

Cybernet Systems Co., Ltd.

4312

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Summary

Aiming for net sales of ¥26bn and an operating income margin of 12% in FY12/23 by expanding the simulation utilization area and global business development

Cybernet Systems Co., Ltd. <4312> (hereafter, also “the Company”) is a major company for CAE (computer-aided engineering) software solution services that are used for design, R&D, and other aspects, centered on the manufacturing industry, and it also handles cloud security and other products. As a leading CAE company, it is a sales vendor for more than 30 companies, mainly of software products, while as a pioneer for CAE solutions, domestically it has as its customers more than 2,000 companies and 500 research institutes and universities. It also has three overseas software development companies as subsidiaries and is developing an overseas business, including conducting a CAE solutions business in the Asia market, mainly in China. More than 50% of net sales on a Company stand-alone basis comes from stock business (license renewals by existing customers), so earnings are highly stable.

1. FY12/20 consolidated results

In the FY12/20 consolidated results, sales and profits increased, with net sales rising 1.5% year on year (YoY) to ¥21,665mn and operating income growing 42.4% to ¥2,877mn. Due to the impact of the novel coronavirus pandemic (hereafter, “the coronavirus”), sales of new licenses for CAE software decreased, but license renewals by existing customers trended solidly, while sales of cloud security solutions and in Asia, mainly in China, were also strong, so an increase in net sales was secured. Profits also grew, with the main factors being declines in travel and advertising expenses due to the coronavirus, and recording subsidies (for personnel expenses) at overseas subsidiaries as part of economic measures.

2. Outlook for FY12/21

The outlook for FY12/21 is for sales to increase but profits to decrease, with net sales to rise 3.4% YoY to ¥22,400mn and operating income to decline 6.2% to ¥2,700mn. For net sales, CAE software solutions for the domestic and Asia market will grow and cloud security solutions will continue to perform well. Conversely, for profits, travel and advertising expenses, which declined in the previous period, are expected to return to normal from 2H, but it is unclear whether the overseas subsidiaries will receive subsidies, so they have not been included in the forecasts. Also, a factor that will decrease profit is the Company’s intention to conduct investment toward growth in the future.

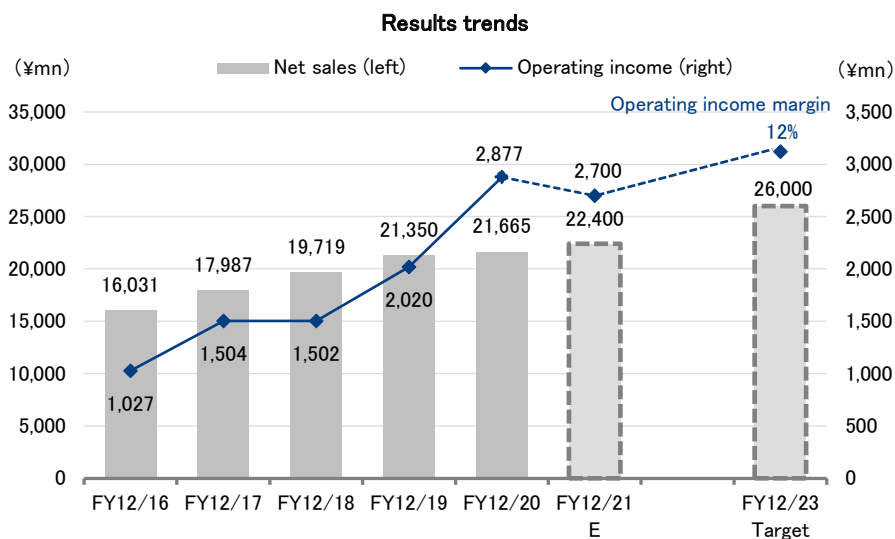
3. Summary of the medium-term business plan

The Company has announced the three-year medium-term business plan with FY12/23 as its final fiscal year. The plan’s three medium- to long-term basic policies are 1) Contributing to society through simulation, 2) Growing into a global company, and 3) Promoting diversity and strengthening HR development, and it sets out a policy of continuing to grow as the leading company in the simulation field. The three growth strategies are to expand the core business in the CAE solutions field, expand the DX business, and broaden the simulation utilization area. Also in the IT solutions field, the focus is on the cloud security business, in which demand is strong. Numerical results targets for the plan’s final fiscal year include net sales of ¥26bn and an operating income margin at the 12% level. This will require a three-year average annual growth rate of 6.3%, which we at FISCO think is an achievable level considering that simulation technologies are expected to be widely adopted in fields other than the manufacturing industry and sales growth is anticipated in the Asia market, mainly in China, going forward.

Summary

Key Points

- Has supported manufacturing in Japan for more than 30 years as a leading CAE company
- In the FY12/20 results, sales and profits increased from strong sales of IT solutions and in the Asia market and the effects of cost reductions
- Aiming for net sales of ¥26bn and an operating income margin of 12% in FY12/23 by expanding the simulation utilization area and global business development



Note: Figures for FY12/21 are based on the lower limits of the Company's ranged forecasts
 Source: Prepared by FISCO from the Company's financial results

Company overview

Has supported manufacturing in Japan for more than 30 years as a leading CAE company

1. History

Cybernet Systems Co., Ltd. was established independently in April 1985 after Control Data Corp. (CDC), a US-based supercomputer pioneer, spun off its cybernet services business, and had previously been CDC's Japanese subsidiary, Nihon CDC K.K. Cybernet is a portmanteau of "cybernetics" (cyber) and "telephone network" (net), and refers to the computer service CDC provided globally from the 1970s to the 1990s that allowed people to rent remote access to a computer by the hour. At that time, computers were expensive, so companies and research institutes used this service to carry out tasks such as scientific and technological calculations and simulations.

Company overview

From 1990, the performance of computers improved dramatically and they became inexpensive, so these users have come to own their own computers, on which they have installed dedicated software to conduct design development, R&D and other tasks. Due to this change in use, the Company also concluded sales distributor contracts with leading overseas software vendors, and converted to a business model of conducting sales and providing installation support services for these companies, thereby expanding its business.

In 1989, the Company became a subsidiary of Kobe Steel, Ltd. <5406>, and then in 1999, FUJISOFT ABC Incorporated (currently, FUJI SOFT INCORPORATED <9749>) acquired all of its shares and made it a wholly owned subsidiary, and it is currently FUJISOFT's subsidiary. In October 2001, the Company's shares were listed on the JASDAQ market (currently listed on the Tokyo Stock Exchange (TSE) First Section), and since 2005, it has actively progressed an M&A strategy with the aim of expanding its business area in the CAE field. Domestically, in 2005, it made subsidiaries of KGT Inc. (has advanced visualization technologies and network-related software) and PLAMEDIA CORPORATION (specializes in a plastics CAE business), and then in 2006, it acquired the business rights of Keihin Artwork, Inc. and EDA Connect Co., Ltd. and expanded its business areas. Also, recently in January 2020, it established CYBERNET MBSE Co., Ltd., which mainly provides engineering services related to MBSE*, including outsourced analysis and consulting.

* MBSE (model-based systems engineering) refers to a method for conducting analysis, design, and verification of system requirements from various perspectives using models for systems targeted for development. Alongside the higher performance and multifunctional nature of systems, the process from requirement definitions through to design and verification has become increasingly complex, and MBSE makes possible efficient development through the modelling of these elements.

Conversely, alongside the entry into Asia of Japanese companies and the growth of Asian companies, centered on China, demand is growing for CAE solutions in the Asia region. In this situation, the Company has also been establishing sales subsidiaries in various Asian countries. In 2004, it established CCA ENGINEERING SIMULATION SOFTWARE (Shanghai) CO., LTD. in order to prepare an environment to provide technological services in China at the same level as in Japan, and it began providing technological services relating to CAE, including consulting, outsourced analysis, and education. Next, in 2008, it established CYBERNET SYSTEMS TAIWAN Co., Ltd. in Taiwan to provide CAE solution services, including those related to optical, control, and formula processing. Then in 2017, it established CYFEM Inc. in South Korea to provide optical-related CAE solution services, and in 2018, CYBERNET SYSTEMS MALAYSIA SDN. BHD. in Malaysia to provide machinery- and optical-related CAE solution services. In these ways, the Company has been strengthening its business development in the Asia region.

Also, in June 2009, the Company's sales distributor contract with The MathWorks, Inc. of the US, which was the main customer providing more than 30% of total sales, ended (due to The MathWorks establishing a Japanese subsidiary) and earnings fell significantly. In this way, the distributor business is exposed to risk, so the Company has strengthened its in-house products. Specifically, from 2009 to 2010, it conducted M&A and made subsidiaries of three overseas software development companies. In 2009, it made subsidiaries of Sigmetrix, LLC of the United States (hereafter, Sigmetrix; development and sales of tolerance*¹ analysis software and consulting) and Waterloo Maple Inc. of Canada (hereafter, Maplesoft; development, sales, consulting and online services for formula analysis software, etc.). Then in 2010, it made a subsidiary of Noesis Solutions NV of Belgium (hereafter, Noesis; development, sales, and technological support for PIDO*² tools).

*¹ Tolerance: The allowable range of variation of the dimensions set at the time of design.

*² PIDO (Process Integration and Design Optimization): A solutions tool for overall optimization that contributes to improving quality, shortening the development period, and reducing costs through the automation, integration, and optimization of the product development process utilizing CAD/CAE.

Company overview

History

Date	Event
April 1985	Control Data Corp. (CDC) of the US separated its cybernet services business and established Cybernet Systems Co., Ltd.
April 1989	Kobe Steel, Ltd. <5406> acquired all of the Company's issued shares.
October 1999	FUJISOFT ABC Incorporated (currently, FUJI SOFT INCORPORATED <9749>) acquired all of the Company's issued shares and made it a wholly owned subsidiary.
October 2001	Listed on the JASDAQ market and increased capital to ¥995mn.
August 2003	Listed on the TSE Second Section.
September 2004	Listed on the TSE First Section.
December 2004	Established subsidiary CCA ENGINEERING SIMULATION SOFTWARE (Shanghai) CO., LTD. in Shanghai, China.
April 2005	KGT Inc. made a subsidiary through acquisition of all shares.
August 2005	PLAMEDIA CORPORATION made a subsidiary through acquisition of 95% of shares.
May 2006	Took over operation of Keihin Artwork Co., Ltd. and EDA Connect Co., Ltd.
August 2006	Established Cybernet CAE Systems (Shanghai) Co., Ltd. (currently, CYBERNET SYSTEMS (SHANGHAI) CO.,LTD.) in Shanghai, China.
July 2008	Established CYBERNET SYSTEMS TAIWAN Co., Ltd. in Hsinchu City, Taiwan.
July 2009	Made Sigmetrix, LLC a wholly owned subsidiary.
August 2009	Merged with PLAMEDIA CORPORATION.
September 2009	Made Waterloo Maple Inc. a wholly owned subsidiary.
May 2010	Merged with KGT Inc.
July 2010	Made Noesis Solutions NV a wholly owned subsidiary.
March 2012	Established CYBERNET SYSTEMS KOREA CO., LTD. in Seoul, South Korea (closed in 2015).
September 2017	Established subsidiary CYFEM Inc. in Seoul, Korea.
November 2018	Established subsidiary CYBERNET SYSTEMS MALAYSIA SDN. BHD. in Malaysia.
January 2020	Established CYBERNET MBSE Co., Ltd.

Source: Prepared by FISCO from the Company's website

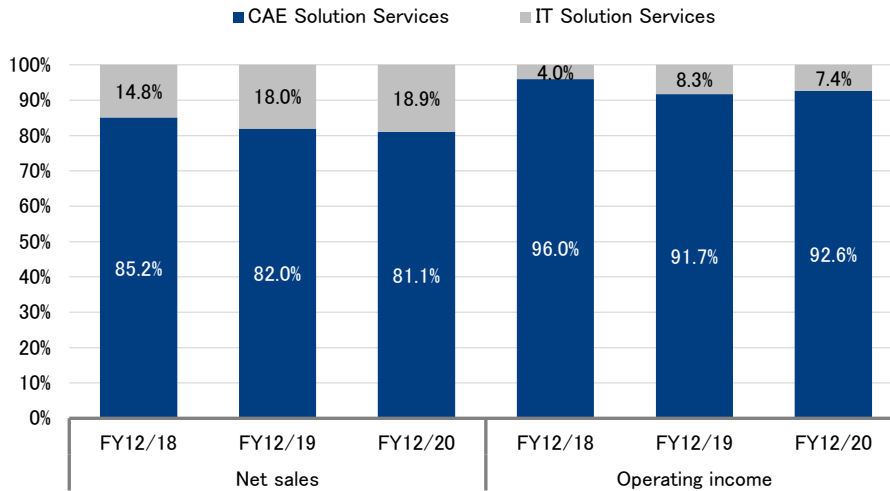
Is developing the CAE Solution Services and IT Solution Services businesses

2. Business description

The Cybernet Group develops solution services businesses in Japan and overseas through software and technology services (technological support, consulting, etc.). As the fields targeted by these businesses are different, it discloses information on two business segments, the CAE Solution Services and IT Solution Services. CAE Solution Services is conducted by the Company and CYBERNET MBSE, and overseas by Maplesoft, Sigmetrix, Noesis, and the four sales subsidiaries in Asia (in China, Taiwan, South Korea, and Malaysia) for the development and sales of in-house products. IT Solution Services is conducted only by the Company. Looking at the breakdown of results by business segment in the most recent 3 years, we see that CAE Solution Services is the main business contributing more than 80% of net sales and more than 90% of operating income. At the end of December 2020, there were 622 employees on a consolidated basis and 371 employees on a Company stand-alone basis, while approximately 45% of consolidated employees were engineers.

Company overview

Breakdown of results by business segment



Note: Calculations for operating income do not include eliminations
 Source: Prepared by FISCO from the Company's financial results

(1) Business model

To simply explain the business model, the Group has concluded sales distributor contracts with more than 30 leading software vendors in Japan and overseas, and it sells software products (including in-house Group products) to customers that include companies, universities, and research institutes. Also, when conducting sales, it provides solution services with added value that meet customer needs, including technological support so customers can skillfully use the products, operations support consulting, and engineering services. In addition, it contributes to improving product capabilities by providing feedback on customer needs to vendors, which are the developers.

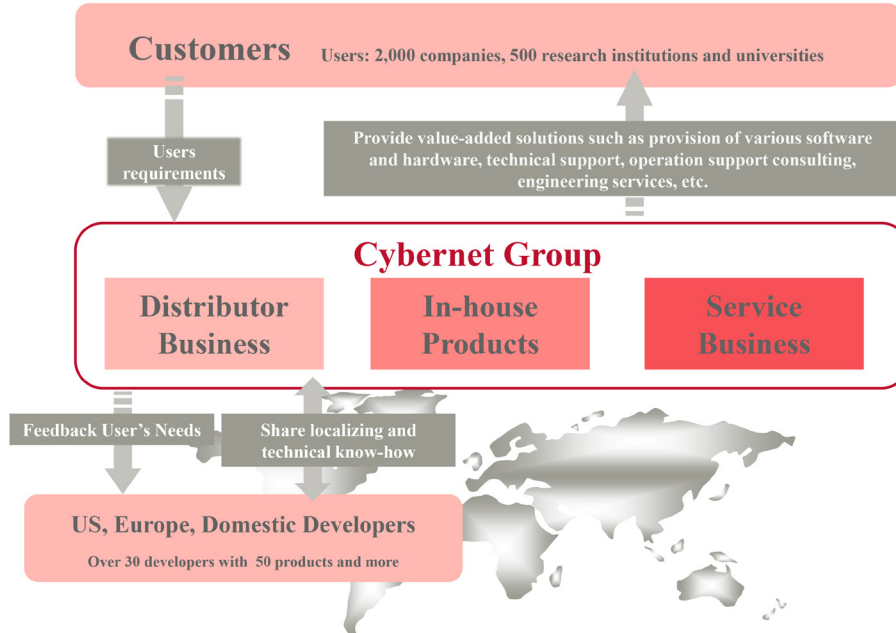
In particular, as a pioneering company in the CAE solutions field in Japan, it has accumulated an abundance of experience and technologies across more than 30 years, and it has solution capabilities to guide customers to the solutions to their various problems. Therefore, it has built strong relationships of trust with them, and at the same time, it has acquired an excellent reputation among vendors, which are the developers. For example, ANSYS, Inc.*1 of the US, which is currently its main business-partner vendor, awarded it the title of Channel Partner of the Year 2019*2, and moreover for 6 consecutive years from 2015, certified it as an ANSYS Elite Channel Partner*2, indicating its reputation as the company's leading partner in the Asia region (announced in May 2020). Its customers in Japan are 2,000 companies and 500 universities and research institutes, and it can be said to be a leading company in the CAE solutions field.

*1 Globally leading CAE software company, with net sales of US\$1.695mn in 2020.

*2 Channel Partner of the Year is the title awarded to the organizations recognized as contributing the most to the sales activities of ANSYS software from among its sales partners throughout the world, and the Company was the winner for the Asia area. ANSYS Elite Channel Partner is the title awarded to sales partners that meet the strictest certification and resource requirements, and the Company was the first distributor in Japan to be awarded the title for six consecutive years.

Company overview

The Company's business model

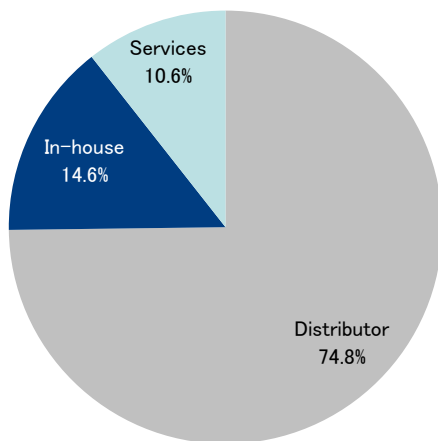


Source: Reprinted from materials provided by the Company

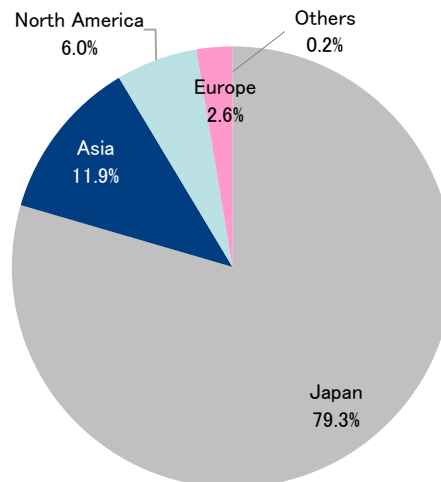
(2) Net sales by business type and region

Net sales can be broken down into three business types: distributor sales for products developed by vendors, sales of in-house products, and sales of various types of solution services (engineering services, education and training services, etc.). In the FY12/20 consolidated results, distributor sales contributed 74.8% of total sales, in-house products 14.6%, and services 10.6%. Also, looking at the breakdown of net sales by region, Japan contributed 79.3%, Asia 11.9%, North America 6.0%, and Europe 2.6%, from which we understand that the domestic distributor business is the main business. Going forward, the Company's strategy is to aim for further growth by increasing sales of in-house products and services and overseas sales, such as in Asia.

Breakdown of net sales by business type (FY12/20)



Breakdown of net sales by region (FY12/20)



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

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Company overview

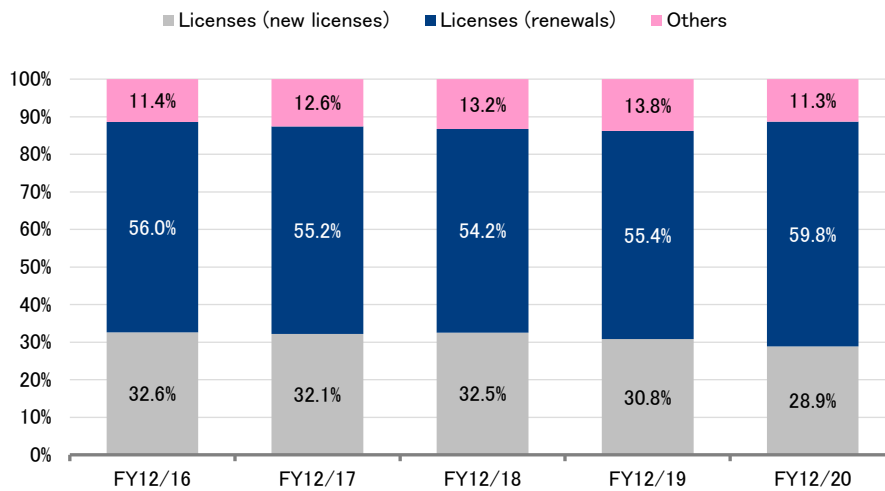
(3) Net sales by contract type and industry

Net sales can be broken down by contract type into licenses and others. Furthermore, licenses are divided into new license fees when installing a new software product (initial installation fee and 1 year usage fee + maintenance fee) and renewal fees from the second year onwards (1 year usage fee + maintenance fee). To this are added various optional services, as necessary for the customer. Conversely, sales other than from licenses include those from engineering services* and education and training services.

* Services in order for customers to effectively use the software, including software installation support, technological support, and outsourced analysis.

Looking at how sales have trended in the last five years on a Company stand-alone basis, license renewals have contributed more than 50%, followed by new licenses at around 30%, and others at around 10%. Major companies, universities, and research institutes constitute more than half of the Company's customers. Once one of the main CAE software products is installed, there are hardly any cases of it being replaced with another company's product from the viewpoint of continuity, and except for situations in which a customer company no longer needs the CAE software, such as due to withdrawing from a business, nearly all companies renew. Therefore, within the Company, renewals are positioned as stock business and a stable earnings foundation.

Breakdown of net sales by contract type (stand-alone)

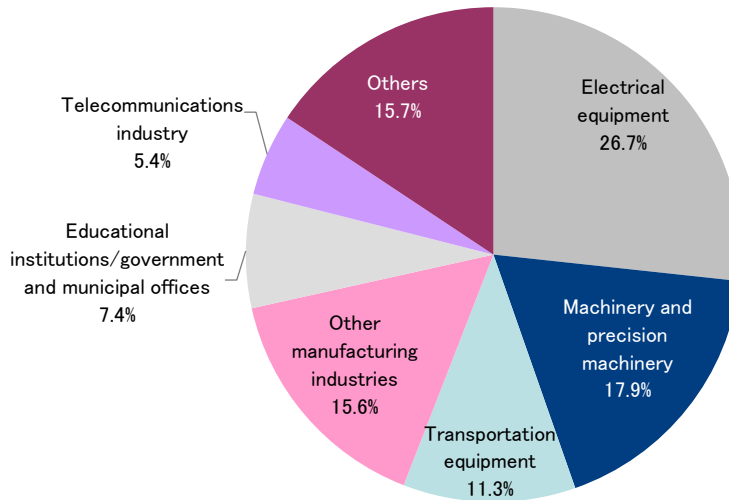


Source: Prepared by FISCO from the Company's results briefing materials

Also, looking at the breakdown of net sales by industry in FY12/20 on a Company stand-alone basis, the highest was electrical equipment at 26.7%, followed by machinery and precision machinery at 17.9%, and transportation equipment at 11.3%. In addition to these, other manufacturing industries provided 15.6%, so sales to the overall manufacturing industry are at a level of above 70%. However, in the last few years, sales to non-manufacturing industries have been growing and their share of net sales has increased from 17.0% in FY12/17 to 21.1% in FY12/20 (excluding educational institutions/government and municipal offices).

Company overview

Breakdown of net sales by industry (stand-alone; FY12/20)



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

In CAE solutions, the mainstay products are from globally leading company ANSYS and optical-related leading company Synopsys

3. CAE Solution Services

The mainstay CAE Solution Services business provides various simulation and software products according to each field, including those related to machinery, optical, electrical and electronic, and control. CAE is the name for technologies to simulate and analyze in virtual models created on computers aspects such as tests and experiments that have been conventionally carried out using a prototype in the R&D process for manufacturing. Using CAE software dramatically reduces the number of prototype tests and experiments, and makes it possible to conduct simulations under physical conditions that cannot actually be created in the real world. So it is said to be software that not only improves development efficiency, but also contributes to realizing manufacturing that is considerate to the environment by significantly reducing waste and other materials created in prototype testing. The scope of application is wide, ranging from fields like automotive, electronic equipment and devices to machinery and precision machinery and medical fields.

From among ANSYS's multi-physics analysis tools, the main products include general-purpose analysis tools that make every type of analysis possible, including structure, heat transfer, electromagnetic field, piezoelectric, acoustic, heat fluid, and dropping analyses. Also, for optical systems, the Group mainly handles the products of Synopsys, Inc. <SNPS> of the US. Both these companies are the globally leading vendors in their areas. Other than these, the Group also handles the products of the leading development vendors in their respective industries and in-house products developed by Group companies. It proposes solutions that are optimized to meet customer needs.

Company overview

List of machinery-related CAE

Product planning/ R&D	Design	Experiments and evaluation	Production technologies
→ Multi-physics FEM analysis tools			
→ Multi-scale CAE tools utilizing the homogenization method			
→ Board-molding analysis software			
→ Large-scale acoustic analysis software			
→ ANSYS WORKBENCH version Injection molding CAE system			
→ 3D direct modeler			
→ 3D tolerance management tools			
→ Global information solutions IHS products			

Source: The Company's website

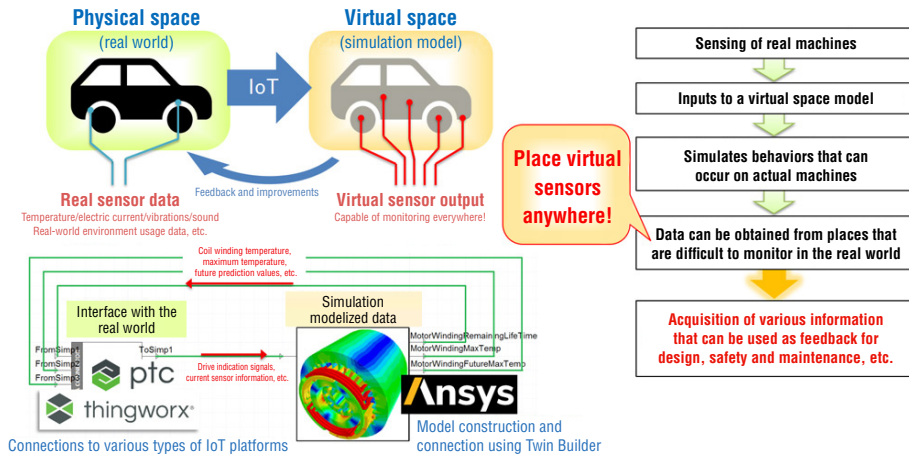
IT solutions mainly handles Broadcom's information security products (Symantec brand)

4. IT Solution Services

The IT Solution Services business is centered on various types of information security software products, such as cloud and endpoint security, and the main business-partner vendor is Broadcom Inc. (formerly, Symantec Corporation). For other solutions as well, it provides advanced solution services, including big data visualization solutions, IoT, and digital twin construction support. Digital twin refers to a development method of creating a virtual space (on a computer) of the physical facilities actually operating in manufacturing development sites, collecting information on the physical facilities in real time from IoT and other sensors, and sending this information to the virtual space. This is to realize the same environment in the virtual space as the physical facilities and to evaluate the current conditions of the physical facilities, and to carry out various simulation tests. It is a solution to increase the sophistication of and optimize the manufacturing process by combining real-world verification data and simulation data in a virtual space.

Company overview

Example of the utilization of IoT/digital twin



Source: The Company's website

In the CAE field, a strength is solution capabilities based on know-how and technological capabilities accumulated over many years

5. Strengths and business risks

The Company's strengths can be summarized as the following four points.

(1) Sophisticated know-how backed up by experience

It has accumulated a rich track record from over 30 years of providing support for manufacturing R&D and design development through CAE simulation technologies. The know-how and advanced technological capabilities it has accumulated are its assets, and a strength is being able to provide solutions that other companies cannot imitate.

(2) Extensive specialty and global partner network

Including ANSYS, the largest CAE software company, the Company collaborates with more than 30 leading vendors in Japan and overseas, and conducts sales and support for more than 50 types of products. Therefore, a strength is its ability to provide optimized solutions to address customers' various issues by combining multiple software and know-how. It also communicates feedback from customers to vendors, which are the developers, and they use that feedback for product improvements. So another strength can be said to be that it is building strong relations with both customers and vendors.

(3) Highly stable earnings structure and industry environment

The majority of the Company's sales are provided by license renewal fees from existing customers, so its earnings are highly stable. Moreover, there are relatively few competitors in the CAE industry, so a feature of the industry environment is that price competition is unlikely to occur. For companies, R&D is a source of their competitiveness, so demand does not cool down greatly even if economic conditions deteriorate somewhat. It is considered that this situation leads to the Company's highly stable earnings.

Company overview

Competitor companies in the CAE software distributor business include IDAJ Co., LTD. and ITOCHU Techno-Solutions Corporation <4739>, which are ANSYS sales distributors; ARGO GRAPHICS Inc. <7595>, which is a sales distributor of Dassault of France; and Information Services International-Dentsu, Ltd. (ISID) <4812>, which handles products including those of Siemens of Germany.

(4) Wide-ranging customer base

Currently, the Company has 14 consolidated subsidiaries in Japan and overseas, and a strength is that they have many customers, including global companies, universities, and research institutes. Among the customer companies, in Japan alone there are more than 2,000 companies and 500 universities and research institutes, and the majority of major manufacturing industry companies in Japan are its customers.

(5) Risk factors

A risk factor is that the distributor business contributes more than 70% of net sales. In principle, sales distributor contracts with development vendors are non-exclusive, short term and subject to renewal. So changes at the developers, for example a change of sales strategy due to an M&A or a change to the management team, will have a negative impact on results if it causes the distributor contract to be cancelled. However, ANSYS and Synopsys, which are the Company's main business partners, are establishing their own Japanese corporations, and in this situation, they have positioned the Company as an excellent sales partner and have built strong business relations with it. So at the current time, the risk of them cancelling the contract seems to be extremely low. Going forward, the Company's policy is to reduce the risk of distributors cancelling a contract by building strong relations with development vendors and customers and having an existence that basically cannot be effectively replaced. That said, it is not the case that there is zero possibility of a developer changing its management policy, such as due to an M&A, so the Company intends to continuously search for promising development vendors and to enhance the product lineup while strengthening in-house products.

Results trends

In the FY12/20 results, sales and profits increased due to strong sales of IT solutions and in the Asia market and the effects of cost reductions

1. Overview of FY12/20 results

In the FY12/20 consolidated results, sales and profits increased, with net sales rising 1.5% YoY to ¥21,665mn, operating income growing 42.4% to ¥2,877mn, ordinary income climbing 32.4% to ¥2,840mn, and profit attributable to owners of parent increasing 24.1% to ¥1,561mn.

Results trends

FY12/20 consolidated results

	FY12/19		Initial forecast	FY12/20			
	Results	% of sales		Results	% of sales	YoY	% of forecast
Net sales	21,350	-	22,000	21,665	-	1.5%	-1.5%
Cost of sales	12,868	60.3%	-	12,616	58.2%	-2.0%	-
SG&A expenses	6,461	30.3%	-	6,170	28.5%	-4.5%	-
Operating income	2,020	9.5%	2,060	2,877	13.3%	42.4%	+39.7%
Ordinary income	2,145	10.0%	2,140	2,840	13.1%	32.4%	+32.7%
Extraordinary loss (income)	-74	-	-	-425	-	-	-
Profit attributable to owners of parent	1,258	5.9%	1,300	1,561	7.2%	24.1%	+20.1%

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

Due to the impact of the coronavirus, in CAE Solution Services, sales of new licenses and engineering services decreased, but demand for license renewals was solid and sales were strong in Asia, mainly in China, and in the IT Solution Services, so an increase in net sales was secured. By region, net sales increased 0.9% YoY to ¥17,190mn in Japan, grew 9.5% to ¥2,569mn in Asia, rose ¥6.6% to ¥1,290mn in North America, and decreased 16.2% to ¥568mn in Europe, so only Europe saw a decline. By business type, net sales increased 4.8% YoY to ¥16,202mn in distributor business, decreased 1.5% to ¥3,156mn for in-house products, and fell 14.1% to ¥2,305mn for services. Sales of services declined because of the effects of postponements of technology service projects and cancellations of group-type education and training services due to the coronavirus.

Looking at factors affecting operating income, a change to the sales composition caused a decrease of ¥117mn, but increases came from reductions in travel expenses following the introduction of the teleworking system and advertising expenses, including due to the cancellations of exhibitions, and as the Group as a whole worked to minimize costs. In addition, increases came from reductions in labor and outsourcing expenses, alongside a decline in technology service sales, and the recording of subsidies related to economic measures for the coronavirus (which reduced personnel expenses). The results were also higher than the Company's initial forecasts for the same reasons.

As an extraordinary loss, an allowance for repayment of subsidies of ¥376mn was recorded. This was because the Belgian subsidiary Noesis submitted an improper application for the payment of subsidies relating to an R&D project recorded in earnings. After it was discovered through an in-company survey, an allowance to return the payment was recorded based on the results of a survey conducted by an external expert. The repayment of the subsidies in question will have no direct impact on results from 2021 onwards, and the Company is working to strengthen its management structure to prevent recurrence of this issue in the future.

(1) Results trends by segments

a) CAE Solution Services

In CAE Solution Services, net sales increased 0.4% YoY to ¥17,570mn and segment profit grew 29.0% to ¥4,239mn. Domestically, for sales of new licenses for mainstay products, such as multi-physics and optical-related analysis tools, some customers postponed installations due to the impact of the coronavirus. Also, in the services business, which includes engineering services, the starts of some projects were delayed, while group education and training seminars were cancelled, so sales declined. However, demand for license renewals was strong.

Results trends

At overseas sales subsidiaries, sales were strong of multi-physics and optical-related analysis tools, particularly for China. In the development subsidiaries also, earnings were boosted by sales of technological support services and software developed in-house, including Maplesoft's STEM* computing platform, Sigmetrix's tolerance analysis management tools, and Noesis's optimal design support tools.

| * STEM is the general name for the comprehensive field comprised of Science, Technology, Engineering and Mathematics. |

In profits, influencing factors included the reduction of travel and advertising expenses, recording of subsidies in the overseas subsidiaries, and reductions of labor and outsourcing expenses in the services business.

b) IT Solution Services

In IT Solution Services, sales and profits increased, with net sales rising 6.3% YoY to ¥4,094mn and segment profit growing 14.3% to ¥338mn. Progress was made to strengthen information security systems alongside the spread of teleworking, so sales of security solutions were strong, including cloud products. In profits, positive factors included the effects of higher sales and cost reductions.

Net sales by segment

	(¥mn)				
	FY12/17	FY12/18	FY12/19	FY12/20	YoY
CAE Solution Services	14,910	16,791	17,497	17,570	0.4%
IT Solution Services	3,262	2,927	3,853	4,094	6.3%
Elimination	-185	-	-	-	-
Total	17,987	19,719	21,350	21,665	1.5%

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

Profits by segment

	(¥mn)				
	FY12/17	FY12/18	FY12/19	FY12/20	YoY
CAE Solution Services	2,732	2,535	3,285	4,239	29.0%
IT Solution Services	324	105	296	338	14.3%
Elimination	-1,552	-1,139	-1,562	-1,700	-
Total	1,504	1,502	2,020	2,877	42.4%

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

(2) Sales trends by industry and contract type (stand-alone basis)

Looking at how sales trended by industry on a Company stand-alone basis, they decreased 7.9% YoY for electrical equipment, fell 21.7% for transportation equipment, decreased 9.6% for educational institutions/government and municipal offices, and fell 5.4% for the telecommunications industry. Conversely, double-digit sales growth was seen in machinery and precision machinery (up 18.0%), other manufacturing industries (up 14.2%), and others (up 12.2%). Sales in these fields have trended upward in the last few years, suggesting that the utilization of CAE solutions is spreading to a wide range of industries. In recent years, cases have increased of overseas companies establishing R&D centers in Japan, and it seems that capturing this demand has also become a positive factor. The decline in transportation equipment was noticeable, but mainly due to decreases in sales of engineering services and education and training services for the automotive industry.

Results trends

Net sales by industry (stand-alone)

	(¥mn)				
	FY12/17	FY12/18	FY12/19	FY12/20	YoY
Electrical equipment	4,612	4,679	4,962	4,569	-7.9%
Machinery and precision machinery	2,232	2,419	2,599	3,067	18.0%
Transportation equipment	2,036	2,295	2,462	1,927	-21.7%
Other manufacturing industries	1,778	2,014	2,338	2,671	14.2%
Educational institutions/government and municipal offices	1,224	1,356	1,409	1,273	-9.6%
Telecommunications industry	794	876	974	921	-5.4%
Others	1,653	2,087	2,388	2,679	12.2%
Total	14,332	15,729	17,134	17,109	-0.1%

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

Looking at how net sales trended by contract type on a Company stand-alone basis, among licenses, new licenses decreased 6.4% YoY to ¥4,941mn, but renewals steadily increased against the backdrop of an increase in the number of customers, rising 7.8% to ¥10,237mn. Net sales other than from licensees (engineering services, education and training services, etc.) decreased 18.1% to ¥1,929mn. This decrease in sales was mainly due to the previously described fall in sales from engineering services, and education and training services.

Net sales by contract type (stand-alone)

	(¥mn)				
	FY12/17	FY12/18	FY12/19	FY12/20	YoY
Licenses	12,525	13,646	14,778	15,179	2.7%
New licenses	4,606	5,118	5,281	4,941	-6.4%
Renewals	7,918	8,527	9,496	10,237	7.8%
Others	1,807	2,083	2,356	1,929	-18.1%
Total	14,332	15,729	17,134	17,109	-0.1%
(Stock-type sales ratio)	55.2%	54.2%	55.4%	59.8%	

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

Under debt-free management, has financial assets of over ¥14bn and a solid financial foundation

2. Financial condition

Looking at the financial condition at the end of FY12/20, total assets were up ¥1,421mn compared to the end of the previous fiscal year to ¥22,242mn. The main influencing factors were that cash and deposits increased ¥1,399mn, short-term loans receivable (transactions from the cash management system) for FUJISOFT, the parent company, increased ¥1,109mn, and short-term investment securities decreased ¥1,000mn in current assets. As the total of these, financial assets were up ¥1,508mn compared to the end of the previous fiscal year to ¥14,888mn. In noncurrent assets, intangible assets increased ¥437mn and investments and other assets decreased ¥222mn.

Total liabilities were up ¥577mn compared to the end of the previous fiscal year to ¥7,762mn. This was mainly due to the recording of an allowance to repay subsidies of ¥439mn in the Belgian subsidiary. Also, total net assets were up ¥844mn compared to the end of the previous fiscal year to ¥14,480mn, mainly due to an increase of ¥845mn in retained earnings and recording profit attributable to owners of parent.

Results trends

Looking at the management indicators, the capital adequacy ratio was 64.2% and is trending at a level above 60%. Also, under the Company's debt-free management, financial assets are at a level of above ¥14bn, from which its finances can be judged to be in extremely good condition. All of the indicators of profitability have also risen to levels above 10%: ROA to 13.2%, ROE to 11.3%, and the operating income ratio to 13.3%. Despite temporary factors such as decreases in various costs due to the impact of the coronavirus, the Company has a stable earnings structure as the majority of sales are provided by stock-type sales. So going forward as well, it seems able to maintain these indicators at the 10% range. An issue for the future will be how can it use its abundance of financial assets to bring about earnings growth.

Consolidated balance sheet

	(¥mn)				
	FY12/17	FY12/18	FY12/19	FY12/20	Change
Current assets	17,142	17,440	19,022	20,205	1,183
(Financial assets*)	10,995	11,554	13,379	14,888	1,508
Noncurrent assets	3,744	1,775	1,799	2,037	238
Total assets	20,887	19,215	20,821	22,242	1,421
Current liabilities	5,282	4,972	5,925	6,488	562
Noncurrent liabilities	1,393	1,375	1,259	1,273	14
Total liabilities	6,675	6,348	7,185	7,762	577
(Interest-bearing debt)	-	-	-	-	-
Total net assets	14,211	12,867	13,636	14,480	844
(Stability)					
Capital adequacy ratio	67.6%	66.3%	64.7%	64.2%	-0.5pt
Interest-bearing debt ratio	-	-	-	-	-
(Profitability)					
ROA	8.1%	8.4%	10.7%	13.2%	+2.5pt
ROE	6.8%	-4.9%	9.6%	11.3%	+1.7pt
Operating income ratio	8.4%	7.6%	9.5%	13.3%	+3.8pt

* Financial assets = cash and deposits + short-term investment securities + short-term loans receivable
 Source: Prepared by FISCO from the Company's financial results

The outlook for FY12/21 is for net sales to continue to increase, but operating income to decrease due to higher costs

3. Outlook for FY12/21

The outlook for the FY12/21 consolidated results is for net sales to increase 3.4% YoY to ¥22,400mn, operating income to decrease 6.2% to ¥2,700mn, ordinary income to fall 6.0% to ¥2,670mn, and profit attributable to owners of parent to increase 7.6% to ¥1,680mn. Sales are forecast to increase in CAE Solution Services for Japan and the Asia market, while in IT Solution Services, the growth of cloud security solutions is expected to continue.

FY12/21 consolidated results outlook

	FY12/20		FY12/21		
	Results	% of sales	Company forecast	% of sales	YoY
Net sales	21,665	-	22,400	-	3.4%
Operating income	2,877	13.3%	2,700	12.1%	-6.2%
Ordinary income	2,840	13.1%	2,670	11.9%	-6.0%
Profit attributable to owners of parent	1,561	7.2%	1,680	7.5%	7.6%
Net income per share (yen)	50.09		53.88		

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

Results trends

The decreases in operating income and ordinary income are mainly because travel and advertising expenses, which decreased in FY12/20 due to the coronavirus, are expected to increase in 2H, and as it is unclear whether overseas subsidiaries will receive the subsidies to be recorded, so they have not been included in the forecasts. Another factor is that the Company will conduct investment, including in human resources and in systems, in order to build a foundation for growth in the future. On the other hand, the Group will work to improve productivity, such as for sales activities and moving online the seminars held by the Company, and should the effects of these measures be more than expected, at FISCO we think that results may be higher than forecast. Also, operating income is forecast to decline as it was at a high level in the previous period due to a temporary factor, and when considering that in FY12/19 operating income was ¥2,020mn and the operating income margin was 9.5%, or at a single-digit level, then we can read the forecasts as showing that the growth trend will continue. The outlook is for the increase in profit attributable to owners of parent to be maintained, as the extraordinary loss recorded in the previous fiscal period will not be recorded in this fiscal period.

■ Medium-term business plan

Aiming for net sales of ¥26bn and an operating income margin of 12% in FY12/23 by expanding the simulation utilization area and global business development

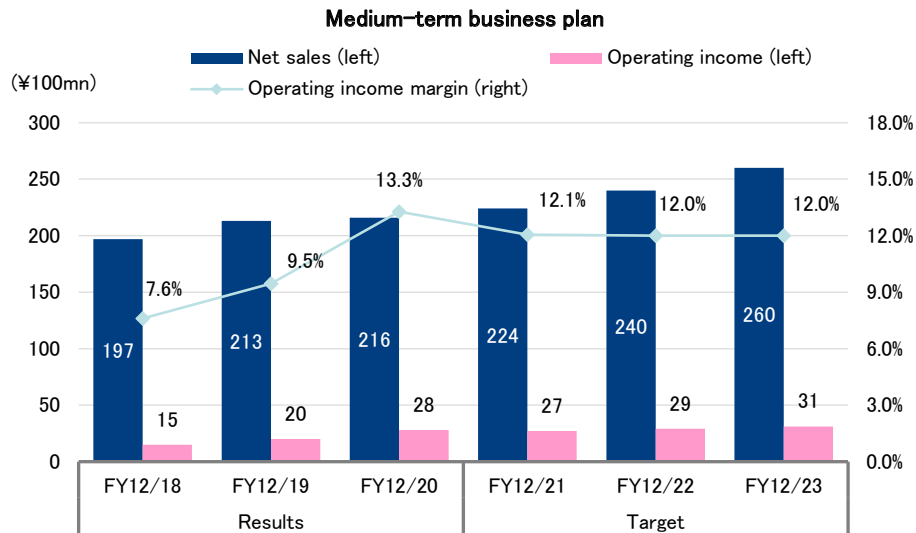
1. Summary of the medium-term business plan

The Company has announced its three-year medium-term business plan up to FY12/23. In the plan, it newly formulated “Creating a sustainable society and inspiring the world through technology and ideas” as the vision, and “Guide customers towards breakthrough solutions with vigorous creativity” as the mission to realize this vision. Also, the three medium- to long-term basic policies it is working on in order to continue to grow as the simulation leading company are “Contributing to society through simulation,” “Growing into a global company,” and “Promoting diversity and strengthening the HR development.”

Previously, simulation technologies were mainly utilized for engineering to support manufacturing. But recently, the areas they are utilized for have been expanding to society as a whole, including for people's lives and health and for the natural environment, and the Group companies propose solutions including for these areas. To grow as global companies, they are also developing the solutions business cultivated in Japan for the Asia market, centered on China, and expanding the distributor business, at the same time as working to increase sales of in-house Group products. In addition, to realize the vision and the mission, the policies are to continuously work to strengthen human resource development and organizational capabilities and to promote diversity.

The plan's numerical results targets are net sales of ¥26bn and an operating income margin at a 12.0% level in FY12/23. This would require a three-year average annual sales growth rate of 6.3%. If the Company can expand the CAE solutions application areas and progress global business expansion, the targets seem to be at achievable levels. It is also aiming to maintain the operating income margin at the 12% level. On considering sales growth, the impression is that this target is insufficient, but the background to this is that the margin to a certain extent is determined centered on the distributor business and that the Company plans to invest in growth, such as to strengthen the development of in-house products. However, the profit margin may rise if sales of these in-house products grow more than the distributor business. On calculating operating income from the operating income margin target, it would be ¥3.1bn in FY12/23.

Medium-term business plan



Source: Prepared by FISCO from the medium-term business plan materials

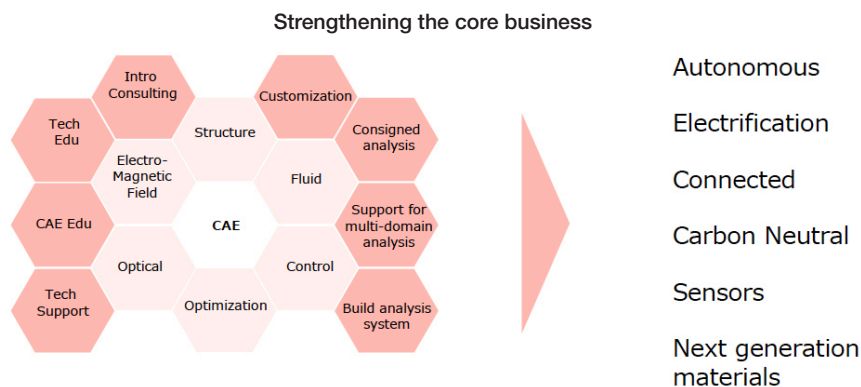
The growth strategies to achieve the results targets are described below.

(1) CAE Solution Services

a) Strengthening the core business

In order to expand the core business, the Group is aiming to launch new products at an early stage to supplement the development vendors and to strengthen technologies and expand the product lineup in order to grow sales by meeting needs for advanced simulation in cutting-edge fields. The main business partner, ANSYS, is expanding its business areas through M&A, while the Company is also responding to this by working to expand its lineup of products of the M&A companies. In addition, Synopsys, which is the industry leading company for optical-related CAE, has been its business partner for more than 35 years, and it is working to strengthen optical-related solutions, as well as strengthening relations with the leading vendors for IoT and cloud platforms that support the CAE infrastructure. The cutting-edge fields include CASE* in the automotive industry, and development fields such as carbon neutral, sensing, and next-generation materials,

* CASE is the acronym of Connected (always connected to the Internet), Autonomous (driving), Shared, and Electric (vehicles). It is a field in which R&D is being actively progressed by various companies on the theme of developing next-generation vehicles.



Source: Reprinted from the medium-term business plan materials

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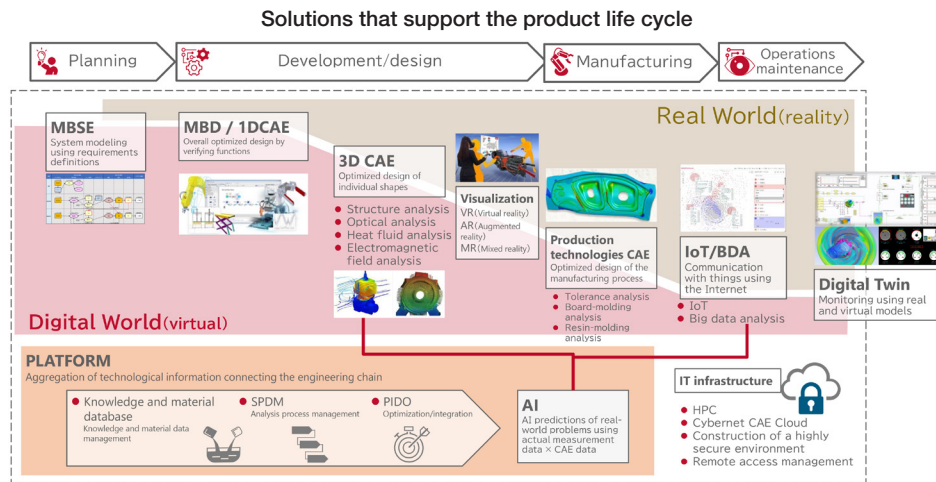
Medium-term business plan

Also, the manufacturing industry has come to be centered on regions such as China and South East Asia, and in this situation, the world's global companies are starting to develop R&D bases in these countries, so demand for CAE solutions in the Asia region is forecast to increase in the future. The Company has established sales subsidiaries in China, Taiwan, South Korea, and Malaysia, and it transfers to the engineers of these sales companies the technological capabilities and know-how it cultivated in Japan, and its strategy is to aim to grow sales locally with solution services as a strength. Locally also, its policy is to secure distributor contracts with leading vendors, the same as in Japan, and to grow the businesses while aiming to strengthen structures, such as for human resource development. Its sales targets for Asia is ¥4bn in FY12/23 (FY12/20 result, ¥2.5bn).

Moreover, as the strategy to grow sales of Group in-house products, it is focusing on mobile versions and creating online services for formula analysis-use software, which are the main products of Maplesoft, while it is also progressing developments for enterprises, including support for automating manufacturing lines. For Sigmetrix, it is working to strengthen OEM for tolerance analysis software and has already started OEM supply to major CAD vendors. Its policy is to focus not only on products sales, but also on online training and consulting services. For Noesis, it is progressing developments of cloud services for support tools to optimize the product development process utilizing CAD/CAE.

b) DX business expansion

The Group is increasing sales by providing high-value-added solutions through combining big data analysis, AI technologies, and AR/VR with CAE simulation technologies, and by supporting the promotion of DX (digital transformation) at development sites. For example, combining CAE simulation and AI technologies makes possible the provision of new added-value in the design development process, including greatly reducing the time required for analyses and improving accuracy and quality. It has also started to provide new solutions to simplify and support the maintenance work of operations managers through constructing digital twins that link IoT and CAE and combining AR/VR technologies.



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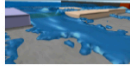
c) Expanding the use of simulation

In the last few years, in addition to for manufacturing support, simulation technologies have been applied to an increasingly wide range of fields, including weather forecasting, natural disaster measures, life infrastructure like communication and electricity, beauty and medical care. So the Company's policy is to grow sales by actively developing businesses not only for the manufacturing industry, but for fields other than the manufacturing industry as well.

Medium-term business plan

Expanding the use of simulation

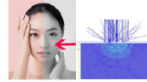
Natural phenomenon (tsunami)



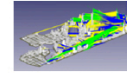
Measures for COVID-19



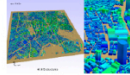
Cosmetic effects



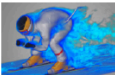
Communication coverage



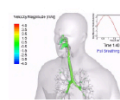
Natural phenomenon (earthquake)



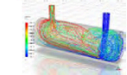
Sports



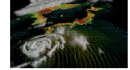
Drug delivery



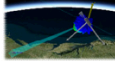
Bactericidal effect of UV



Natural phenomenon (typhoon)



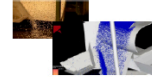
Satellite operation



Medical image visualization



Crushing fertilizer



Source: Reprinted from medium-term business plan materials

(2) IT Solution Services

In IT Solution Services, the Group is focusing on the information security field, for which demand is increasing year by year against the backdrop of factors such as the spread of teleworking. Its policy is to aim to expand business scale while actively expanding promising cloud products and working to strengthen the sales structure.

2. Interview with the President

We had an opportunity to interview the President and Representative Director Reiko Yasue about the medium-term business plan. The interview is below.

Q. You have formulated a new vision and mission in the current medium-term business plan. What were the reasons for this? Also, what kinds of ideas do the vision and mission incorporate?

A. Recently, uncertainty in the business environment has further increased, including the US-China trade friction and the global spread of the coronavirus pandemic. In order to respond flexibly to the environmental changes, such as to the new normal in the post coronavirus period, and to continue to grow, we newly formulated them with the ideas of wanting to clearly show our value of existing and our meaning as a company and to create a strong organization that is able to respond to the environmental changes by sharing with employees. The idea was also of wanting to contribute to the development of a sustainable society by utilizing our know-how in manufacturing simulation technologies that we have cultivated for over 35 years to deliver proposals to customers that go beyond what they imagined through technologies and ideas unique to us.

Medium-term business plan

Q. You present three medium- to long-term basic policies in order to “To be a leading simulation company.” Can you tell us about the specific content of these policies?

A. “Contributing to society through simulation” means to aim to be an SI vendor that can contribute to solve social issues. In manufacturing development sites up to the present time, simulation technologies through CAE has been used to reduce the work of creating many prototypes and repeatedly conducting tests, which has contributed to reducing companies’ development costs. But today, simulation technologies are being utilized in various other areas in society: for example, to analyze a simulation of damage conditions anticipated at the time of a tsunami and setting areas where damage is expected to occur and formulating the best possible evacuation methods. In Japan and overseas in 2020, one of the focus was on technologies to make bacteria and viruses inactive by using ultraviolet light as part of the measures against the coronavirus. In our Group also, we announced solutions relating to the simulation of diffusion of virus in air and irradiation to maximize sterilization effects. For cosmetics development sites as well, we are utilizing for development optical simulation technologies for various changes in colors, such as to the light irradiation angle, the brightness of the light, and differences in skin quality. In the future, in R&D for drugs as well, analysis of physical changes using simulation technologies will likely contribute to more efficient development, and I think we can utilize our Group’s technologies and know-how in various places in society.

To “growing into a global company,” we will expand businesses for CAE solutions, developing business model in Japan and then utilize our know-how and the business model for the Asia market. We will also strengthen the products of our three software development companies in Europe and North America and aim to increase sales globally. The sales areas in the distributor business have been limited, but we can sell in-house products throughout the entire world, so I think there remains room for growth by developing competitive products and services.

We are already working continuously to “promoting diversity and strengthening the HR development.” Currently, we created our credo consisting of our promises to society, to customers, and to employees, which I believe will lead to the realization of strong organizational capabilities.

Q. Within the growth strategies, you are working on “strengthening core technologies, enhancing products, and providing support in cutting-edge fields.” Can you give us some details about the specific initiatives?

A. Our core technologies are the various know-how and technological capabilities in CAE solutions that we have cultivated over many years. Technologies continue to evolve, so I want us to quickly acquire advanced technologies and utilize them in various solutions. Also, to enhance products, in the last 2 years we have added 3 development vendors and more than 13 products to the lineup. There are also cases of us starting to handle the products of companies that have joined the group of our main business partner, ANSYS, through M&A. In addition, I want us to strengthen the DX business, so I think we are actively strengthening the lineup of IoT- and cloud-related products.

Medium-term business plan

Q. You are targeting increasing net sales in the Asia market from ¥2.5bn in FY12/20 to ¥4bn in three years' time. What kind of sales strategy are you considering for this?

A. For the Asia market, I think first we will achieve growth centered on China and Taiwan. The products we handle are those of globally leading vendors, such as ANSYS and Synopsys, so there are absolutely no problems in terms of product capabilities. Locally also, naturally there are competitor sales distributors, but I think our Group is fully able to differentiate itself through the solution capabilities we developed in Japan. In fact, in the China market, our sales are growing through strengthening engineer development and increasing solution capabilities at the subsidiaries. Since 2000 in China, there have appeared many companies that rank among the best in the world globally, including for home electrical appliances, PCs, and smartphones, and currently there are many companies that are developing vehicles, and among them, electric vehicles. The market scale of its CAE software is said to be 1.5 times that of Japan, so I think there is plenty of room for growth in the future.

Q. Can you tell us about the product features and future developments of the three overseas development subsidiaries?

A. Maplesoft's formula analysis software are so good they are installed in basically every science and engineering related university in the world. Its strength is that it possesses excellent algorithms for formula calculations. They are installed in practically every the education facility, but I think sales can increase even more by widening the user groups through providing them online, and by developing business the software in enterprise field. For Sigmetrix's tolerance analysis software, when designing a device, the design assumes the creation of "flex" and "strain," so these are tools to calculate these elements based on certain conditions. In Japan, the tendency is to process them in an analog manner as the domain of craftsmen, but in Europe and the US, generally they are described as obligatory in the quality manual and designs are carried out using tolerance analysis software. Sigmetrix's products are adopted by major CAD vendors as OEM, and going forward, I expect sales to increase through the OEM strategy. Also, Noesis is a vendor that develops CAE optimization support tools and in the future in the CAE area as well, these tools are expected to move onto the Cloud, and we are working to increase sales of cloud-based optimization support tools.

Q. You will strengthen the DX business, but what kind of DX are you aiming for in the engineering field?

A. In manufacturing development sites, previously we utilized CAE simulation technologies to support their improvement of the efficiency. The DX business is what we call the solutions that further improve development efficiency by combining these existing simulation technologies with advanced technologies such as IoT, AI, and AR/VR. Solutions through a digital twin, of monitoring in real time in the real world and the virtual model, are being applied to the development of aircraft parts and other areas. Also, utilizing an AI surrogate model has advantages including greatly reducing the simulation verification time compared to previously. Whatever the case, we are focusing on solutions that can be expected to grow in the future.

Q. Can you please tell us about the future growth strategy and differentiation strategy for the cloud security business?

A. In the cloud security business up to the present time, we have focused on discovering cutting-edge products with superior features, concluding distributor contracts, and expanding the product lineup. Going forward, we will not change this policy. In the information security field, every year cyber-attacks become more sophisticated and advanced technological skills are necessary to deal with them. Therefore, our sales strategy is to grow sales by developing expert engineers and providing solutions that are optimized according to customers' situations, and I want to aim for a growth rate higher than the Group-wide average.

Medium-term business plan

Q. What impact are you seeing of the coronavirus on the three-year numerical results targets? Also, please tell us about your approach for investing in human resources.

A. For license business, some effects appeared in the previous period for new licensees, such as postponing orders closed. So going forward, the coronavirus may have an impact if it continues to cause companies' earnings to deteriorate. But I think it will have no impact on renewals of licenses, the same as in the previous period. This is because R&D investment is a source of a company's growth, so it is a high priority whose budget is not easily reduced. Also, when the Lehman Shock occurred in 2008, net sales decreased YoY for five consecutive fiscal quarters, but in the current 1Q (January to March 2020), they decreased only slightly and from 2Q (April 2020) onwards, they have continued to increase. I think we have been able to use the harsh experiences of the past, including to strengthen measures for sales from before the coronavirus pandemic became serious.

For human resources investment, I think that human resources are the source of a company's growth, so based on this, we will continue to strengthen them in the future. In particular, we plan to enhance the recruitment and development of engineers, including in the DX field, both in Japan and overseas.

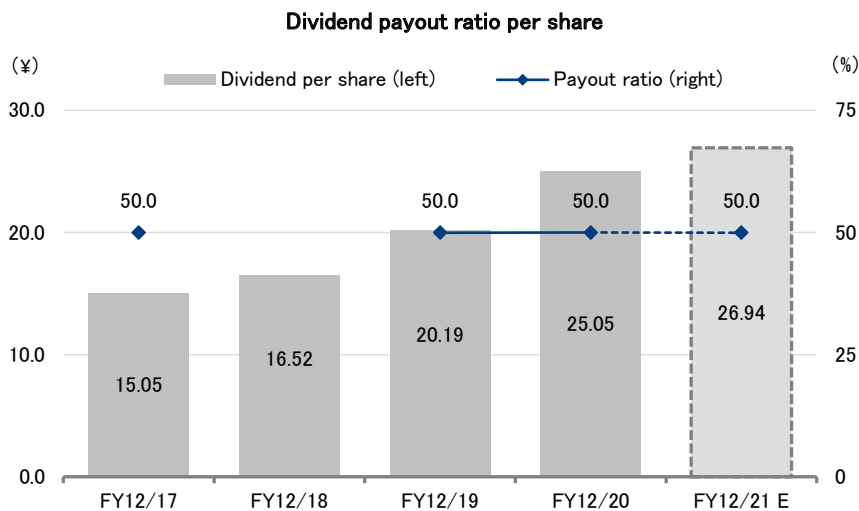
Q. Within the medium-term results targets, you are targeting an operating income margin of 12%, which is an unchanged level. Can you please tell us about the background to this? Also, you currently have financial assets of more than ¥14bn. What are your thoughts on using these funds, including for M&A?

A. Plan of operating income margin is 12% and flat, but that is because we want to continue to invest in growth in the future. We plan to conduct investment including in human resources and IT systems, and in strengthening governance. With regards to M&A, we are considering it as one growth strategy. The candidates are those companies with which we can expect synergies with the Cybernet Group, including sales distributors with a customer base, development vendors with in-house products and companies providing solution services.

Shareholder return policy

Policy is to pay dividends targeting a high dividend payout ratio of 50% and a high dividend to net assets ratio of 3%

The Company considers the payment of dividends to shareholders to be one of its most important issues. Its basic policy for returning profits to shareholders is to stably and continuously pay dividends, while also working to strengthen and expand the earnings foundation to respond to the rapid developments and changes in the manufacturing industry and to secure internal reserves to prepare for active business development. In addition to this policy, it targets a dividend payout ratio of 50% and a dividend to net assets ratio of 3.0%, both of which are high reference values for determining the dividend amount. It comprehensively determines the dividend amount after considering these reference values and the medium- to long-term investment amount toward improving enterprise value in the future. In FY12/21, the Company plans to pay a dividend per share of ¥26.94, an increase of ¥1.89 YoY, targeting a dividend payout ratio of 50%. Going forward also, we can expect it to again increase the dividend alongside the further growth of profits.



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



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