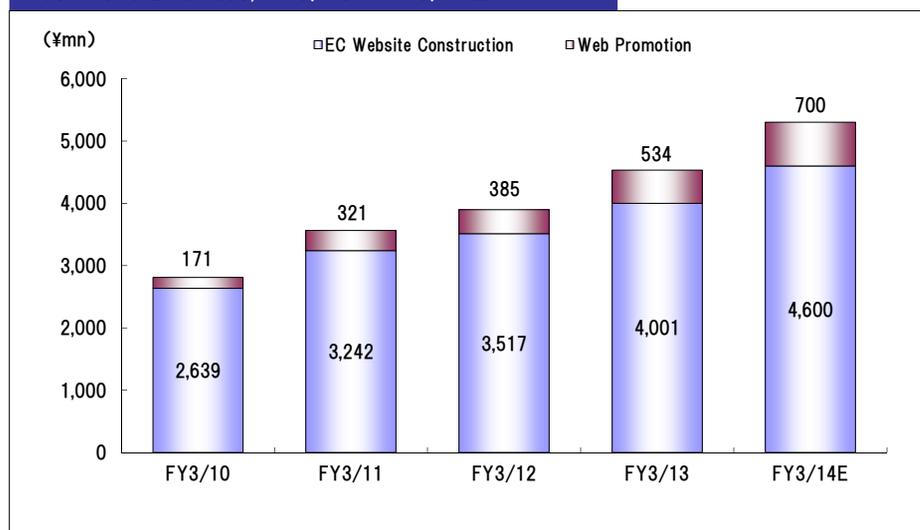
To offer marketing support comparable to the support provided by companies that specialize in Internet advertising agency business, Softcreate Holdings has been expanding its line of marketing support services and accumulating experience and knowhow in these services. It divided its EC solutions business into two groups, one to construct EC websites, the other to promote web sales. The web promotion group comprises 50 employees, and the company plans to add more employees. The EC website construction group has about 200 employees, including contract employees and other irregular employees, and the company plans to maintain this number.

■ Medium-term Growth Strategy

The services offered by the web promotion group include Internet advertising, website analysis, and website operational support. For Internet advertising, the group is not following the traditional practice of purchasing advertising spots and selling them, but it is promoting advertising with added technology. The Internet advertising industry in Japan is moving away from simple advertising, i.e., placing ads on behalf of clients, towards providing services with added technology, which are more profitable than simple advertising. Thus, the web promotion group is operating in tune with current industry trends.

Reflecting the company's development of the web promotion group of the EC solutions business, sales by this group have grown faster than sales by the EC website construction group. In FY3/10, the web promotion group supplied sales of only ¥171mn, while the EC website construction group generated sales of ¥2,639mn. For FY3/14, the company projects web promotion group sales of ¥700mn and EC website construction group sales of ¥4,600mn. If these forecasts are realized, sales by the EC website construction group will have increased by a compound annual growth rate of 14.9% from FY3/10 to FY3/14, while sales by the web promotion group will have risen by a compound annual growth rate of 42.2%.

Sales from the Two Groups of the EC Solutions Business, FY3/10 - FY3/14E



■ Financial Analysis

Company valuation likely to rise with change in its business structure

In FY3/13, Softcreate Holdings yielded an ROE of 13.2%, in line with the average ROE of listed Japanese companies. However, its ratio of recurring profit to total assets was 17.2% that year, which was higher than the average ratio for listed Japanese companies, higher than the average ratio for listed business application software companies, and higher than the average ratio for listed Internet advertising agencies.



■ Financial Analysis

The company's asset turnover rate in FY3/13 was 1.3 times, which is about the average rate for the company's industry, or perhaps slightly lower than the average rate. However, the company's operating profit margin was 10.9% in FY3/13, which is higher than the margins for most other listed companies, reflecting the profitability of the EC solutions business and the systems integration business.

Softcreate Holdings has been taking measures to expand its profit margins, such as abandoning the development of networks to order and increasing recurring sales. However, it will have to invest heavily to increase the sales of the web promotions group of its EC solutions business and may find it challenging to maintain high profit margins in this business while reorienting it towards the web promotions group.

As Softcreate Holdings increases its enterprise value, its share price is likely to rise, lifting its ROE. The company may be able to raise its ROE by taking advantage of its high ratio of recurring profit to total assets. However, to assume unneeded interest-bearing debt in order to increase its financial leverage would be like putting the cart before the horse. Even without financial leverage, management should be able to increase the company's ROE by achieving an optimum balance of assets, liabilities and equity. The company's strong balance sheet and high profit margins give management a range of choices for increasing its ROE.

Softcreate Holdings' growth to date has been based on its systems integration business and the network construction group of its EC solutions business. Thus, the company appears to have been valued mainly as a provider of systems integration services. Over the medium-to-long term, however, the company expects the digital marketing service provided by the web promotions group of the EC solutions business to lead company growth. In promoting the growth of this service, the company will probably compete more directly with companies that specialize in Internet advertising agency business. Thus, the company is likely to be compared with and valued as an Internet advertising agency. In general, Internet advertising agencies in Japan have higher share price valuations than systems integration companies. Thus, the share price of Softcreate Holdings could rise as the company expands its digital marketing service.

Results Trend for FY3/09 - FY3/14E

		FY3/11	FY3/12	FY3/13	FY3/14E
Sales	¥mn	8,376	8,891	10,048	11,300
SGA costs	¥mn	1,603	1,787	2,072	-
Operating profit	¥mn	1,018	1,082	1,094	1,359
Recurring profit	¥mn	1,004	1,113	1,252	1,380
Net profit	¥mn	525	553	645	710
Total assets	¥mn	6,260	6,815	7,719	-
Shareholders' equity	¥mn	4,242	4,610	5,106	-
Interest-bearing debt	¥mn	0	0	0	-
ROE	%	13.1%	12.6%	13.2%	-
Recurring profit/total assets	%	16.7%	17.0%	17.2%	-
Asset turnover rate	times/year	1.34	1.30	1.30	-
Operating profit margin	%	12.2%	12.2%	10.9%	12.0%
Gross profit margin	%	31.3%	32.3%	31.5%	-
SGA costs/sales	%	19.1%	20.1%	20.6%	-
Sales CAGR	%		10.5%		
Operating profit CAGR	%		10.1%		
Net profit CAGR	%		10.5%		

Note: CAGR = compound annual growth rate from FY3/11 to FY3/14



■ Business Outlook

On track to achieve forecasts

Company forecasts for FY3/14

In the first three quarters of FY3/14, i.e., in Q1-3 FY3/14, Softcreate Holdings reported consolidated sales of ¥8,218mn, up 12.4% y-o-y, operating profit of ¥980mn, up 23.9% y-o-y, recurring profit of ¥1,005mn, up 12.7% y-o-y, and net profit of ¥488mn, up 6.1% y-o-y. For FY3/14, the company forecasts consolidated sales of ¥11,300mn, up 12.5% y-o-y, operating profit of ¥1,359mn, up 24.2% y-o-y, recurring profit of ¥1,380mn, up 10.1% y-o-y, and net profit of ¥710mn, up 10.0% y-o-y. Based on its results in Q1-3 FY3/14, it appears that Softcreate may slightly surpass its forecasts for the full fiscal year.

In Q1-3 FY3/14, the EC solutions business increased its sales by 8.6% y-o-y and the systems integration business expanded its sales by 5.5% y-o-y, while sales in the product sales business jumped by 22.7% y-o-y, reflecting exceptionally strong demand in advance of the increase in Japan's consumption tax from 5% to 8% as of April 1, 2014. This demand is likely to remain strong in Q4 FY3/14, and sales by the other two businesses are growing as planned, so Softcreate Holdings should achieve its forecasts for FY3/14.

Prospects for FY3/15

Sales and profit growth in FY3/15 may be impaired by a drop in demand following the increase in Japan's consumption tax. Another tax change from April 1 will encourage capital investment by corporations, and this may boost investment in information technology, but the positive impact of such increased investment is likely to be more than offset by the negative impact of reduced overall demand. However, a drop in demand would primarily affect the product sales business, which yields lower profit margins than the two main businesses. Thus, Softcreate Holdings' total profits will probably be only marginally affected by such a drop.

As the Japanese markets for e-commerce and Internet advertising are still expanding, sales and profits in the EC solutions business should continue to grow. Most of the customers for this business are medium-sized or large companies with established physical operations and brands, so they will probably be able to pass on in their prices the additional cost of business resulting from the increase in the consumption tax. They may even be able to increase their sales and advertising expenditures, which would benefit the digital marketing service of Softcreate Holdings.

Like the product sales business, the systems integration business is affected by external factors, such as the state of the economy and tax changes. However, in Q1-3 FY3/14, there was little increase in demand for the systems integration business stemming from the prospect of the consumption tax hike. Therefore, there should be little decline in demand in FY3/15 in reaction to a demand increase in FY3/14.

Business Outlook

Consolidated Income Statement, FY3/10 – FY3/14E

(Unit: ¥mn)

	FY3/10	FY3/11	FY3/12	FY3/13	FY3/14E
Sales	7,677	8,376	8,891	10,048	11,300
y-o-y	-25.8%	9.1%	6.1%	13.0%	12.5%
Gross profit	2,425	2,622	2,869	3,167	-
SGA costs	1,530	1,603	1,787	2,072	-
Operating profit	895	1,018	1,082	1,094	1,359
y-o-y	-16.0%	13.8%	6.3%	1.1%	24.2%
Recurring profit	902	1,004	1,113	1,252	1,380
y-o-y	-16.1%	11.3%	10.8%	12.6%	10.1%
Net profit	436	525	553	645	710
y-o-y	33.8%	20.4%	5.3%	16.6%	10.0%
Basic EPS (¥)	102.98	125.09	131.19	151.97	156.87
Basic DPS (¥)	30.00	50.00	40.00	45.00	50.00
Adjusted EPS (¥)	34.33	41.70	43.73	50.66	52.29
Adjusted DPS (¥)	10.00	16.67	13.33	15.00	17.00

Notes: The basic DPS for FY3/11 included a commemorative dividend of ¥10.

Shareholder Returns

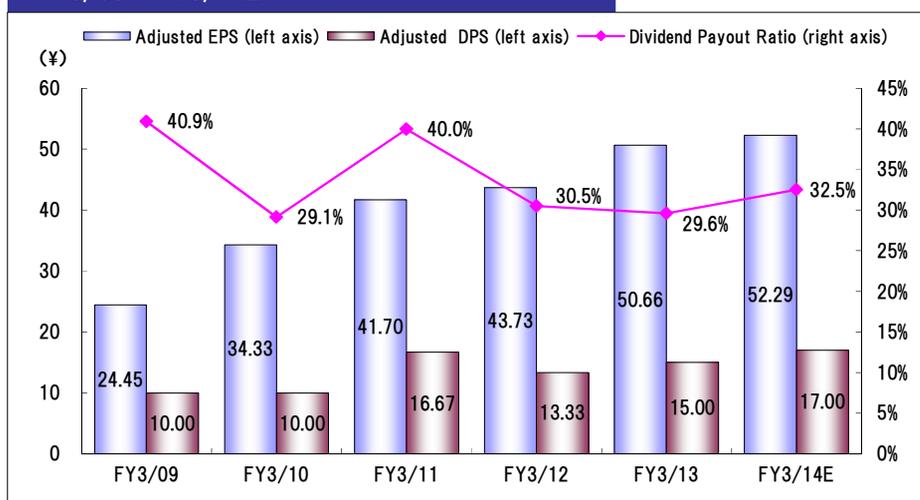
Management is positive about rewarding shareholders and is likely to continue to increase its annual dividend

The management of Softcreate Holdings is positive about rewarding company shareholders. It has never cut its annual dividend, despite occasional profit declines. It has not publicly proclaimed a target for its dividend payout ratio, but it appears to aim for a ratio of 30%. For FY3/14, the company plans to pay a dividend of ¥17 per share, after adjusting for a 3-for-1 share split. This is ¥2 more than the adjusted dividend of ¥15 paid for FY3/13 and would result in a dividend payout ratio of 32.5% if the company achieves its targeted EPS.

For individual shareholders, the company not only pays a dividend, but issues awards. Individuals owning the minimum lot of 1,000 shares can receive original QUO cards worth up to ¥6,000.

Given the company's strong balance sheet, high profit margins, high ratio of recurring profit to total assets, stemming from a firm asset turnover rate, and respectable ROE, the company will probably continue to increase its annual dividend.

Adjusted EPS, DPS, and Dividend Payout Ratio, FY3/09 – FY3/14E



Note: Basic DPS for FY3/11 included a commemorative dividend of ¥10, adjusted figures reflect a 3-for-1 share split

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