

TerraSky Co., Ltd.

3915

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■ Index

■ Summary	01
1. FY2/24 results overview	01
2. Outlook for results of FY2/25	01
3. Capital and business alliance with NTT DATA	02
■ Company profile	03
1. Company profile	03
2. History	03
■ Cloud service market and TerraSky's businesses	05
1. Cloud service market	05
2. The Company's business	06
3. Strengths and issues	10
■ Results trends	11
1. FY2/24 results overview	11
2. Trends by business segment	13
3. Financial position and management indicators	16
■ Outlook	17
1. Outlook for results of FY2/25	17
2. Capital and business alliance with NTT DATA and long-term goals	20
■ Shareholder return policy	21

Summary

Announced a business and capital alliance with NTT DATA; will accelerate growth through collaboration in the Salesforce business

TerraSky Co., Ltd. <3915> (hereafter, also “the Company”) is a cloud integration services company, providing support services for the installation of cloud-based systems and the development of related applications. The Company has a track record of more than 7,000 installations of cloud-based systems on a standalone basis and more than 18,000 installations on a consolidated basis, most of which use the Salesforce platform. It also handles products developed in-house, including cloud-system development support tools and the mitoco groupware service. In addition, it supports the implementation of Amazon Web Services (AWS), Google Cloud Platform (GCP), and has been expanding into the realms of AI platforms and quantum computing through its subsidiaries. The Company has a consolidated subsidiary, BeeX Inc. <4270>, listed on the TSE Growth market, and an equity-method affiliate, Kitalive Inc. <5039>, listed on the Sapporo Ambitious market.

1. FY2/24 results overview

The Company reported FY2/24 consolidated results of ¥19,137mn in net sales (up 23.9% YoY) and ¥522mn in operating income (up 2.1%). Regarding net sales, the Solution Business increased 25.2% thanks to strong demand for cloud integration, centering on Salesforce, and personnel dispatch services against the backdrop of rampant DX demand at companies. The Product Business, centered on the mitoco groupware service, grew steadily by 10.5%, setting a new record high. As for profits, the profit margin went down slightly due to losses at subsidiaries, personnel expenses (including recruitment), promotion expenses, and mitoco ERP development expenses increasing, and a temporary decline in capacity utilization from a canceled order for a planned project, but this was absorbed by the increase in sales, and profit increased for the first time in three fiscal years. Group employees at the end of the fiscal year totaled 1,248, increasing by 256 from the end of the previous fiscal year. Of these, 125 were affiliated with TerraSky Technologies, which provides personnel dispatch services specialized in Salesforce and AWS.

2. Outlook for results of FY2/25

In its FY2/25 results forecasts, the Company is projecting net sales to increase 25.5% YoY to ¥24,024mn and operating income to increase 73.3% to ¥905mn. Company demand for cloud integration centering on Salesforce related projects remains rampant, and the net sales growth rate will depend on reinforcements to human resources. Group employees by the end FY2/25 are expected to increase by one-third YoY (increase of 392), and FISCO believes if recruitment goes smoothly, it increases the potential for achieving plans. As for factors behind the increase in the profit margin, along with the increase in sales, promotional expenses, which were aggressively made the previous fiscal year, will decline and there will no longer be any unprofitable projects. In the Product Business, which had continued to record losses due to upfront investment, mitoco ERP development is continuing, and it is expected to contribute to earnings from FY2/26. mitoco ERP is a cloud-based system that operates on the Salesforce platform, and in addition to administrative systems for sales and inventory management (Fujitsu GLOVIA OM*) and attendance and expense accounting (mitoco Work), the Company is currently developing accounting and payroll systems (mitoco Accounting and Payroll). An assist function using generative AI is being used to pursue greater convenience. The Company will expand sales to its main target, middle market companies that run Salesforce, and this is expected to contribute to earnings over the medium to long term.

* Fujitsu Limited <6702>'s cloud-based sales, purchasing, inventory, and production management system. The Company has implemented, developed and supported the system since 2011 and entered into an exclusive sales contract in 2022.

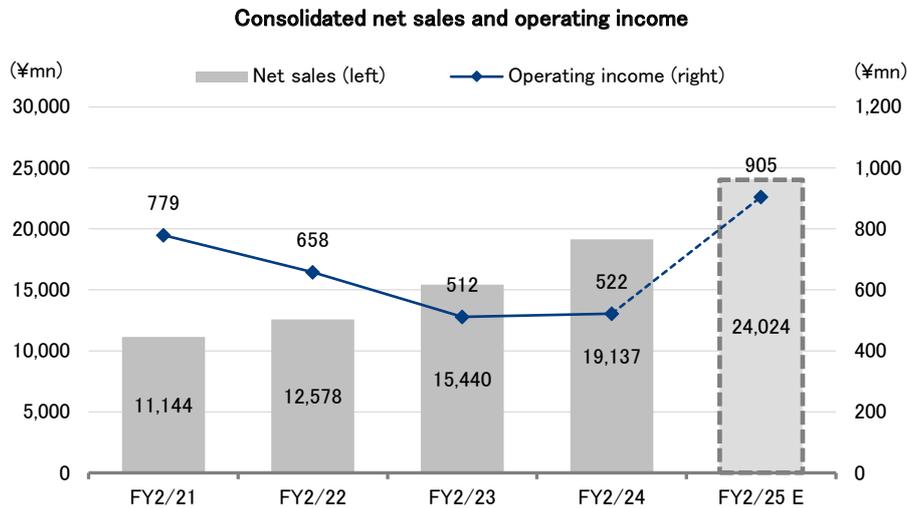
Summary

3. Capital and business alliance with NTT DATA

On April 12, 2024, the Company announced a capital and business alliance with NTT DATA Group Corporation <9613>. With the goal of accelerating the growth of the Salesforce business, the two companies will combine their resources and promote new deployment in Japan, joint business development in the Asia-Pacific market, and acquire and train human resources specialized in digital by leveraging the brand power of both companies. First of all, the two companies will target and collaborate on regional financial institutions that have not deployed Salesforce, which are the customers of NTT DATA, and will strive to generate sales of at least ¥17.0bn over the next three years (not incorporated into the business plan for FY2/25). When Salesforce is deployed, it is possible to implement peripheral services like mitoco, and if the collaboration goes smoothly, it is expected to further accelerate the Company's earnings growth. Regarding the capital alliance, the Company issued new share subscription rights equivalent to 670,000 shares on April 30, and when these rights are exercised, NTT DATA will own a 20.1% share, when including the number of shares it has already acquired buying on the market, and the Company is expected to become an equity-method affiliate of NTT DATA. The exercise price for the new share subscription rights is ¥1,400, and regarding the exercise criteria, the subscription rights may be exercised if consolidated operating income exceeds ¥2.5bn even once during the fiscal years up to FY2/27.

Key Points

- In FY2/24, a consecutive record high for net sales and operating income and ordinary income return to increases for the first time in three fiscal years
- For FY2/25, double-digit increase in sales and profit expected; operating income and ordinary income expected to set all-time highs for the first time in four fiscal years
- Expecting to further accelerate growth in the Salesforce business through a capital and business alliance with NTT DATA



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

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■ Company profile

Japan's top-class cloud integrator

1. Company profile

Since its founding in 2006, TerraSky has specialized in cloud computing services and, as the leading domestic cloud integration company, has been the driving force behind the growth of the cloud computing market in Japan. With more than 7,000 cloud system installations including Salesforce on a standalone basis (as of the end of February 2024), TerraSky has experience with a wide range of development projects for companies big and small and in all kinds of industries. As of February 2024, it has 10 subsidiaries in Japan and 2 overseas. Among them, BeeX (ownership ratio: 69%), which provides AWS installation support and cloud migration support for SAP systems, has grown in business scale to be second only to the Company. In addition, Kitalive (49%) is an equity-method affiliate. The Company is aggressively expanding human resources in order to meet rampant demand in the cloud market. The number of Group employees (including Kitalive) at the end of FY2/24 was 1,248, a 2.1-fold increase over the past three years.

2. History

The Company was established in 2006 by current Representative Director, President & CEO Hideya Sato. President Sato left IBM Japan to join the Japanese subsidiary of Salesforce Inc., helping it get off the ground in Japan. He anticipated that the use of cloud services would spread in the future as companies' information systems, and since its foundation, the Company has deployed a business specializing in cloud systems development and installation support, centered on Salesforce.

In 2008, as the Product Business, the Company started providing SkyEditor*¹ (currently this service is called SkyVisualEditor) as development support tools that contribute to the improved convenience of cloud systems. In 2016, it launched mitoco*², which is a communications platform positioned as the next-generation version of groupware, and then in 2017, started development and provision of DataSpider Cloud*³, which is a cloud-based data-integration service, and the number of companies installing each of these services has steadily grown. A portion of the rights to DataSpider Cloud were transferred from the joint developer and it has been developed since September 2023 as mitoco X (a proprietary standalone service).

*1 SkyEditor, now called SkyVisualEditor, is a Salesforce screen development tool that allows companies to customize screens on Salesforce for easier use. By making it quick and easy for companies to develop desired screens, SkyVisualEditor outshines competing products to such an extent that is viewed as the de-facto industry standard.

*2 A communications platform developed for use on the Salesforce cloud platform. It provides internal corporate communication tools (bulletin boards, talks, etc.), workflow and document management, and calendar functions, as well as a conference room reservation function and other functions available through connections with the IoT. It is also compatible with a mobile app, and it makes it possible to connect with outside parties at partner companies.

*3 A product jointly developed with Appresso K.K. (absorbed via merger into Saison Information Systems Co., Ltd. <9640> in April 2019). This service enables non-programming coordination linkage between various cloud services and in-house databases and systems including applications.

Company profile

The Company engaged in numerous capital and business alliances in the growth process for its business. Arrangements implemented thus far are NTT TechnoCross Corporation (former NTT Software Corporation) in 2010, Serverworks Co., Ltd. <4434>, which mainly handles AWS deployment assistance and resale, in 2013, Ecomott Inc. <3987>, which handles IoT/mobile cloud solutions, and Cloudia Japan inc. (absorbed in 2018 after acquisition as a subsidiary), which handles cloud integration in the Kyushu area, in 2016, IGUAZU Corporation, a distributor of IBM <IBM> products, in 2017, Business Engineering Corporation <4828>, which provides assistance in deployment of ERP systems, in 2018, Japan System Techniques Co., Ltd. <4323>, an independent system developer, in 2019, OPRO Co., Ltd., which engages in development of cloud-based report services, in 2021, TECNOS JAPAN INCORPORATED <3666>, which mainly develops and provides installation support for SAP and Salesforce, in 2023, and NTT DATA in 2024.

Meanwhile, the Company has also been actively promoting subsidiary development to expand its business domains in the cloud computing market. In 2014, it established Sky365 Co., Ltd., which provides AWS monitoring and maintenance services, as a joint venture with Serverworks. That set the stage for establishment of BeeX and Hokkaido-based Kitalive*, which assists in cloud system installations, in 2016. Subsequently, the Company established TerraSky Ventures Co., Ltd., which invests in and cultivates venture companies, Quemix, which engages in research and development of quantum computing algorithms, in 2019, and TerraSky (Thailand) Co., Ltd., which handles cloud system development and installation support in Thailand. It also made the e-commerce site and Web application developer Cuon.inc. into a subsidiary through a share acquisition. Also, the Company sought to expand operations in the cloud services domain in 2021. It established LiberSky, which builds data analysis foundations on Google's cloud platform, and established TerraSky Technologies, which engages in dispatch and referral of cloud technology professionals. Also, the Company made a subsidiary of ENOKI Inc. (formerly, iFocus network Co., Ltd.), which handles AI platform development and installation support. In 2022, the Company established DiceWorks Inc., which provides installation support of Salesforce marketing automation tools such as Marketing Cloud and Account Management (formerly, Pardot).

* Kitalive ceased being a consolidated subsidiary when its shares were listed on the Sapporo Securities Exchange's Ambitious market in September 2022 and became an equity-method affiliate.

Consolidated subsidiaries and business descriptions

Company	Ownership ratio (End of FY2/21)	Ownership ratio (End of FY2/23)	Ownership ratio (End of FY2/24)	Business segment	Business description
Sky365 Co., Ltd.	57.1%	55.5%	56%	Solution Business	Supplied management service provider (MSP)* services specialized in cloud computing
BeeX Inc.	78.3%	68.1%	69%	Solution Business	AWS installation support, and support services for migration to cloud computing systems on SAP software platform
Cuon.inc.	100.0%	100.0%	100%	Solution Business	Development of Web applications, e-commerce sites, etc.
Quemix Inc.	75.7%	75.7%	75%	Solution Business	Research and development on algorithms using quantum computing
TerraSky (Thailand) Co., Ltd.	49.0%	49.0%	49%	Solution Business	Cloud systems installation support in Thailand
TerraSky Technologies Co., Ltd.	100.0%	90.4%	89%	Solution Business	Dispatch and referrals of professional human resources specialized in Salesforce and AWS
LiberSky Co., Ltd.	81.0%	81.0%	81%	Solution Business	Data utilization consulting enlisting Google technology, AI implementation, integration, etc.
DiceWorks Inc.	-	90.0%	90%	Solution Business	Support for installation of marketing automation (MA) tools, etc.
TerraSky Inc.	100.0%	100.0%	100%	Product Business	Sales and marketing in the North America region for products developed in-house
ENOKI Inc.	53.0%	71.1%	71%	Product Business	AI platform development and installation assistance
TerraSky Ventures Co., Ltd.	100.0%	100.0%	100%	Investment Business	Investment in, development of, and support for venture companies in the cloud-related domain

* MSP (Management Services Provider) is a service for the operations, monitoring, and maintenance of companies' servers and networks

Source: Prepared by FISCO from the Company's results briefing materials and securities report

Cloud service market and TerraSky’s businesses

Expects the public cloud services market to sustain a double-digit annual growth rate on advancement of corporate DX investments

1. Cloud service market

The history of the development of corporate information systems shows that in the first half of the 1960s, companies started adopting mainframe computers. Since the 1980s, mainframe computers have been replaced by desktop office computers and minicomputers. From the late 1990s, the form of information systems started changing to distributed processing type client-server systems together with the spread and improved performance of computers, and from the late 2000s there have been increasingly high-speed communication networks along with progress being made in Internet technology. Against this background, cloud computing services appeared, IT applications have entered a transitional era in which usage is considered more important than ownership by companies.

Cloud computing entails services that enable use of a variety of IT resources on demand, including computing, databases, storage, and applications through the internet from cloud service platforms such as Salesforce and AWS. Whereas companies previously had to build, manage, and administer their own information systems, companies that adopt cloud computing now reap major advantages in that accessing the cloud eliminates time and labor required for such tasks, thereby enabling them to increase business efficiency and limit investment costs. Over the last several years, an increasing number of companies of all sizes have been using cloud services amid developments that have included a shift to high-speed telecommunications networks, strengthening of security measures among cloud service providers, and progress achieved in upgrading services. Meanwhile, an increasing number of companies have also been making moves in migrating to cloud services, including those involving ERP systems amid an intensifying trend of promoting digital transformation (DX) of operations, prompted by the spread of COVID-19 (hereafter, the COVID-19 pandemic).

Market scale for public cloud service in Japan should continue to steadily expand and a double-digit growth rate is also expected to continue going forward. A backdrop to this is that many companies and ministries and agencies still have their own computer systems, and the ongoing transition by these users to public cloud service is the driver. Public cloud service comes under three categories depending on the service format – SaaS*1, PaaS*2, and IaaS*3. AWS holds top shares in PaaS and IaaS and is followed by Microsoft Azure and Google Cloud Platform (GCP). These three companies dominate the market globally. In SaaS, meanwhile, participant vendors differ by the application, and Salesforce is the global leader in sales assistance and customer management. Looking at annual average sales growth rates for the five years since 2018, Salesforce is 21%, AWS is 29%, and GCP is 41%, so even though the growth rates are gradually slowing, in 2023 as well, all services continue double-digit growth. Going forward, use of AI technology is expected to spread in a broad range of fields and the cloud service market, a service platform, is expected to continue to see high market growth.

*1 SaaS (Software as a Service): This format delivers software provided in a package product as a service over the Internet. Leading services include Salesforce’s Sales Cloud, Microsoft’s Office 365, and Google’s Google Workspace (formerly G Suite).

*2 PaaS (Platform as a Service) refers to online services that provide a platform (server and operating system) that allows user to run applications. Leading services include AWS, Microsoft Azure, and Google App Engine.

*3 IaaS (Infrastructure as a Service) refers to online services that provide the virtual servers, equipment, and all other network infrastructure needed to operate information systems. Leading services include Amazon Elastic Compute Cloud (Amazon EC2) and Google Compute Engine.

Cloud service market and TerraSky's businesses

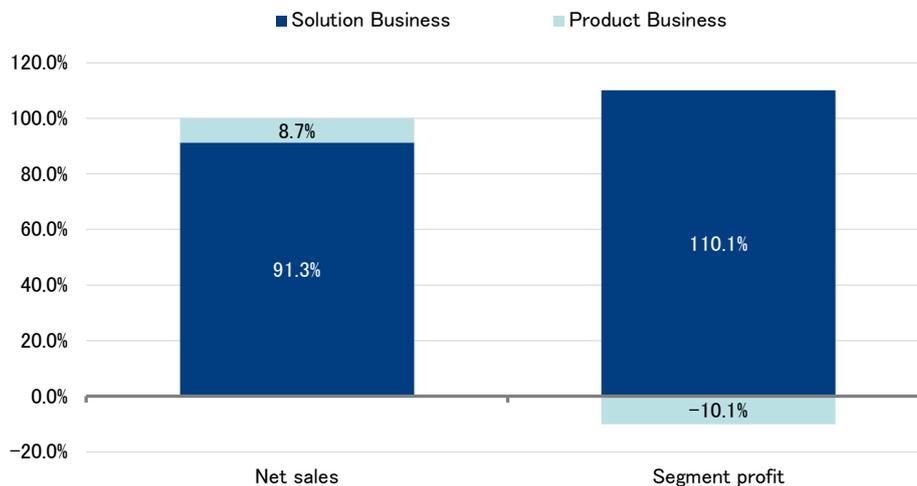
Cloud integration and other solution business contributes over 90% of sales

2. The Company's business

The Company operates in two business segments – Solution Business and Product Business. Solution Business is the main business at 91.3% of net sales and 110.1% of operating income in FY2/24. In segment profit margin, Solution Business is at a relatively stable level in the 10-19% range. The Solution Business mainly handles cloud system development and deployment assistance, and the recurring sales ratio (operating and maintenance service sales) is roughly 15%. Trends in development and installation project orders, project productivity, and engineer capacity utilization are all factors that affect profit margins, but Salesforce-related projects involve the country's top-class engineers, and they engage in relatively difficult projects, so profitability is relatively stable. Over these one to two years, the profit margin has been dropping slightly, but upfront investment costs for newly established subsidiaries, like a subsidiary in Thailand and Quemix, and increases in pre-operating costs like education and training expenses associated with aggressive personnel recruiting and getting the personnel up to speed can be cited as factors.

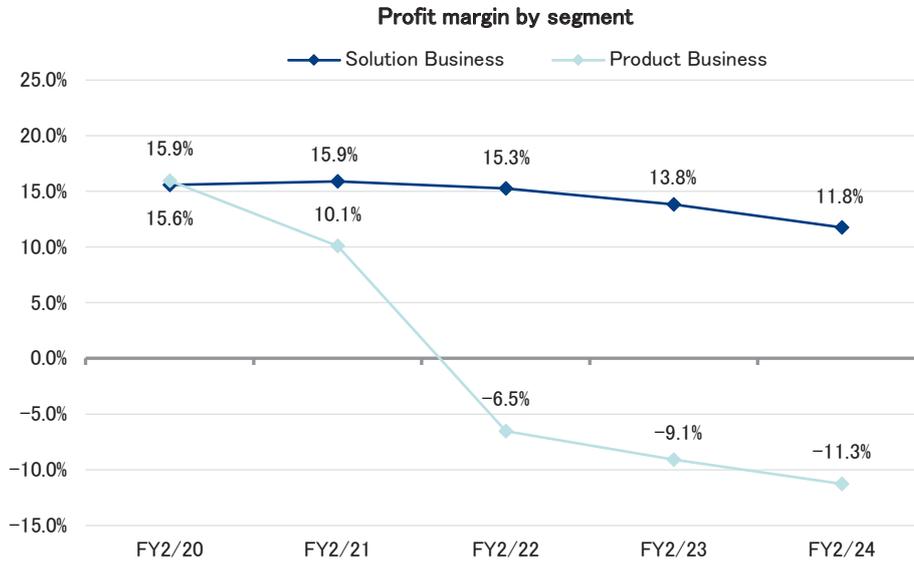
At the same time, the profit margin in the Product Business has been negative since FY2/22. This is due to the completion of large-scale projects for major automakers and continued upfront investment, including mitoco related development costs and promotion expenses. The profit margin before depreciation was 5.1% in FY2/24, and with just over 90% of sales accounted for by recurring sales, if an increase in contracted companies further expands the scope of sales, the business can be expected to return to the black and in profitability surpass the Solution Business.

Sales breakdown by business segment (FY2/24)



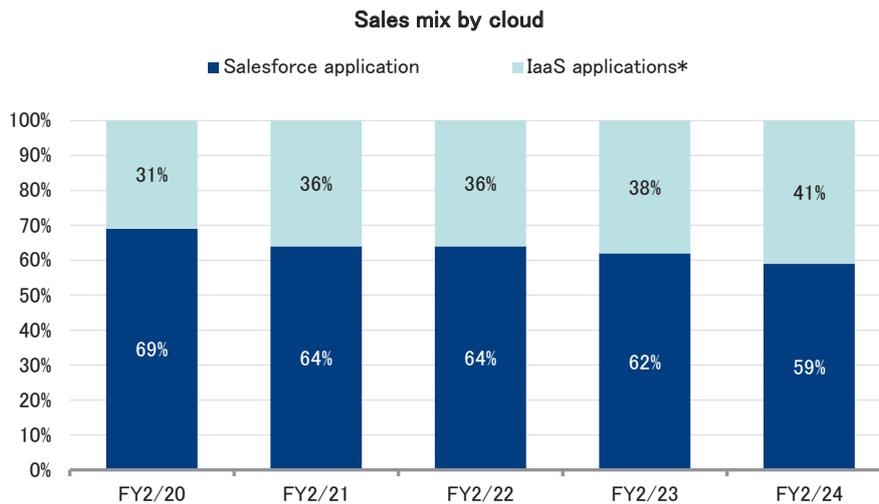
Note: Sales breakdown calculated with figures that include internal sales between segments
 Source: Prepared by FISCO from the Company's financial results

Cloud service market and TerraSky's businesses



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

With respect to the breakdown of sales by cloud in FY2/24, Salesforce-related business and IaaS-related business (AWS, GCP, etc.) accounted for 59% and 41% of sales, respectively. Although that constitutes a 10ppt decrease in sales attributable to Salesforce applications from 69% of the overall sales mix in FY2/20, the decline is largely attributed to the fact that there were large installation projects in the Product Business involving Salesforce applications in FY2/20, that these projects were completed, and that IaaS-related business at subsidiaries centered on BeeX grew smoothly. In terms of the actual sales amount, Salesforce-related business continued to experience double-digit growth.



* This data represents total sales related to AWS and GCP. Data prior to FY2/21 represents sales solely related to AWS.
 Source: Prepared by FISCO from the Company's results briefing materials

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(1) Solution Business

The Solution Business develops and provides support services for the installation of cloud-based systems designed to meet the needs of client companies. Specifically, solution services cover everything from defining business requirements for front-end or backbone systems, to design, development, testing, operations, validation of effectiveness, and planning improvement policies and systemization planning. Salesforce is frequently developed as a front-end system and many companies enter into its license-sales agreements with Salesforce. Their cumulative number of cloud system installations, centered on Salesforce, is more than 7,000 installations on a standalone basis (more than 18,000 in the Group), which is the leading number in Japan. Installations have been conducted by many companies regardless of their industry, business form, or size, including TOYOTA MOTOR CORPORATION <7203>, Hitachi, Ltd. <6501>, Mizuho Financial Group, Inc. <8411>, Odakyu Electric Railway Co., Ltd. <9007> Group, and KDDI Corporation <9433>. But as Salesforce is particularly strong in the CRM field, it is installed by a high percentage of large-scale projects by sales, service and marketing divisions of large companies. Also, over 50% of sales comprise maintenance and operational fees from existing customers, as well as orders for continued or additional development. The majority of cases are for continued development, including the addition of new functions, following the deployment of Salesforce and in these cases, the cloud integration service provided as initial installation support is continued.

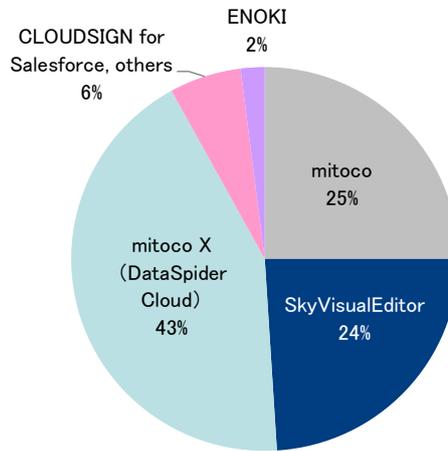
Also, the subsidiary BeeX provides cloud migration support for SAP systems and AWS development and installation support (and also for Microsoft Azure if customers require this). In particular, against the backdrop of its advanced technological capabilities for SAP cloud migration support, it has a track record of supporting many migrations. In addition, Sky365 delivers MSP services related to Salesforce, AWS, and other cloud deployment projects. The Solution Business also includes TerraSky Technologies Co., Ltd., Cuon.inc., LiberSky Co., Ltd., Quemix Inc., DiceWorks Inc., and TerraSky (Thailand) Co., Ltd.

(2) Product Business

In the Product Business, which includes AI platform business developed by the Company's subsidiary ENOKI, the Company serves as an SaaS vendor in developing and providing services specializing in the Cloud. The main products of the Product Business include mitoco X (formerly DataSpider Cloud), SkyVisualEditor and mitoco. Net sales in the Product Business are classified as either flow sales recognized at time of installation, or otherwise as recurring sales (subscription sales) based on monthly billings. The recurring sales ratio in FY2/24 was over 90%, the breakdown by service being mitoco X at 43%, SkyVisualEditor at 24% and mitoco at 25%. These three products accounted for over 90%.

Cloud service market and TerraSky's businesses

Subscription sales mix



Note: Sales mix calculated with the total amount (including the shared revenue portion)
 Source: Prepared by FISCO from the Company's results briefing materials

mitoco X is a tool for automatically integrating customers' in-house, on-premises systems with various cloud services, such as Salesforce. Standalone sales under a proprietary brand began in September 2023, and going forward, there will no longer be revenue sharing with Saison Information Systems, the development partner, enabling the Company to develop proprietary functions and reinforce product capabilities. SkyVisualEditor is a tool that enables customers to improve the useability of Salesforce screens by customizing specifications in line with their business. It has established a position as the de-facto product in its industry.

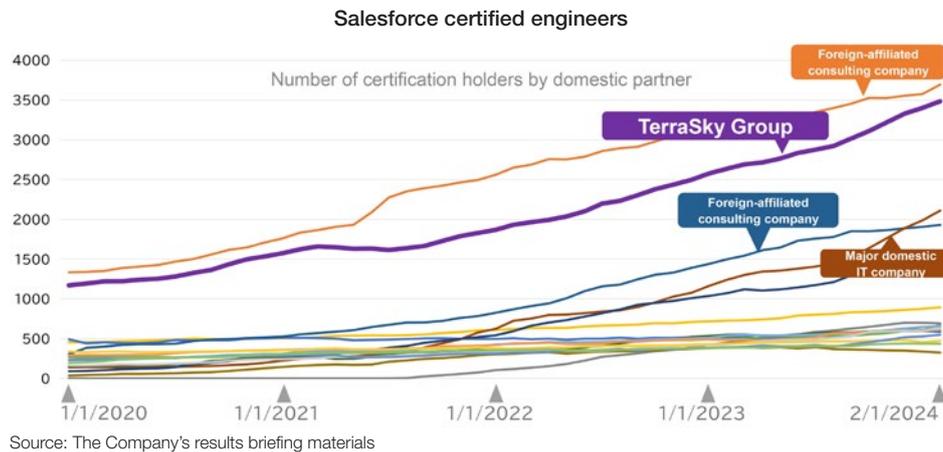
mitoco, for which development is being strengthened as a mainstay product, is a groupware product that enables the use of workflow, calendars, and bulletin board functions, etc. to be used on Salesforce to facilitate internal communication and is also compatible with mobile devices. mitoco's biggest feature is that it enables users to share Salesforce information such as calendar, account name, and account contact information without purchasing additional Salesforce licenses, meaning that they can centralize the management customer-focused information by removing segmentation caused by sales division using Salesforce while the overall company uses other scheduling and workflow management systems. This makes operations more efficient and further encourages the use of Salesforce. Functions are being released in succession, from expense accounting in December 2021 to attendance management in August 2022, financial accounting in September 2023 and debt management in March 2024. The product is highly rated by users as well. At the ITreview Grid Awards, which honor products and services rated highly based on postings on the ITreview user review platform for IT products and cloud services, it received consecutive awards, the "Leader" rank, the highest ranking, in the Salesforce extension category and "High Performer" in the groupware category.

Cloud service market and TerraSky's businesses

Has strengths in the form of Japan's top-ranking track record and a team of professionals enlisting support for installing cloud-based platforms centered on Salesforce

3. Strengths and issues

The Company's strengths can be broadly divided into two categories. First, the Company maintains professionals and extensive expertise cultivated by developing a track record of participating in the cloud market since it was first established. The Company ranks top in the industry in terms of its number of cloud deployments, with a track record of more than 7,000 installations of cloud-based systems on a standalone basis and more than 18,000 installations across the entire Group as of the end of February 2024. In addition, the number of certifications held for Salesforce, the core of business, is just under 3,500 Group-wide, ranking second in the country behind Accenture, and there is a wide gap to third and lower. According to the Company, as of April 2024, 5 of 19 people (No. 1 in Japan) have acquired the rank of Certified Technical Architect, the highest technical rank for Salesforce in Japan.



As the number of technical certification holders corresponds closely to a company's ability to take on orders for projects, it is not an exaggeration to say that the Company has more experience and greater capacity to conduct development and installation support projects for Salesforce cloud systems than any other company in Japan. After joining the Company, engineers spend several months gaining practical skills by attending classes and undergoing training based on original curriculum to acquire technical certifications, and employees who gain these certifications are assigned to actual workplaces. The Company's human resources development initiatives have been positioned as an element of core competency to achieve corporate growth and serve as a driving force behind such efforts.

Cloud service market and TerraSky's businesses

As BeeX has also been the pioneer in its industry for cloud migration support for SAP systems, it has the leading track record in this field. In order to migrate an SAP system to the Cloud, it is necessary to have not only the technological capabilities for the SAP system's infrastructure layer, but also to have advanced technologies for the cloud platform, such as AWS. But few companies possess both types of engineers, and this is another of the BeeX's strengths. The Company received certification as an AWS "Well-Architected Partner"*1 in 2019, and AWS announced its certification of "AWS Competency"*2 in March 2022 in the "AWS Partner Network (APN)", an AWS global partner program, and the Company was certified as the highest level of APN, "AWS Premier Tier Service Partner,"*3 in February 2024.

*1 As an APN (AWS Partner Network) partner certified as having high levels of skills and expertise to solve customers' AWS environment problems and that is able to seamlessly provide solutions on AWS.

*2 Obtained through third-party audit under an AWS-certified program, and are recognized as outstanding partners within the AWS Partner Network (APN), equipped with an array of technological capabilities related to migration, including skills for facilitating migration from existing on-premises environments to AWS environments, and the ability to manage operations post-migration.

*3 Even within the APN, the partner possesses highly specialized knowledge of AWS workload design, construction, migration and management, and is certified for contributing to the business expansion of numerous customers. BeeX is the 15th company certified in Japan.

The Company's second strength is that it covers multiple cloud platforms, including Salesforce, AWS, GCP, and Microsoft Azure, across the Group. Many large companies use multiple platforms, including on-premises types, and the Company's technological capabilities and expertise across the Group enable it to respond to multi-cloud platforms, and are the main factors leading to increases in opportunities for orders and continuous rapid growth.

Meanwhile, the Company faces the challenge of recruiting and training enough engineers to address robust demand. It has been encountering a persisting shortage of technical experts amid continuous high growth of the cloud services market. In order to solve these issues, in FY2/23 it established an employee dormitory (Apartment Block 1), and in the spring of 2024 it opened satellite offices in Akita City and Matsue City and is working to strengthen the recruitment of local human resources. In 2023 it broadcasted a television commercial with the aim of improving its corporate brand strengths. The Company's strategies to solve the issue of human resource shortages have included its establishment of TerraSky Technologies, which engages in dispatch and referral of cloud technology professionals, in 2021.

Results trends

In FY2/24, set a consecutive record high for net sales, and operating income and ordinary income returned to increases for the first time in three fiscal years

1. FY2/24 results overview

As for FY2/24 consolidated results, the Company reported net sales of ¥19,137mn (up 23.9% YoY), operating income of ¥522mn (up 2.1%), ordinary income of ¥655mn (up 7.4%), and net income attributable to owners of parent of ¥300mn (down 13.6%). Net sales set a consecutive record high, while operating income and ordinary income returned to increases for the first time in three fiscal years. Net income attributable to owners of parent decreased as the gain on sale of shares of subsidiaries and associates recorded in the previous fiscal year dropped off and income declined.

Results trends

FY2/24 consolidated results

	FY2/23		FY2/24					
	Results	% of sales	Initial forecast	Revised forecast*	Results	% of sales	YoY	Vs. initial forecast
Net sales	15,440	-	19,536	18,739	19,137	-	23.9%	-2.0%
Cost of sales	11,179	72.4%	-	-	14,125	73.8%	26.3%	-
SG&A expenses	3,749	24.3%	-	-	4,489	23.5%	19.7%	-
Operating income	512	3.3%	1,101	466	522	2.7%	2.1%	-52.5%
Ordinary income	610	4.0%	1,180	603	655	3.4%	7.4%	-44.5%
Extraordinary income (loss)	95	-	-	-	-21	-	-	-
Net income attributable to owners of parent	347	2.3%	743	246	300	1.6%	-13.6%	-59.6%
Group employees at fiscal year-end	992	-	1,401	-	1,248	-	25.8%	-10.9%

*Revised forecasts announced January 2024

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

Regarding net sales, the Company actively hired and trained personnel to accommodate rampant demand for cloud integration based on Salesforce, which caused sales to continue to grow by double-digits. Group employees at the end of the fiscal year stood at 1,248, an increase of 256 from the end of the previous fiscal year, almost proportional to the rise in sales. The initial forecast called for 1,401 employees, so a large increase was planned, but the number did not climb to this level and partially as a result of this, initial company forecasts (net sales of ¥19,536mn and operating income of ¥1,101mn) were not met. Cost of sales ratio increased from 72.4% in the previous fiscal year to 73.8%. The factors included a temporary decline in the capacity utilization rate for engineers caused by the cancellation of a major, planned order, a higher labor cost ratio from increasing salaries, and the occurrence of unprofitable projects. About the unprofitable projects, they have all already been delivered and will not affect results in FY2/25 or beyond.

SG&A expenses rose 19.7% YoY. This was mainly attributable to increases in personnel expenses (including recruiting costs and education expenses) and operating expenses. In terms of temporary expenses, ¥92mn for television commercials to raise recognition were recorded in 1Q (¥224mn the previous year), and the cost of participating in DreamForce2023, a conference held by Salesforce (U.S.) every year in September, came to ¥70mn. The SG&A expense ratio declined from 24.3% to 23.5% due to increased sales, but the effect of the higher cost of sales ratio meant that the operating income margin fell from 3.3% to ¥2.7%.

Non-operating income improved ¥34mn YoY. This was mainly because Kitalive listed its shares in September 2022 and became an equity-method affiliate of the Company, resulting in the share of profit of entities accounted for using equity method increasing ¥52mn YoY to ¥73mn. At the same time, ¥69mn in gain on sale of shares in Kitalive recorded last fiscal year as extraordinary income and ¥25mn in gain on change in equity dropped off, which were factors causing a decline in net income attributable to owners of parent.

Of the five new subsidiaries established since 2019 (Quemix, TerraSky (Thailand), LiberSky, TerraSky Technologies, and DiceWorks), two, Quemix and TerraSky (Thailand), posted ordinary losses (totaling ¥166mn) in FY2/24. Last fiscal year, all of the companies with the exception of LiberSky posted operating losses (totaling ¥159mn), but TerraSky Technologies and DiceWorks increased their sales to achieve slight profits.

Results trends

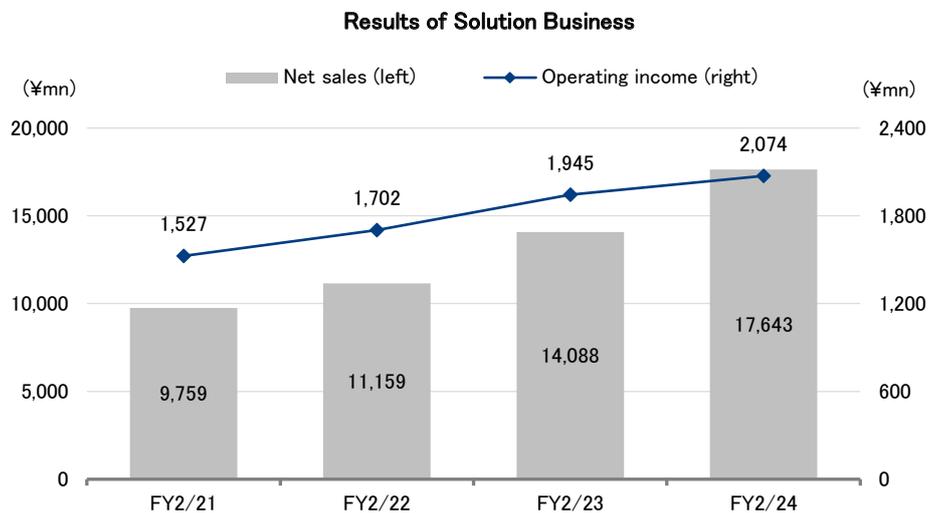
Posted higher sales and profits in the Solution Business while the Product Business continued to record losses due to upfront development investment in mitoco ERP

2. Trends by business segment

(1) Solution Business

The Solution Business recorded new record high segment sales and profit with net sales of ¥17,643mn (up 25.2% YoY) and segment profit (operating income) of ¥2,074 (up 6.6%). Net sales grew due to an increase in the number of projects involving installation and development of cloud services centered on the Salesforce platform, booming demand for the cloud transitions for SAP systems provided by BeeX, and an increase in the number of employees in TerraSky Technologies' dispatch service, which increased by 1.6 times from 195 at the end of the previous fiscal year to 320, contributing to the increase in sales. The capacity utilization of dispatch employees was over 90%, so close to full utilization. On the profit front, Quemix and TerraSky (Thailand) were slow to launch their businesses, the burden of personnel expense increases (increase in non-utilizable personnel due to increase in hiring of new graduates), occurrence of unprofitable projects, upfront investment expenses from the opening of satellite offices (in Akita City and Matsue City)*, and the growth of the personnel dispatch business, which has relatively low profit margins resulted in the profit margin declining from 13.8% to 11.8%, although the effects of higher sales led to securing a profit.

* The Akita Office began operating with a handful of employees in March 2024, with plans calling for a staff of 30 by 2030. The Matsue Office also started with a small number of employees and plans to expand to 15 by 2026. In both cases, location agreements were concluded with the local governments. The Company now has a total of three satellite offices, after opening one in Joestu City, Niigata Prefecture in 2017.



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

Related to Salesforce, talks continue to be lively not only with new customers but also existing customers for additional development projects, and sales growth is dependent on human resources. Competitors are also increasing, but approaching major companies, the Company's main battlefield, requires extensive knowledge and know-how to accommodate the diverse and advanced needs of customers and including the Company, there are a limited number that can accommodate this, so competitors are not much of a threat.

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Results trends

In addition, to strengthen Salesforce-related solutions capability, the Company is actively involved in a partnership strategy. In June 2023, the Company concluded an exclusive sales agreement in Japan with Flosum Corporation (U.S.) for “Flosum”^{*1}. The Company is recruiting reseller partners and expanding sales channels. It also launched a “success portal” on the Flosum website, which is loaded with introduction manuals and FAQs, etc. These are efforts to launch a Flosum user community and the goal is deployment by 100 companies in three years. In February 2024, the Company signed an implementation partner agreement with HardHat Ltd. (Australia), its first in Japan. The Company agreed to a partnership related to implementation projects for HardHat^{*2} solutions for the construction industry. Going forward, the Company will jointly conduct sales activities in Japan for construction companies that have installed Salesforce. In any case, the impact on results for the time being will likely be marginal, but strengthening solution capability with a lineup of diverse products is intended to maintain competitiveness in the Salesforce field.

*1 Flosum is an application that increases the efficiency of Salesforce release management and continuing integration operations. It reduces the heavy workload of developers and system staff related to Salesforce release and version management and is adopted by companies promoting utilization and insourcing of Salesforce.

*2 HardHat is a Salesforce AppExchange developed for prime contractors and subcontractors. It streamlines processes through the project lifecycle, raises the efficiency of construction projects, and helps raise safety levels and improve profitability.

Looking at trends at subsidiaries, TerraSky Technologies has dedicated Salesforce personnel (primarily system operators) who are almost fully utilized given the rampant need for such personnel and achieved profitability in the third year since its launch. To expand its business domain, in October 2023, it began a dispatch service for dedicated AWS personnel, and by 2026 it plans to increase its workforce to 100 people and acquire sales of ¥1.0bn. LiberSky, which is involved in GCP construction, big data analysis, and AI consulting services, had around 20 employees at the end of FY2/24, and though the workforce is small, demand is rampant and the company achieved increases in both sales and profit. Going forward, expanding human resources is seen as the key to the company's growth.

DiceWorks, which installs, operates and helps entrench MA tools for Salesforce, conducts sales activities to the Company's customers and gets customer referrals from Salesforce. Sales are growing steadily, and the company reported a small amount of operating income as it made it into the black. The company has around 30 employees. Regarding Cuon, sales and profit declined due to the occurrence of unprofitable projects, but excluding this factor, the company has been performing steadily. It started a new generative AI deployment support service in August 2023, and in January 2024 it started an e-commerce site building, operating, and maintenance service called EC Optimization (ECO) on Spree Commerce, an open-source e-commerce platform. It is characterized by quick service launch and excellent scalability for customized functions, etc. The company is aiming to expand sales to customers considering long-term operations while enhancing e-commerce site functions.

Quemix, which does R&D on algorithms and software related to quantum computing, is conducting the license business and joint research with other companies, but it is still at the stage of upfront investment, and its goal for the time being is establishing a business model to achieve profitability. In April 2024, CEO Matsushita took up to the position of specially appointed associate professor in the Department of Physics, Faculty of Science & Graduate School of Science, The University of Tokyo, and the development site was transferred to the University of Tokyo, which going forward can be expected to accelerate R&D and increase joint research projects.

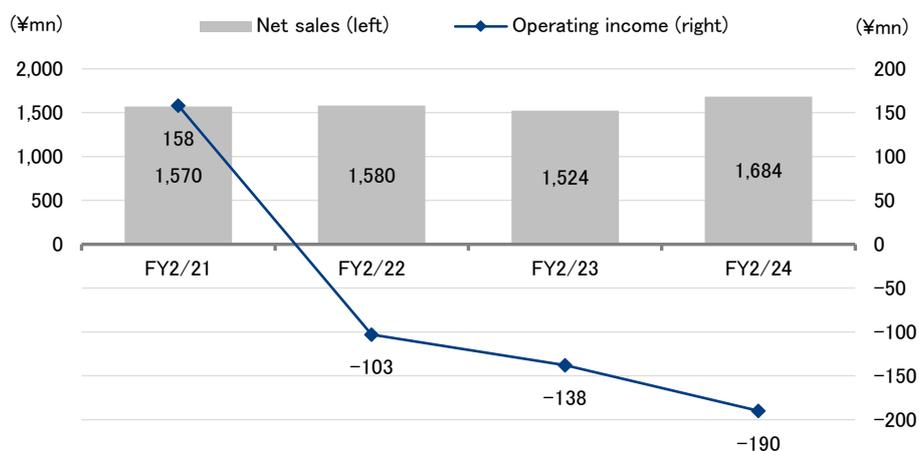
Results trends

Regarding the subsidiary in Thailand, it had a dormant period during the pandemic after being established in 2019, but in the summer of 2022, business activities got underway, and currently with a staff of several engineers, it is conducting sales activities in collaboration with the local Salesforce subsidiary. Personnel recruitment, however, has not proceeded as expected, and the Company continued to post losses in FY2/24. Going forward, along with strengthening personnel, it will aim for profitability by collaborating with NTT DATA, with which the Company has a capital and business alliance.

(2) Product Business

The Product Business recorded net sales of ¥1,684mn (up 10.5% YoY), and a segment loss (operating loss) of ¥190mn (segment loss of ¥138mn in FY2/23). Net sales returned to an increase for the first time in two fiscal years, but the decline in sales in the previous fiscal year was from the application of the Accounting Standard for Revenue Recognition, etc., so effectively there has been three consecutive fiscal years of sales increases, and sales are nearly at the level of FY2/20, when they were ¥1,689mn, an all-time high from the contribution of a major project. The sales share of subscription sales has risen from a little over 50% in FY2/20 to over 90% in FY2/24, and on a monetary basis, this represents around a twofold increase. So, it can be said that the earnings base is steadily expanding.

Results of Product Business



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

In net sales, sales of mitoco increased 11% YoY and subscription sales increased for all products. mitoco's growth rate has slowed from 35% in the previous fiscal year, but this was due to the cancellation of a fairly sizable project, and new contracts are being steadily acquired. Contracts for mitoco Work, which includes attendance management and expense accounting, have been steadily increasing.

Results trends

On the profit front, the Company continued to post losses due to expenses for making DataSpiderCloud an exclusive proprietary service, mitoco X, (expenses to acquire rights), expenses for participating in Dreamforce2023, and expenses for promoting mitoco ERP. mitoco ERP, launched as a new cloud service in September 2023, adds to existing mitoco functions with a newly released financial accounting function and a payroll function that will be developed going forward; it is a service integrated with Fujitsu GLOVIA OM, a system for sales, purchase, and inventory management. In the cloud ERP industry, the strategy is to expand sales by mainly targeting middle market companies that are Salesforce users. The Company hired 10 marketing and sales staff and increased personnel expenses by around ¥80mn and also spent ¥20-30mn on advertising, primarily videos in taxicabs. Regarding the subsidiary ENOKI, its sales are limited to some tens of millions of yen, but adding the mitoco Assistant, mitoco's chatbot function, a small amount of operating income was recorded.

In July 2023, the Company entered into a capital and business alliance contract with TECNOS JAPAN INCORPORATED <3666>. The business alliance consists of coordinating and developing the CBP company collaboration platform provided by TECNOS JAPAN with the Company's mitoco and Fujitsu GLOVIA OM to allow both companies to provide a high value-added ERP general solutions, sales activities and engineer collaboration in the two companies existing markets, selling both companies' products and coordinated solutions through TECNOS JAPAN's local subsidiary in the North American market, and building a collaborative system between BeeX and TECNOS JAPAN to conduct the SAP related business. Both companies have agreed to acquire ¥100mn in shares of the other.

Favorable financial standing with equity ratio of at least 60% and ample cash flow

3. Financial position and management indicators

Total assets at the end of FY2/24 were ¥18,446mn, an increase of ¥2,923mn from the end of FY2/23. Looking at the main factors behind the change, in current assets, cash and deposits declined by ¥277mn, but accounts receivable and contract assets increased by ¥591mn and prepaid expenses increased by ¥256mn. In non-current assets, investment securities increased by ¥1,976mn on increases in shareholdings, etc., while software increased by ¥191mn.

Total liabilities increased by ¥1,301mn from the end of the previous fiscal year to ¥5,892mn. Looking at the main factors behind this change, interest-bearing debt dropped by ¥61mn, but at the same time accounts payable and contract liabilities increased ¥637mn and deferred tax liabilities increased ¥550mn. In addition, total net assets rose ¥1,621mn to ¥12,553mn. Retained earnings rose by ¥300mn, valuation difference on available-for-sale securities increased ¥1,217mn, and non-controlling interests increased by ¥102mn.

In management indicators, while the equity ratio decreased from 61.7% at the end of the previous fiscal year to 60.2%, the interest-bearing debt ratio is at a low level of 2.1%. The Company is strengthening its financial base, including maintaining record levels of ample net cash (cash and deposits – interest-bearing debt) at the ¥5.3bn range. Therefore, it can be judged as having a favorable financial standing. In profitability, ROA, ROE and operating income margin to net sales continued to be at the low levels of 3.9%, 2.9%, and 2.7%, respectively, but that is mainly due to the Company's upfront investment incurred in order to achieve future growth. Profitability is expected to rise from FY2/25 onward as this upfront investment begins to bear fruit.

Results trends

Consolidated balance sheet and management indicators

	(¥mn)				
	FY2/21	FY2/22	FY2/23	FY2/24	Change
Current assets	8,845	9,339	10,034	10,642	607
Cash and deposits	6,094	5,672	5,893	5,616	-277
Accounts receivable and contract assets	1,921	2,287	2,896	3,487	591
Non-current assets	6,716	4,494	5,488	7,804	2,315
Property, plant and equipment	387	339	332	308	-23
Intangible assets	744	710	638	926	287
Goodwill	170	130	72	38	-33
Investments and other assets	5,583	3,444	4,518	6,569	2,051
Total assets	15,562	13,834	15,523	18,446	2,923
Current liabilities	3,563	3,136	3,646	4,422	776
Non-current liabilities	1,544	850	944	1,470	525
Total liabilities	5,107	3,987	4,591	5,892	1,301
(Interest-bearing debt)	680	596	290	229	-61
Shareholders' equity	6,422	7,030	7,443	7,745	301
Share capital	1,187	1,217	1,252	1,252	0
Legal capital surplus	1,389	1,660	1,710	1,711	0
Retained earnings	3,846	4,153	4,481	4,781	300
Treasury shares	-0	-0	-0	-0	-0
Accumulated other comprehensive income	3,241	1,757	2,141	3,358	1,217
Non-controlling interests	788	1,057	1,347	1,450	102
Total net assets	10,454	9,846	10,932	12,553	1,621
Management indicators					
(Stability)					
Equity ratio	62.1%	63.5%	61.7%	60.2%	-1.5pt
Interest-bearing debt ratio	7.0%	6.8%	3.0%	2.1%	-1.0pt
Net cash	5,414	5,076	5,603	5,387	-216
(Profitability)					
ROA	5.0%	4.5%	4.2%	3.9%	-0.3pt
ROE	26.3%	3.3%	3.8%	2.9%	-0.9pt
Operating income margin to net sales	7.0%	5.2%	3.3%	2.7%	-0.6pt

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

Outlook

For FY2/25, double-digit increase in sales and profit expected; operating income and ordinary income expected to set all-time highs for the first time in four fiscal years

1. Outlook for results of FY2/25

In its FY2/25 results forecasts, the Company is projecting net sales to increase 25.5% YoY to ¥24,024mn, operating income to increase 73.3% to ¥905mn, ordinary income to rise 52.7% to ¥1,000mn, and net income attributable to owners of parent to increase 88.6% to ¥565 million, so it is expecting double-digit increase in both sales and profits and predicting new record highs for operating income and ordinary income for the first time in four years.

Outlook

Forecast for FY2/25 consolidated results

	FY2/24		FY2/25 (E)		
	Results	% of sales	Forecast	% of sales	YoY
Net sales	19,137	-	24,024	-	25.5%
Operating income	522	2.7%	905	3.8%	73.3%
Ordinary income	655	3.4%	1,000	4.2%	52.7%
Net income attributable to owners of parent	300	1.6%	565	2.4%	88.6%
Earnings per share (¥)	23.35		44.02		
Number of Group employees at fiscal year-end	1,248		1,640		31.4%

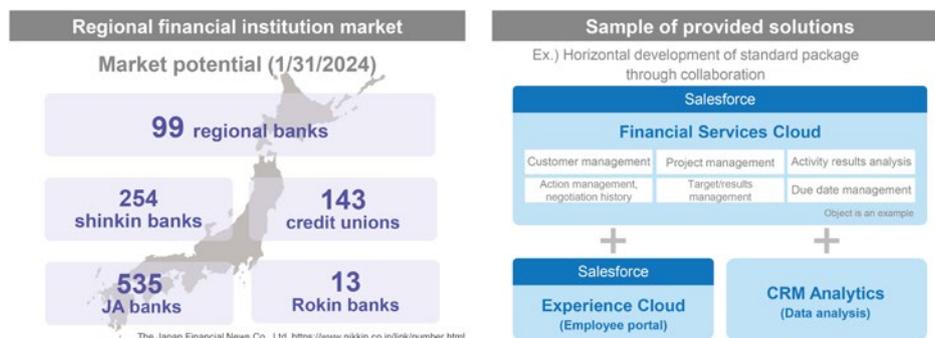
Source: Prepared by FISCO from the Company's financial results and results briefing materials

With companies continuing to shift their information systems to cloud software, new and additional development projects are increasing for cloud integration centered on Salesforce, and with this, the sales of the Company's products, starting with mitoco, are expected to grow. In addition, at subsidiary BeeX as well, along with SAP cloud migration projects, AWS deployment support projects for companies and local governments are expected to expand.

For human resources, which are the key to growth, the Company plans to increase Group employees by 31.4% to 1,640 and over half the increase will be TerraSky Technologies employees. New graduate hires in spring 2024 increased from 94 in the previous year to 103 this year, and the Company continues to strengthen mid-career hires as well and raise the retention rate. The employee severance rate is down to the lower half of the single digits by percentage as of FY2/24. The Company raised the starting salary for new hires and raised the salary of employees in their second and the third years. The Company revised personnel evaluations to a system that emphasizes performance, made improvements to company dormitories and enhanced systems for supporting skill training, including certifications, and these efforts are beginning to bear fruit.

By business segment, in the Solution Business, the Company is expecting double-digit growth in sales and profit, but in the Product Business, while double-digit growth is planned for sales, a slight loss will continue partly because of continued investment in the development of mitoco ERP. Regarding the Solution Business, to open up new markets, the Company will identify Salesforce demand among regional financial institutions while collaborating with NTT DATA, with which the Company announced a capital and business alliance in April 2024. Salesforce is not yet used extensively by regional financial institutions, but strengthening CRM is a management issue, so there is a large latent need for Salesforce, which has the top share in this area. Many of NTT DATA's customers are regional financial institutions, so through collaboration sales are expected to steadily expand.

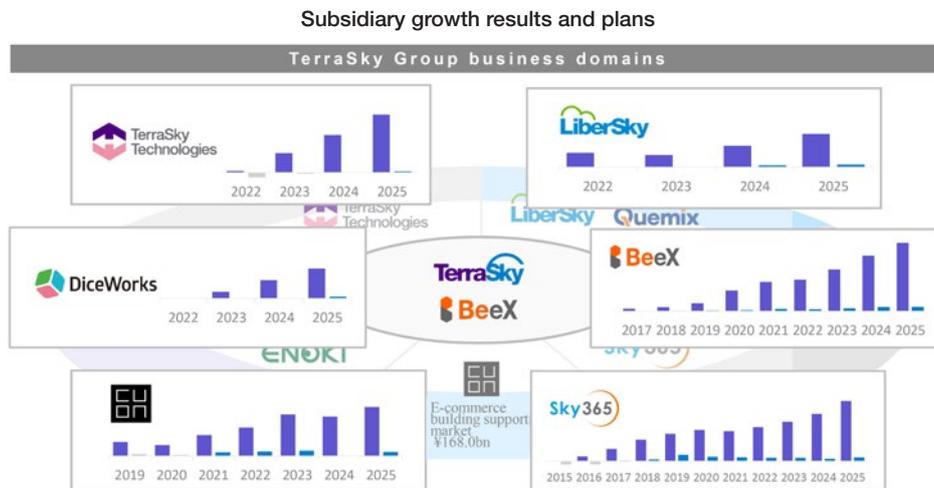
Pioneering new markets



Source: The Company's results briefing materials

Outlook

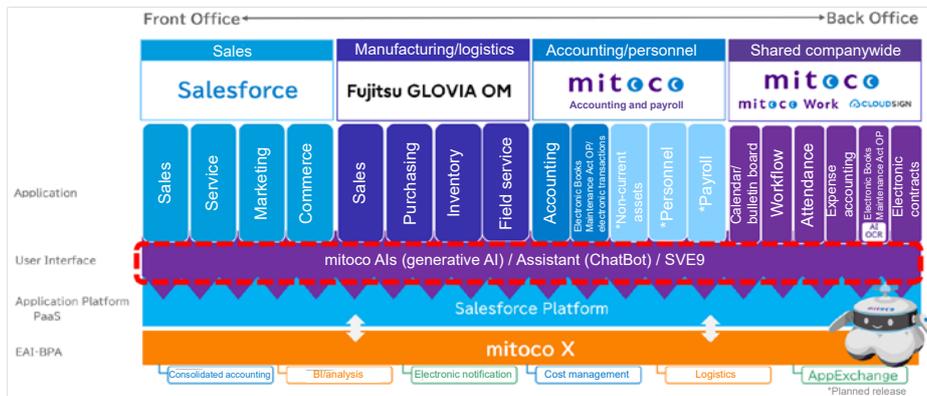
Regarding subsidiary business as well, steady expansion is expected at each company against the backdrop of favorable market conditions. Cuon, which recorded lower sales and profit last fiscal year, is expected to see a turnaround with sales and profit growth. However, Quemix and the Thailand subsidiary are still in the upfront investment stage, and losses are expected to continue. As for overseas business initiatives, the Company will promote the installation of Salesforce and mitoco in the Southeast Asia market, centering on the Thailand subsidiary. It is also building a system with an offshore site for the MSP business (cloud service maintenance, operation and monitoring). Regarding plans for the Thailand subsidiary's workforce, it has 10 employees as of FY2/25, and is aiming to increase that number to 100 in five years.



Source: The Company's results briefing materials

At the same time, in the Product Business, as a part of mitoco Accounting, financial accounting and a debt management function were released in March 2024, and a receivables management function will be added sometime in 2024, as plans call to release the final version. Combining the functions of Salesforce and Microsoft's Azure Open AI Service, the Company began offering mitoco AI in April 2024, a new service that derives the appropriate response from data stored in Salesforce. Combining this with mitoco ERP will allow for all data—people, goods, money, and customer information—to be horizontally accessed and enable data needed for decision-making to be easily used. It is expected to be a service that raises business efficiency and productivity. Regarding the business data within Salesforce, it is not provided to the generative AI function of Microsoft Azure and security is maintained. The Company has a goal of installing the service at 300 companies over the next five years to 2029.

mitoco ERP system diagram



Source: The Company's website

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Expecting to further accelerate growth in the Salesforce business through a capital and business alliance with NTT DATA

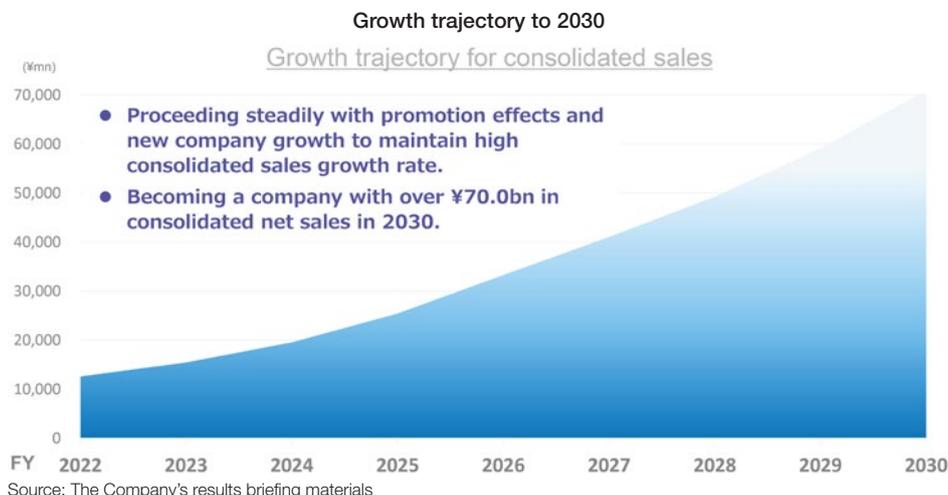
2. Capital and business alliance with NTT DATA and long-term goals

On April 12, 2024, the Company announced a capital and business alliance with NTT DATA. The business alliance consists of combining both companies' resources to accelerate growth of the Salesforce business, introducing new products in Japan and jointly developing business in the Asia-Pacific market, and promoting the acquisition and development of human resource specializing in digital fields by drawing on the brand power of both companies. NTT DATA has also been involved in the Salesforce business, but it ranks sixth in Japan in number of certifications and has focused more on upstream processes, so its growth was limited. To accelerate the growth of the business, the Company, which has an abundance of development engineers, was called upon and this led to the capital and business alliance.

As stated above, the companies first plan is to collaborate while targeting regional financial institutions that are the customers of NTT DATA but have yet to deploy Salesforce. The Company is aiming to generate sales of at least ¥17.0bn over the next three years as a result of the alliance. When Salesforce is installed, it is possible that peripheral services like mitoco will be deployed as well. The effects of the alliance should become apparent starting in FY2/26, and FISCO believes it is highly likely that growth will accelerate from the collaboration with NTT DATA. The effects of the alliance have not been incorporated into results forecasts for FY2/25.

Regarding the capital alliance, it consists of the Company issuing new share subscription rights equivalent to 670,000 shares on April 30, and when these subscription rights are exercised, the ownership stake will be 20.1%, when including shares already purchased on the market, and the Company is expected to become an equity-method affiliate of NTT DATA. The exercise price for the new share subscription rights is ¥1,400 and the exercise criteria is consolidated operating income exceeding ¥2.5bn even once in the fiscal years up to FY2/27. By this criteria the Company appears to be targeting operating income of over ¥2.5bn by FY2/27. Regarding the acquisition of personnel specialized in digital, the Company expects that becoming a part of the NTT DATA Group will have a positive effect on recruiting.

There is no change in the Company's long-term goal of consolidated sales of over ¥70.0bn in FY2030, and going forward as well, with demand for cloud integration rampant, it intends to maintain sales growth above 20% annually while strengthening human resources and promoting subsidiary development.



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■ Shareholder return policy

Raising corporate value through earnings growth (raising the stock price) as the shareholder return policy; will continue not paying a dividend for the time being

Since it was listed, the Company has continued to not pay a dividend. It is currently in an investment phase in order to realize high growth, and it considers that maximizing enterprise value by reinvesting cash into growth investments to realize greater earnings growth will lead to returns to shareholders in the future. For this reason, the Company does not plan to pay a dividend in FY2/25. Over the medium to long term, when profit exceeds a certain level and the Company determines that it has established a robust financial foundation capable of withstanding fund demand for growth investment, including M&A, it will likely then begin paying a dividend. The Company has adopted a shareholder benefits program and provides QUO cards worth ¥1,000 uniformly to shareholders at the end of February each year.



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