

INTERTRADE Co., Ltd.

3747

Tokyo Stock Exchange Standard Market

1-Feb.-2024

FISCO Ltd. Analyst

Tomokazu Murase



FISCO Ltd.

<https://www.fisco.co.jp>

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Summary

Promoting the building of a new financial trading platform for the Web3 era

INTERTRADE Co., Ltd. <3747> (hereafter, also “the Company”) has three business segments. Its core business is the Financial Solutions Business, which provides services such as stock trading systems for securities companies and forex (FX) trading systems and accounts for 80.0% of net sales. The others are the Business Solutions Business, which mainly provides IT support and develops and sells group management and control solution systems, and the Healthcare Business, which develops and sells health foods, cosmetics, and other products based on Hanabiratake (*sparassis crispa*), a functional food ingredient. The Company more or less dominates the market for small to mid-size local securities brokerages for stock trading and other systems that the Financial Solutions Business supplies to brokerages.

1. Overview of FY9/23 results

In the FY9/23 consolidated results, net sales declined 2.2% year on year (YoY) to ¥2,011mn, operating profit fell 17.2% to ¥199mn, ordinary profit was down 97.2% to ¥1mn, and profit attributable to owners of parent was down 78.9% to ¥36mn. Net sales declined in the Financial Solutions Business, which accounts for an 80.0% share, and in the Business Solutions Business. For final profit, profit attributable to owners of parent was impacted by a YoY decrease in gain on change in equity recorded for equity-method affiliate Digital Asset Markets, Inc.

2. Outlook for FY9/24 results

For FY9/24, the Company’s initial forecast calls for a 9.4% YoY net sales increase to ¥2,200mn, operating profit of ¥150mn (down 24.8%), and ordinary profit of ¥12mn (up 583.9%). The Healthcare Business is mainly expected to contribute to the forecast net sales increase, with an outlook of flat net sales in the Financial Solutions Business and minor increase in the Business Solutions Business. In the Healthcare Business, the Company plans to have IT HANABIRATAKE (*sparassis crispa*) approved as a Food with Function Claims (FFC) in FY9/24. We at FISCO believe that labeling a product as an FFC strengthens its appeal to consumers, and is likely increase its contribution to earnings.

3. Future management plan

INTERTRADE is positive about the growth potential of Digital Asset Markets, which has started trading stablecoins* issued on the blockchain, and plans to continue investment in the business. In the Healthcare Business, the Company plans to begin sales of supplements made from IT HANABIRATAKE (a functional food mushroom; to be approved as an FFC) in a big way.

* Crypto assets (virtual currency) that are collateralized or otherwise designed so that their prices do not fluctuate much. They can be used to make payments because they maintain a stable value.

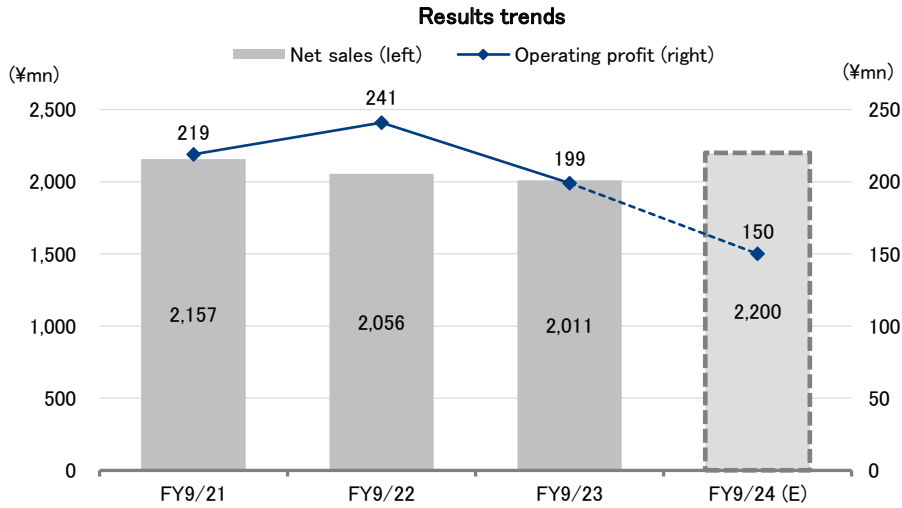
Key Points

- Digital Asset Markets built new financial platform for the Web3* era
- Focused on R&D of digital stock trading systems for brokerages
- Preparations progressing for approval of IT HANABIRATAKE supplement as Food with Function Claims (FFC)

* Web3 is known as the next generation of the Internet. It is a decentralized Internet based on blockchain technology.

We encourage readers to review our complete legal statement on “Disclaimer” page.

Summary



Source: Prepared by FISCO from the Company's financial results

Company overview

Financial Solutions Business is the mainstay; diversifying into healthcare and other fields

1. Company overview

As well as the core Financial Solutions Business, INTERTRADE engages in the Business Solutions Business and Healthcare Business. In the Financial Solutions Business, the Company provides financial solutions and services such as stock trading systems for brokerages, a private exchange system that enables trading outside stock exchanges, and forex trading (FX) systems. It has also expanded into trading systems for commodities such as gold, crude oil, and soybeans (commodity futures) and digital assets including crypto assets.

The Business Solutions Business provides a platform for integrated management of customers' management information, services that provide and support IT skills and business skills in terms of human labor, and support center and system integration services. The Healthcare Business conducts research, production, and sales of *sparassis crispa*, a functional food ingredient that grows in the alpine zone more than 1,000m above sea level.

2. History

The Company was founded in January 1999 by former employees of a major brokerage to develop systems for financial institutions with superior operability and functionality. It began sales of a dealing system for the securities business called TradeOffice-SX in September 2000, followed by TradeOffice-SX Trading Version, a trading system for the securities business in February 2002.

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Company overview

In March 2003, the Company launched Joho Haishin Service (“information delivery service”), which delivers market price information of major stock exchanges including the Tokyo Stock Exchange (TSE), and in December 2004, it began sales of MarketAxis D-Edition, a dealing system for brokerages capable of processing large-volume transactions. In 2005, the Company started sales of ITMonster, a private transaction system (PTS), as well as MarketAxis N-Edition, an online transaction system for B2B companies.

The Company began selling TIGER Trading System, a next-generation securities dealing/trading system in 2007, and began providing TIGER Trading System as an ASP service in 2008.

History

Year Month	Main events
1999 January	Company founded by former employees of a major brokerage to develop systems for financial institutions with operability and functionality
2000 September	Began sales of TradeOffice-SX, a dealing system for the securities business
2002 February	Began sales of TradeOffice-SX Trading Version, a trading system for the securities business
2003 March	Launched Joho Haishin Service (“information delivery service”), which delivers market price information of major stock exchanges including the Tokyo Stock Exchange (TSE)
2003 September	Business alliance with KVH Co., Ltd. (now Colt Technology Services Co., Ltd.)
2004 September	Listed shares on the Tokyo Stock Exchange Mothers Market
2004 December	Began sales of MarketAxis D-Edition, a dealing system for brokerages capable of processing large-volume transactions
2005 January	Started sales of ITMonster, a private transaction system (PTS)
2005 July	Started sales of MarketAxis N-Edition, an online transaction system for B2B companies
2005 September	Launched “INTERTRADE Hitachi Riskscope” (risk analysis model) business with Hitachi, Ltd.
2006 February	Formed business and capital alliance with Itochu Techno Science Corporation (now Itochu Techno-Solutions Corporation) and kabu.com Securities Co., Ltd. (now au Kabucom Securities Co., Ltd.)
2006 April	Relocated head office to 4-5-4 Hatchobori, Chuo-ku, Tokyo Made INTERTRADE Asset Management Co., Ltd. (previously Arts Investment Management) a subsidiary
2006 June	Made Arts Securities Co., Ltd. a subsidiary
2007 March	Formed business and capital alliance with Fractal Systems Inc.
2007 April	Made Bladia Inc. a subsidiary
2007 August	Began selling new TIGER Trading System, a next-generation securities dealing/trading system Began selling a forex margin trading system capable of processing large-volume transactions
2008 May	Began providing TIGER Trading System ASP service
2008 October	Absorption-type merger with Bladia Inc.
2010 February	Began sales of TIGER Trading System-related services Intelligence Trading Package, MEXII&MSRII Package, and Dealers Premium Support Service (DPSS)
2010 September	Relocated head office to 1-17-21 Shinkawa, Chuo-ku, Tokyo
2011 October	Founded subsidiary Tradex Co., Ltd.
2012 June	IT Solutions Business (now Business Solutions Business) began providing services
2012 August	Withdrew from INTERTRADE Asset Management Co., Ltd.; launched food service business (now Healthcare Business)
2012 October	Changed name of INTERTRADE Asset Management Co., Ltd. to Laboag Co., Ltd., which took over the Food Service Business Made BSJ Co., Ltd a subsidiary
2013 February	Made Pal (now INTERTRADE Healthcare Co., Ltd.) a subsidiary
2015 February	Reassigned listing to the Tokyo Stock Exchange Second Section
2017 August	Began providing Spider Digital Transfer service
2018 January	Consolidated subsidiary Kenko Plaza Pal Co., Ltd. and Laboag merge and change name to INTERTRADE Healthcare
2018 July	Transferred shares of subsidiary Tradex Co., Ltd.
2018 November	Made Digital Asset Markets a subsidiary
2020 January	Made Digital Asset Markets an equity-method affiliate after Company's stake was reduced following a third-party allotment of shares
2022 February	Equity-method affiliate Digital Asset Markets begins operation of Spider Digital Transfer crypto assets service, a sales and trading management system for Zipang Coin (crypto asset)
2022 April	Transitioned to the Tokyo Stock Exchange's Standard Market

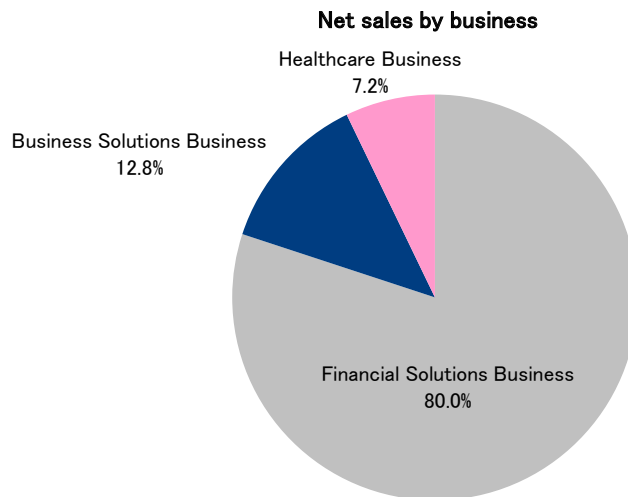
Source: Prepared by FISCO from the Company's website

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Business overview

Expanding scope of business from financial solutions to business solutions and healthcare

INTERTRADE has three business segments. The Financial Solutions Business provides securities dealing systems, forex (FX) trading systems, and crypto asset platforms, etc. The Business Solutions Business develops and sells group management and control solution systems and dispatches system engineers, etc. The Healthcare Business engages in research and production of functional food mushrooms IT HANABIRATAKE (*sparassis crispa*), and the planning, manufacture, and sales of health food, cosmetics, and other products made from it.



Source: Prepared by FISCO from the Company's financial results

1. Financial Solutions Business

The Financial Solutions Business is the Company's core business, accounting for 80.0% of net sales in FY9/23. It mainly develops and maintains brokerage dealing systems, but it is taking action to adapt to the trend of a decreasing number of securities brokerages and dealers and the start of an increase in non-financial companies moving into the finance business amid the spread of the blockchain and other developments.

Specifically, equity-method subsidiary Digital Asset Markets provides a trading system for Zipang Coin, Japan's first stablecoin backed by gold (also known as "digital gold") issued by Mitsui & Co. Digital Commodities, Ltd. Prices are linked to gold prices. The Zipang Coin trading system is supporting the growth of the Financial Solutions Business.

The Company also expects a one-time need arising among customers to update their systems due to the TSE upgrading its cash equity trading system (arrowhead) to arrowhead 4.0 in November 2024. Although the business is unlikely to offer large growth potential, it will likely continue to earn stable recurring revenue such as maintenance and license fees. Provided inflation is passed onto prices, we at FISCO think the business will contribute toward stable growth and a positive factor for earnings.

2. Business Solutions Business

The Business Solutions Business accounts for 12.8% of net sales. Its core product is a management integration and control platform, which links various data used to make management decisions seamlessly in real time, provides integrated management of the combined information with added value, and assists judgment and decision-making in management by utilizing data according to the purpose. The Company aims to make its system the de-facto standard of companies' management and control systems.

The business is struggling because the system, unlike accounting systems which are essential to companies, is dependent on customers' operating environments and takes considerable time from enquiry to receiving the order. There are also steep peaks and troughs in the business cycle, because it is a contract development business. As well, it can be difficult to secure the best engineers for the job at the right time, because system operation is unpredictable, depending on the situation with each customer. As a solution to this problem, the Company is aggressively hiring new graduates, seeking to resolve the engineer shortage by training its own human resources.

3. Healthcare Business

The Healthcare Business accounts for 7.2% of net sales. It engages in research and production of IT HANABIRATAKE (*sparassis crispa*), a functional food mushroom, as well as commercializing it into products such as supplements made by drying and processing the raw material into powder form. *Sparassis crispa* is generally known for its immunoactivating effects, while the Company has obtained results from joint research with academic institutions that IT HANABIRATAKE is likely to have a positive effect on endocrine and nervous system functions. The Company is working on obtaining approval of IT HANABIRATAKE as an FFC for its effects on endocrine functions in FY9/24 with the goal of selling the supplement as an FFC product.

Strengths

Constantly pioneering growth business areas by providing advanced systems

The Company's greatest strength can be said to be that many small and mid-size regional brokerages trust and rely on its system, because it is difficult for them to develop their own superior systems. We at FISCO think that President and Representative Director Kazuya Nishimoto being a former IT systems specialist at a brokerage provided the expertise required to provide advanced systems and helped to establish a strong reputation.

In its core market of securities trading systems, financial services harnessing new technologies are spreading around the world. In this context, the Company plans to use Spider Digital Transfer to pioneer new growth business areas. Spider Digital Transfer is a solution that selects or combines the required process application functions from multiple system packages for financial product trading to create a more compact yet deeper set of system functions that fit the customer's business.

In the Healthcare Business, the Company is working on having its IT HANABIRATAKE supplement approved as an FFC. Although it was unable to complete the process in FY9/23, the Company expects to do so in FY9/24, which will likely make a large contribution to earnings. In March 2023, the Company also formed a strategic business and capital alliance with AXXZIA Inc. <4936>, which has a strong track record of selling cosmetics in China.

Strengths

For supplements made using IT HANABIRATAKE, the Company is building up research data. It started with collaborative R&D with other private-sector companies and academia, and has conducted clinical trials with more than 60 women participants, publishing papers on the effect of reducing menopause symptoms, etc. However, it does not have sufficient research and other data in the cosmetics field. It therefore plans to progress R&D in cosmetics through a business alliance with AXXZIA to drive the Healthcare Business.

Business trends

Lower sales and profit in FY9/23; sales down in the Financial Solutions segment

1. FY9/23 results

In the FY9/23 consolidated results, net sales declined 2.2% year on year (YoY) to ¥2,011mn, operating profit fell 17.2% to ¥199mn, ordinary profit was down 97.2% to ¥1mn, and profit attributable to owners of parent was down 78.9% to ¥36mn. Although net sales increased in the Healthcare Business, net sales fell in the Financial Solutions Business, which accounts for an extremely high 80.0% share, and in the Business Solutions Business for a YoY decline overall. For final profit, profit attributable to owners of parent was impacted by a YoY decrease in gain on change in equity recorded for equity-method affiliate Digital Asset Markets.

FY9/23 results

	FY9/22		FY9/23		YoY
	Results	% of sales	Results	% of sales	
	(¥mn)				
Net sales	2,056	-	2,011	-	-2.2%
Gross profit	765	37.2%	734	36.5%	-4.1%
Operating profit	241	11.7%	199	9.9%	-17.2%
Ordinary profit	62	3.0%	1	0.1%	-97.2%
Profit attributable to owners of parent	173	8.4%	36	1.8%	-78.9%

Source: Prepared by FISCO from the Company's financial results

2. Results by business segment

FY 9/23 net sales by segment

	FY9/22		FY9/23		YoY
	Net sales	% of net sales	Net sales	% of net sales	
	(¥mn)				
Net sales	2,056	100.0%	2,011	100.0%	-2.2%
Financial Solutions Business	1,646	80.1%	1,609	80.0%	-2.2%
Business Solutions Business	277	13.5%	257	12.8%	-7.3%
Healthcare Business	132	6.4%	143	7.2%	8.7%
Operating profit	241	11.7%	199	9.9%	-17.2%
Profit attributable to owners of parent	173	8.4%	36	1.8%	-78.9%

Source: Prepared by FISCO from the Company's financial results

Business trends

Net sales declined YoY in the Financial Solutions Business and Business Solutions Business, but increased in the Healthcare Business. Lower net sales in the Financial Solutions Business, which accounts for an 80.0% share, was the main factor contributing to the overall ¥45mn YoY net sales decline.

(1) Financial Solutions Business

Net sales declined 2.2% YoY to ¥1,609mn and segment profit was down 7.6% to ¥518mn. Results were weak, because the Company postponed the launch of a crypto asset-related system planned in FY9/23.

(2) Business Solutions Business

Net sales fell 7.3% YoY to ¥257mn and the Company posted a segment loss of ¥1mn (¥22mn segment profit in FY9/22). Results were negatively impacted, because additional development projects for existing customers for the mainstay management integration and control platform GroupMAN@IT e² did not progress as initially planned due to customers' operating environments, and some projects were temporarily put on hold.

(3) Healthcare Business

Net sales increased 8.7% YoY to ¥143mn and segment loss contracted from ¥51mn in FY9/22 to ¥37mn in FY9/23. The Company prepared for approval of IT HANABIRATAKE supplement as an FFC, but was unable to complete the process in FY9/23. As a result, product sales were lower than expected in the initial sales plan in FY9/23. However, net sales were up YoY as a result of focusing on *sparassis crispa* (raw material) sales to compensate for the delay of the initial sales plan.

Financial condition

Financial condition is highly sound and management foundation is robust, with equity ratio over 70%
Stable cash flows; no problems with financing

1. Financial condition

The financial condition of the Company as of the end of FY9/23 is as follows. Total assets (total liabilities and net assets) increased by ¥114mn (7.1%) from the end of the previous period to ¥1,723mn. The main factor behind the change was a ¥136mn (16.0%) increase in cash and deposits to ¥994mn (see "Status of cash flows" below for details).

Total liabilities increased by ¥77mn (24.6%) from the end of the previous fiscal year to ¥392mn. This was mainly due to an increase of ¥66mn in long-term borrowings. The Company commented that it did not require long-term borrowings, but had decided to borrow to maintain relationships with financial institutions and take advantage of low interest rates.

With regard to net assets, the Company's retained earnings balance remains negative (-¥1,060mn), and also the cumulative loss has been shrinking, the Company expects it will take 3–4 years to clear the loss. It has paid no dividends since FY9/15 and apparently plans to resume dividend payments after retained earnings returns to positive territory. Total net assets increased by ¥36mn (2.8%) to ¥1,331mn, mainly due to a ¥36mn increase in retained earnings from profit attributable to owners of parent.

Financial condition

Financial statements

	FY9/22	FY9/23	YoY	
			Change	% change
(¥mn)				
Assets				
Current assets	1,217	1,355	137	11.3%
Cash and deposits	857	994	136	16.0%
Notes and accounts receivable - trade, and contract assets	280	273	-6	-2.4%
Non-current assets	392	368	-23	-6.0%
Property, plant and equipment	44	30	-14	-31.8%
Leased assets, net	22	10	-11	-52.6%
Intangible assets	7	4	-3	-45.3%
Investments and other assets	339	333	-5	-1.7%
Investment securities	202	199	-2	-1.2%
Total assets	1,609	1,723	114	7.1%
Total liabilities				
Current liabilities	295	310	15	5.1%
Non-current liabilities	19	81	62	320.9%
Long-term borrowings	-	66	66	-
Total liabilities	315	392	77	24.6%
Net assets				
Shareholders' equity	1,282	1,319	36	2.9%
Share capital	1,478	1,478	-	-
Capital surplus	996	996	-	-
Retained earnings	-1,097	-1,060	36	-
Treasury shares	-95	-95	-	-
Total net assets	1,294	1,331	36	2.8%
Total liabilities and net assets	1,609	1,723	114	7.1%

Source: Prepared by FISCO from the Company's financial results

2. Status of cash flows

As stated above, cash and deposits at the end of FY9/23 totaled ¥994mn, an increase of ¥136mn (16.0%) from the end of the previous period. A breakdown of the status of cash flows by activity is provided below.

Cash provided by operating activities totaled ¥200mn. This was mainly due to recording an equity-method investment loss of ¥196mn. Cash used in investing activities came to ¥133mn, mainly due to an outflow of ¥120mn for the acquisition of investment securities, specifically investment in equity-method affiliate Digital Asset Markets. Cash provided by financing activities came to ¥70mn, mainly due to a ¥100mn inflow for long-term borrowings. We at FISCO see no issues with cash flows in general, and consider the Company's management condition to be stable. We can also see from aggressive investing activities that the Company is committed to strengthening Digital Asset Markets to expand new business areas in the Financial Solutions Business.

Financial condition

Overview of cash flows

	FY9/22	FY9/23
	(¥mn)	
Cash flows from operating activities	270	200
Share of loss (profit) of entities accounted for using equity method	177	196
Cash flows from investing activities	-11	-133
Purchase of investment securities	-	-120
Cash flows from financing activities	-10	70
Proceeds from long-term borrowings	-	100
Net increase (decrease) in cash and cash equivalents	248	136
Cash and cash equivalents at beginning of period	608	857
Cash and cash equivalents at end of period	857	994

Source: Prepared by FISCO from the Company's financial results

3. Management indicators

Looking at stability indicators in FY9/23, the equity ratio was down 3.2 percentage points from the end of FY9/22 to 76.5%, but remains at a high level. The current ratio at 429.7% was also far higher than the benchmark figure of 200%, while the non-current ratio was 27.9%, well below the benchmark figure of 100%. Based on these indicators, we can say that there are no major issues with management stability.

However, many profitability indicators fell sharply. To reiterate, this is mainly due to slow sales and losses related to equity-method affiliate Digital Asset Markets.

Management indicators

	FY9/22	FY9/23
(Stability indicators)	Equity ratio	79.7%
	Current ratio	411.7%
	Non-current ratio	30.6%
(Profitability indicators)	ROE (return on equity)	14.5%
	ROA (return on assets)	4.1%
	Operating margin	11.7%
	Ordinary profit margin	3.0%

Source: Prepared by FISCO from the Company's financial results

■ Outlook

Growth of Healthcare Business expected in FY9/24

1. Outlook for FY9/24 results

For FY9/24 full-year consolidated results, the Company forecasts net sales of ¥2,200mn, an increase of 9.4% YoY, operating profit of ¥150mn, down 24.8%, and ordinary profit of ¥12mn, up 583.9%. The main positive factor contributing to net sales is the Healthcare Business. Although the Company expects to win large projects in the Financial Solutions Business, it looks for flat YoY net sales, because it has not factored this into its forecast. It also assumes a minor YoY net sales increase for the Business Solutions Business.

Outlook

FY3/24 outlook

	FY9/23 Results	FY9/24	
		Forecast	YoY
Net sales	2,011	2,200	9.4%
Operating profit	199	150	-24.8%
Ordinary profit	1	12	583.9%
Profit attributable to owners of parent	36	8	-77.1%

(¥mn)

Source: Prepared by FISCO from the Company's financial results

In the Healthcare Business, the Company plans for approval of its IT HANABIRATAKE supplement as an FFC in FY9/24. The Company believes that labeling a product as an FFC strengthens its appeal to consumers, and is likely increase its contribution to earnings.

The Company expects profit attributable to owners of parent to continue being negatively impacted by investment loss, because the outlook for Digital Asset Markets turning profitable remains unclear. That being said, we at FISCO think that if Digital Asset Markets moves into the black (even partially), it will make a substantial contribution to the Company's profit at a time when financial services harnessing new technologies are spreading around the world.

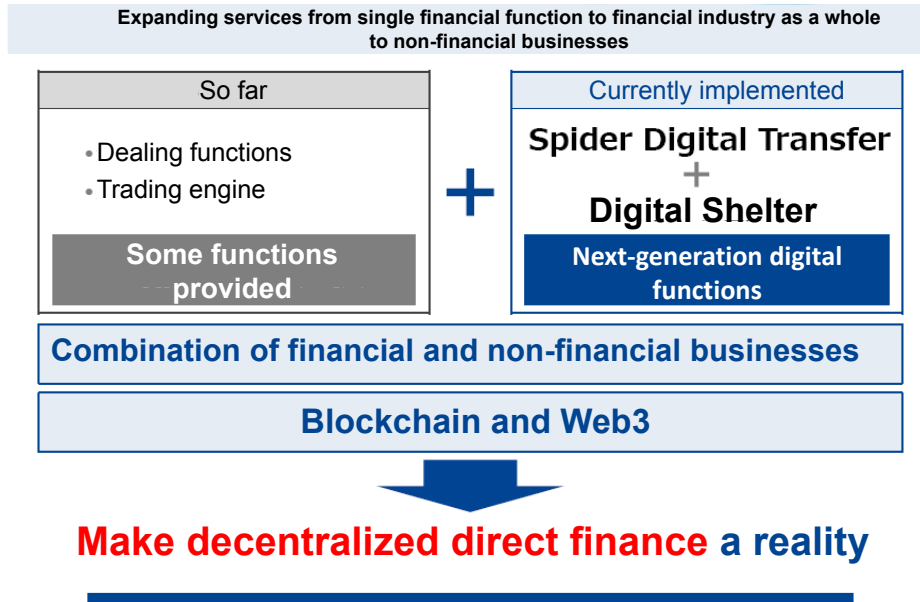
2. Future management plan

Digital Asset Markets runs an exchange for Zipang Coin, a crypto asset linked to gold, silver, and platinum prices. Zipang Coin prices are far less volatile than Bitcoin, making it suitable for payments, which means it will likely become more widespread going forward. This has raised expectations of Digital Asset Markets' growth potential. However, because the business is still in its early stages, the Company assumes that upfront investment will continue for some time.

The Company thinks that creating equity tokens on the blockchain market, which is expected to expand, will generate a need to upgrade large systems for trading these tokens. It also anticipates demand for systems related to instant payments using digital currencies. The Company is preparing to capture demand for system upgrades (including the issue of securing engineers) to continue expanding new business areas.

Outlook

Financial Solutions Business



Source: The Company's results briefing materials

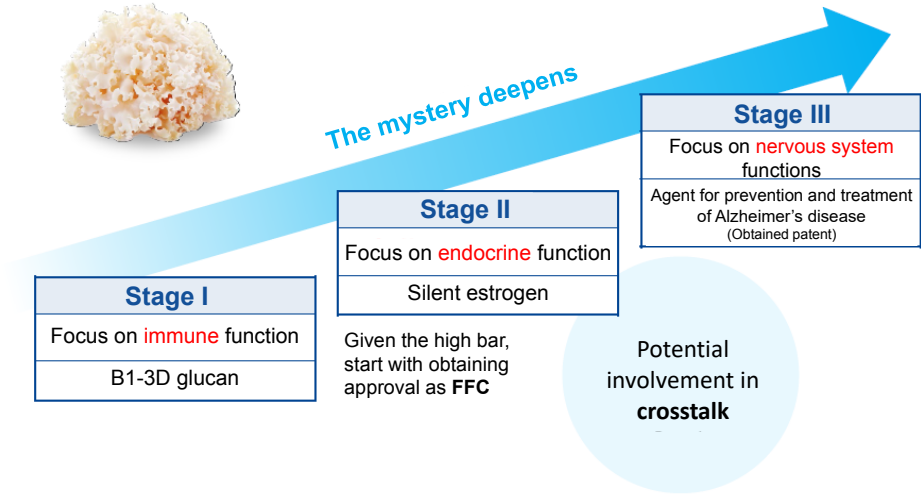
The Healthcare Business initially faced concern among customers and banks about a company whose main business is the development of financial systems moving into a completely different industry. However, the Company raised its profile by building up a track record of joint research projects with universities and other organizations and gained trust. Although the business has a long way to go, we think that it offers growth potential if it can stabilize earnings by making IT HANABIRATAKE an FFC, then discovering new raw materials likely to generate demand in the fast-growing healthcare market.

In the longer term, the Company aims to increase the net sales share of the Healthcare Business to around 30%. It plans to proceed with R&D in the cosmetics field in collaboration with AXXZIA, which has a strong track record of cosmetics sales in China. The Company also plans an aggressive hiring program to improve customer service and bring system development in-house, targeting an increase from the current work force of 100 to drive expansion of business areas.

Outlook

Healthcare Business

Focused on specific components of IT HANABIRATAKE



Source: The Company's results briefing materials

Shareholder return policy

Prioritizing strengthening of management base and financial condition

Plans to pay dividends after retained earnings turn positive

INTERTRADE has paid no dividends since FY9/15. It still has losses carried over and is focused on turning its negative retained earnings balance positive, after which it plans to resume dividend payments. The Company is keenly aware of the importance of shareholder returns. Its plan for returning profit to shareholders is to prioritize strengthening its management base and financial condition as a way to enhance corporate value, and pay dividends after that.

As a way of turning shareholders into fans of the Company, INTERTRADE offers shopping vouchers for its mail-order site Beauty Glucan (beautyglucan.com) as a shareholder benefit to all shareholders with 100 or more shares as of September 30 of each year. Shareholders who have owned shares for less than three years receive vouchers worth ¥12,000 (6 x ¥2,000 vouchers), and those who have owned shares for over three years receive vouchers worth ¥24,000 (12 x ¥2,000 vouchers). These vouchers are coupon codes and one voucher can be used for a purchase value of over ¥5,000 before tax.



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■ For inquiry, please contact: ■

FISCO Ltd.

5-13-3 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062

Phone: 03-5774-2443 (IR Consulting Business Division)

Email: support@fisco.co.jp