COMPANY RESEARCH AND ANALYSIS REPORT

Konoike Transport Co., Ltd.

9025

Tokyo Stock Exchange First Section

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FISCO Ltd. Analyst
Noboru Terashima

FISCO Ltd.
http://www.fisco.co.jp

Index

Summary

A major comprehensive logistics company whose strength is its “Integrated Solutions Business” that includes logistics at customer sites

Konoike Transport Co., Ltd. <9025> (hereafter, also “the Company”) is a historic company founded in 1880 and although “transport” is in its name, its main operations are not merely logistics, but rather an “Integrated Solutions Business” in which it is contracted to undertake various kinds of work at the plants and premises of its customers. With business relations of more than 100 years with its main customers, it has earned their deep trust, which is one of its features and strengths.

1. FY3/18 results

For FY3/18, the Company reported net sales of ¥276,761mn (+7.1% YoY), operating income of ¥11,067mn (+8.2%), ordinary income of ¥11,536mn (+7.6%), and profit attributable to owners of parent of ¥7,042mn (-3.7%). All segments reported higher sales and profits for the year. The gains in the mainstay Integrated Solutions Business were largely due to the continued strong growth at its Food-Related Business and contributions from a newly consolidated subsidiary. The gains in the Domestic Logistics Business reflected growth at its delivery services for daily goods and the dropout of the startup costs that weighed on profits the previous year. The growth in sales and profits in the International Logistics Business was driven by rising export volumes of electronics.

2. FY3/19 forecasts

For FY3/19, the Company is forecasting lower profits on higher sales with net sales of ¥284,800mn (+2.9% YoY), operating income of ¥10,000mn (-9.6%), ordinary income of ¥10,300mn (-10.7%), and profit attributable to owners of parent of ¥6,100mn (-13.4%). The projected decline in profits reflects the Company’s decision to prioritize spending on infrastructure over profits during the plan period in order to meet the targets under its new medium-term management plan.

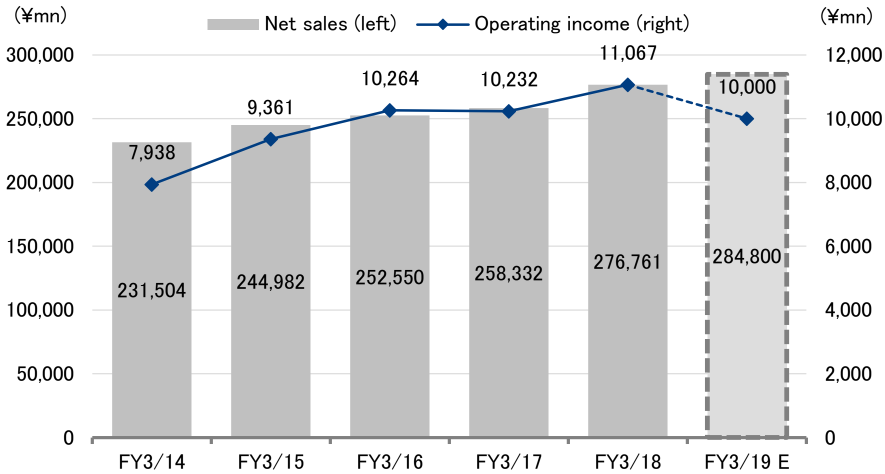
3. New medium-term management plan to put Company on track to realize vision for 2030

Konoike has announced its vision of what it wants its business to look like in the year 2030, when it will reach the 150-year anniversary of its founding. It also unveiled a new medium-term management plan (running through FY3/21) that is aimed at laying the groundwork that will allow it to realize that vision. In addition to quantitative targets, the new medium-term management plan also sets out qualitative goals regarding the changes the Company wants to make. The Company’s progress towards these goals warrants a great deal of attention, we believe, because the list of what the top management thinks needs to be changed is not just for the consumption of the external audience of shareholders and the investment community, it is also a message aimed at every member of the Company’s management team, all of its employees, and all of its customers.

Key Points

- Has a long history as a logistics company and its strengths include its clients in its Integrated Solutions Business
- New medium-term management plan to put Company on track to realize vision for 2030
- Decline in profits projected for FY3/19 reflects prioritization of spending on measures aimed at achieving the targets set in the new medium-term management plan
- The new medium-term management plan lays out business transformation and constitutional improvements over numerical targets

Consolidated results trends



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

Company profile

A major logistics company with a long history, with more than 3,500 customers, 192 domestic bases, and 33 overseas bases

1. Company profile

Konoike Transport Co., Ltd. is a historic company founded in 1880 and although "transport" is in its name, its main operations are not merely logistics, but rather an "Integrated Solutions Business" (details to follow) in which it is contracted to undertake various kinds of work at the plants and premises of its customers. With business relations of over 100 years with its main customers, it has earned their deep trust, which is one of its features and strengths.

It currently has approximately 3,500 customers in Japan and overseas, but the top 10 customer companies account for around 40% of its net sales. As of March 31, 2018, it had 59 affiliated companies (of which, 41 were consolidated subsidiaries), 192 domestic bases (165 belonging to the Company and 27 to Group companies), 33 overseas bases, and approximately 24,000 employees on a consolidated basis.

2. History

The Company was founded a long time ago, in 1880. At that time, it was started as a transport business in Denpo (currently Konohana Ward), Osaka, by Mr. Chujiro Konoike. In 1900, it commenced "in-factory contract operations" for Nippon Casting (currently, Nippon Steel & Sumitomo Metal <5401>), in which it undertook cargo handling and transportation work. Then in 1945, Konoike Transport Co., Ltd., was established as a corporation. In 1951, it started "in-factory contract operations" in the food field, and in 1953 it received an order from a major beverage company for in-factory contract operations. These "in-factory contract operations" were the origins of the current "Integrated Solutions Business," and even today, the same steel and food manufacturers remain some of the Company's major customers.

It subsequently gradually expanded the scope of the services it provided and its businesses, to warehousing operations in 1962, maritime cargo transport business in 1963, air cargo transport business in 1979, temperature-controlled logistics services in 1985, airport-related business in 1991, and medical-related business in 1994. Moreover, in 1984 it established a subsidiary in Singapore as its first overseas base, and subsequently accelerated the pace of its overseas development. In March 2013, in the 134th year since its foundation, the Company was listed on the 1st Section of the Tokyo Stock Exchange (TSE).

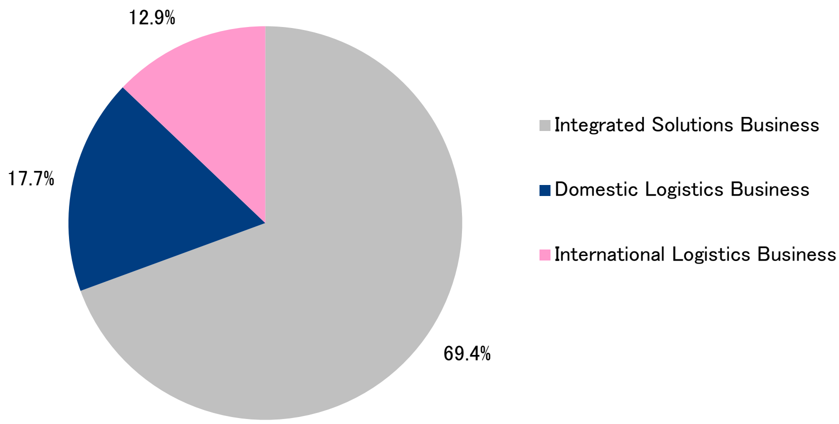
Business overview

The main business is the "Integrated Solutions Business," which is primarily logistics on the premises of its customers. Its strength is its "bundling" of services.

1. Three main business segments

The Company has three business segments; "the Integrated Solutions Business," "the Domestic Logistics Business," and "the International Logistics Business." In FY3/18, the Integrated Solutions Business provided 69.4% of total net sales, the Domestic Logistics Business 17.7%, and the International Logistics Business 12.9%.

Net sales by segment (FY3/18: ¥276,761mn)



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

(1) The Integrated Solutions Business

When it was first founded, the Company conducted a transportation business, but at the same time it was engaged in a labor-supply business and its customer companies made various requests of it, and it responded to these requests in the form of expanding its "in-factory contract operations." This was the origin of the current Integrated Solutions Business, and even today this business is still the Company's main field and the most profitable.

Briefly stated, the Integrated Solutions Business involves "Uniting with customers and undertaking a series of operations in an integrated manner." Its scope extends to the production process, the distribution process, and other specialized processes. In the production process, specialist staff from the Company's Group companies are dispatched to a plant of the customer that they are responsible for, where they comprehensively undertake a range of operations, from accepting materials and raw materials through to each manufacturing stage, transportation operations within the plant, and product inspections.

For example, for a major customer of a steel manufacturer, the Company undertakes a wide range of operations, from receiving and transporting the raw materials (including iron ore and coke), various operations in the manufacturing process, the inspection and packaging of finished products (such as rolled products, hot-rolled products, and cold-rolled products), and moreover the storage and delivery of these products and the handling of cargo at ports. The Company has accumulated over 100 years of results and experience in conducting these outsourcing operations, which constitutes a formidable barrier to entry for other companies.

The Company also has a history of more than 50 years at the plant of another large customer of a beverage company, and in addition to logistics operations inside and outside of the plant. It also undertakes a wide range of other operations, including receiving and preparing raw materials, packaging (bottling, canning, and cask filling), storage and picking, shipping, and delivery to stores. For its customer companies, outsourcing these sorts of operations to the Company has the advantage of enabling them to concentrate on the operations most important to them (such as product development, the core operations in the production process, and sales strategies).

(2) The Domestic Logistics Business

With the frozen and chilled storage warehouses and the dry (room temperature) warehouses that the Company owns serving as the bases, it provides integrated services–from storage through to distribution processing and delivery–for chilled foods, fresh foods, and general products that require temperature-controlled management. Its customers are in a wide range of industries, from food manufacturers, supermarkets, and wholesale companies for convenience stores, through to manufacturers of various equipment and housing, and furthermore fashion- and apparel-related manufacturers.

As the Company handles a variety of products in this way, it is responsible for a diverse range of operations, including changing the number of products delivered, assortment (setting-up products), and attaching sales promotion labels, while at its dry warehouses, it can respond in detail to requests from customers for distribution-process operations for gift products, including mid-year and year-end gifts, and for apparel products.

(3) The International Logistics Business

Domestically and internationally, the Company conducts operations including sea and air cargo transportation and warehouse operations for import and export cargo. It provides transportation services covering a wide range of products, from fresh foods through to parts for precision machinery, and in this way, it supports its customers' overseas business development. Also, in response to the construction of plants overseas by its customers, the Company provides transportation and construction services for plants that utilize its own independent solutions.

2. Segments by field

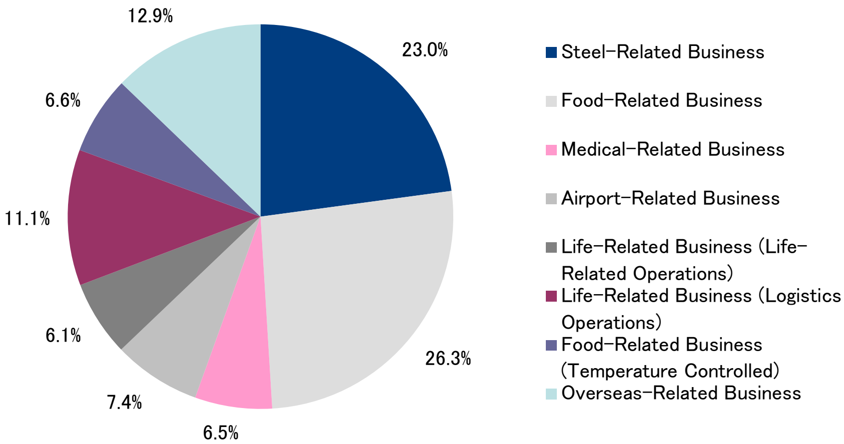
In addition to breaking down its businesses by segment, as detailed above, Konoike also breaks down its businesses into nine different fields: Steel-Related Business, Environment/Engineering-Related Business, Food-Related Business, Food Products-Related Business, Medical-Related Business, Airport-Related Business, Life-Related Business, Food-Related Business(Temperature-Controlled), and Overseas-Related Business. It further breaks down its Life-Related Business into Life-Related Operations and Logistics Operations, as outlined below.

· Steel-Related Business: operations for the steel industry
· Environment/Engineering-Related Business: mainly operations for the environment-related and engineering-related industries
· Food-Related Business: mainly operations for the food industry
· Food Products-Related Business: mainly operations for the beverage industry
· Medical-Related Business: logistics operations for medical products and pharmaceuticals; in-hospital logistics; sterilization service
· Airport-Related Business: ground support operations for designated clients within airports; air cargo handling
· Life-Related Business:
  (Life-Related Operations): comprehensive logistics services within manufacturing plants for everyday goods, household appliances, chemical, gas, etc., and equipment maintenance/inspection operations
  (Logistics Operations): comprehensive logistics services for supermarkets, convenience stores, and other retailers, and the apparel industry
· Food-Related Business (Temperature-Controlled): mainly logistics services, primarily from its frozen and chilled storage warehouses
· Overseas-Related Business: international logistics and port transport operations, air transport operations, engineering operations, temperature-controlled logistics business in overseas subsidiaries, and consulting services

* Name changed in FY3/18, formerly called "logistics and apparel-related operations"

In FY3/18, the Steel-Related Business accounted for 23.0% of sales, Food-Related Business 26.3%, Medical-Related Business 6.5%, Airport-Related Business 7.4%, Life-Related Business (Life-Related Operations) 6.1%, Life-Related Business (Logistics Operations) 11.1%, Food-Related Business (Temperature Controlled) 6.6%, and Overseas-Related Business12.9%.

FY3/18 sales breakdown by field (total sales ¥276,761mn)



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

As shown in the accompanying figure, the Steel-Related, Food-Related, Medical-Related, Airport-Related, and Life-Related (Life-Related Operations) businesses are included under the Integrated Solutions Business, while the Life-Related (Logistics Operations) and Food-Related (Temperature Controlled) businesses are included under its Domestic Logistics Business. The figure does not include the Environmental & Engineering-Related Business (spun off from the Steel-Related Business) or the Food Products-Related business (spun off from the Food-Related Business), which were established separately as new business fields in FY3/19.

Konoike Transport: businesses at a glance

Integrated Solutions Business	Steel-Related Business Environmental&Engineering-Related Business	● Manufacturing-process contract operations, manufacturing-related transportation, environmental plant maintenance services for steel manufacturers and related companies ● Offsite transportation of manufactured goods, industrial waste collection and transportation ● Recycling service for waste generated by steel mills, recyclable materials collected outside of steel mills, and ASR recycling service (for the remains of cars after they have been crushed) ● Plant and facilities installation design, equipment installation and maintenance service
	Food-Related Business Food Products-Related Business	● Manufacturing-process contract operations for food manufacturing plants, inspection service, materials and raw materials receiving service ● Comprehensive logistics services and inventory control and other logistics operations* at food plant or distribution center* Kita-Kanto Distribution Center has acquired ISO 22000 and conducts safe food handling ● Product inventory control and other logistics operations for distribution centers of wholesalers and retailers ● Product set-up and other distribution processing operations on customer's premises or inside own center
	Medical-Related Business	● In-hospital logistics, contract sterilization service and other commissioned operations for medical institutions ● Inventory control and other logistics operations for distribution centers handling medical products and pharmaceuticals ● Special transportation services for specimens, high-grade medical supplies
	Airport-Related Business	● Ground support operations for clients at airports, air cargo handling ● Air cargo and passenger baggage transportation, cargo loading/unloading, warehousing operations for export-import air cargo ● Aircraft towing, in-flight meals delivery service, aircraft loading ● Passenger check-in service, airport information desk operations service
	Life-Related Business (Life-Related Operations)	● Onsite, comprehensive logistics services for manufacturers of everyday goods, home appliances, chemicals, gases; equipment installation, repair, and maintenance service; product inventory control and delivery services ● Inspection and prep services for imported cars ● Energy-Related Business
Domestic Logistics Business	Life-Related Business (Logistics Operations)	● Product inventory management, storage, sorting, and store delivery services conducted at either the Company's own dry warehouse, or at client's distribution centers for retail/wholesale industry clients including major integrated supermarket chains, convenience store chains, food wholesalers ● Specialty trucking service for transporting machinery, cars and other transportation equipment, chemicals, etc. ● Transportation service with tanker trucks for transporting industrial-use, construction-use, and commercial-use gases ● Inspection and modification service for apparel; ecommerce services, inventory management and delivery services
	Food-Related Business (Temperature-Controlled)	● Logistics service centered around food distribution centers (cold and frozen storage) ● Temperature-controlled food storage and shipping to meet the characteristics of specific food products ● Storage and store delivery services for restaurant industry
International Logistics Business	Overseas-Related Business	● International logistics business (integrated international land-sea-air transportation services and related domestic logistics services for shipping between Japan and overseas, overseas to overseas) ● Engineering business (overseas plant installation work, full turnkey plant construction) ● Overseas shipping (customs clearance, freight forwarding, marine shipping agent) ● Port transportation business, onboard and onshore cargo handling, barge transportation service, harbor warehouse operations) ● Air cargo business (IATA-authorized shipping agent for airlines) ● Temperature-controlled logistics operations ● Local area transportation operations ● Consulting operations ● Personnel dispatch operations ● Manufacturing-process contract operations ● Railroad container shipping service ● Coating service for air conditioners to prevent salt water corrosion

Source: Prepared by FISCO from the Company materials

3. Features and strengths

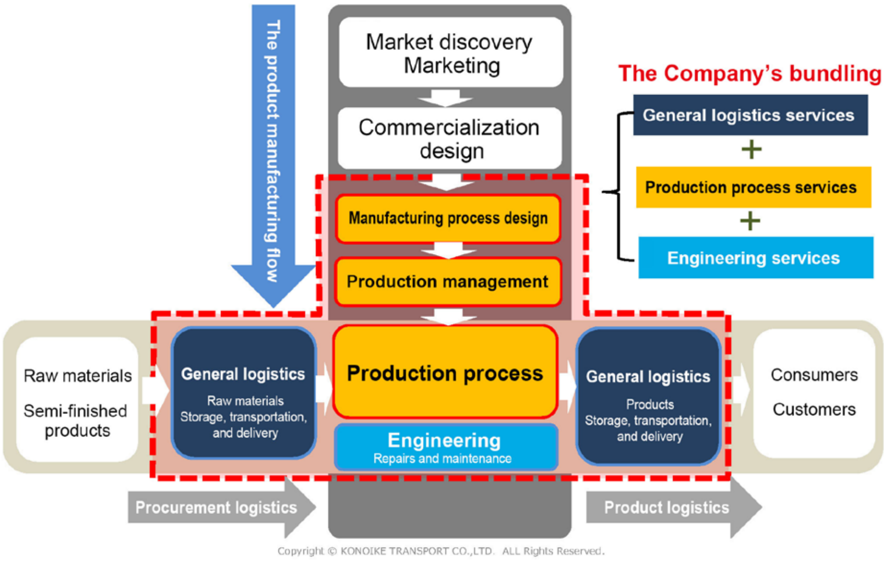
(1) The provision of "bundling": can provide integrated, one-stop solutions

One feature of the Company's services is that it provides logistics services in an integrated manner in relation to "the production process." Specifically, compared to its industry peers, the Company does not merely transport and deliver products and raw materials, it also provides its customers with "integrated solutions" by undertaking a variety of operations relating to "manufacturing and production" (including manufacturing process design, production control, and the production process).

Furthermore, the Company's greatest strength would seem to be that it can undertake in an integrated manner a variety of outsourcing operations at its customers' manufacturing plants and other premises. Seen from the customer's side also, when outsourcing these respective operations, rather than having to outsource them separately to different companies, it is more efficient if they can outsource them all to a single company that provides a one-stop service.

To summarize the Company's features (strengths) described above, it can undertake a variety of operations not only on the horizontal axis of "logistics" that runs from the delivery, storage and transportation of semi-finished products and raw materials through to the storage, transportation, and delivery of finished products, but also on the vertical axis of the manufacturing process, which includes manufacturing process design, production control, and the production process. Moreover, in recent years it has also been undertaking "engineering" in logistics, including repairs and maintenance operations within "automated warehouses." There are few other companies in the same industry that can provide integrated services to the same extent as the Company. In other words, the greatest feature and strength of the Company can be said to be that it provides "a bundle" of integrated services, from logistics through to the manufacturing process and engineering.

“Bundling” is a strength of the business model



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

(2) Long business relations with customers (partner relations based on trust)

As described above, the Company has already maintained business relations with its main customers, like the former Sumitomo Metal Industries, Ltd. and a major beverage company, for over 50 years. Maintaining business relations over the long term in this way is the result of customers feeling completely satisfied with the services provided by the Company, and it is a testimony to the trust that its customers place in it. Seen from the customers’ side, outsourcing its peripheral operations to the Company allows them to concentrate on the business that is their core competence.

On the other hand, it is true that within the continuing long business relations, the Company’s operations have expanded to their current scale because it has responded to requests from customers for new services. For the Company, expanding the scope of its operations while responding to customer requests makes it possible to accumulate experience and expertise and develop horizontally and vertically for new customers. In this way, the long business relations with its main customers and its deep relations of trust with them are not something that can be built overnight, and for the Company, they constitute its biggest asset and strength.

(3) Commitment to “safety and quality”

Safety and quality are important themes for any company, but particularly for the Company it has been positioned as the most important theme and it is implementing the following policies for it.

The Company has established the Safety and Quality Training Center to facilitate the participation of all the Group companies in safety- and quality-related training. The Center holds training in each region, such as learning from accident case studies, danger-prediction training, and lectures and practical training on using forklift equipment.

It has also established and is operating the Konoike Techno Training Center to obtain the trust of customers in the outsourcing operations in the production process. Here, with practical training as the foundation, the Center provides practical guidance toward the acquisition of various qualifications and practical training toward learning process management technologies on the production line. Furthermore, the Konoike Technology Research Institute conducts survey research into the next generation of technologies, and at the same time it is conducting research and development on themes that go beyond the boundaries of logistics, including on new logistics technologies, technologies to reduce the burden on workers, and refrigeration-related technologies, as well as developing services.

In such ways, the Company is actively conducting surveys, research, and development on “safety” and “quality” that do not lead to earnings in the immediate future, which can be said to be helping to build the long relations of trust with customers described above. This is a feature and strength of the Company that is not clearly visible from the outside.

(4) A corporate structure to respond to changes

The Company has greatly changed its main operations over its long history. This is because it has responded in an agile and flexible manner to the changes in the social environment, in economic conditions, in its customers’ industry environments, and in the demands of its customers.

The Company’s ability to respond flexibly to changes in the economic environment and in the industry environments of its customers is one of its features and can be said to be one of its strengths. As detailed below, change is a major theme that figures prominently in the new medium-term management plan.

(5) Its other strengths and features in each field

In the Food-Related Business (Temperature-Controlled), the Company has 14 bases (frozen and chilled storage warehouses) nationwide in locations close to the main consumption regions, and these are not merely “storage-type,” but also “distribution-type” warehouses. This enables it to respond to the demands of major customers for the transportation of frozen and chilled storage food on a nationwide scale, which is impossible for small- and medium-sized operators.

A feature of the Company in the Overseas-Related Business is that it can provide multiple land, sea, and air services in an integrated manner. For example, in the case of a domestic buyer that purchases various products from overseas, normally the production plants will be scattered across various regions, so the international logistics will follow multiple routes. But if this buyer uses the Company’s Group, the products from each plant can be consolidated at the Company’s warehouses, from where they can be efficiently transported to its domestic warehouses through sea and land transportation after being containerized according to destination region within Japan.

The Company also has staff who are fully versed in both sea and air transportation, including on custom clearance for forwarding and the various tariff-exemption measures, and they can provide high quality and rapid responses to customer demands.

To further strengthen this service lineup, Konoike established a subsidiary in Singapore in 1984 and since then has been actively developing operations in Asia. The Company is currently working on strengthening temperature-controlled logistics business in North America, China, Vietnam, Thailand, and elsewhere in Asia, and in 2017 the Company began railroad container shipping in India. In this way, Konoike is making full use of the expertise it has gained from its domestic business at its overseas operations to further develop its domestic business and make it more profitable. Since establishing a foothold in different regions is a key element of Konoike’s growth strategy for its International Logistics Business, investors will want to keep a close eye on the progress on this front going forward.

4. Competition

There are many companies that offer the same services Konoike offers under its Integrated Solutions Business, such as materials receiving and inspecting, on-site transportation, manufacturing processing services, and product storage and shipping. For example, Konoike often goes head-to-head with companies like Hitachi Transport System, Ltd. <9086>, Sankyu Inc. <9065>, and SENKO Co., Ltd. <9069>. That said, one finds no competitors offering as many services entirely on their own and on the same scale as Konoike. In this sense, it could be said that Konoike has no real competitors. Though in another sense, Konoike always faces potential competition from client companies, who could decide to start bringing in-house the tasks they are currently outsourcing to Konoike.

Results trends

Aided by strong domestic and overseas demand, profits continued to rise in FY3/18

1. Summary of the FY3/18 results

For 3/18, the Company reported sales of ¥276,761mn (+7.1% YoY), operating income of ¥11,067mn (+8.2%), ordinary income of ¥11,536mn (+7.6%), and profit attributable to owners of parent of ¥7,042mn (-3.7%). All segments reported higher sales and profits. In the mainstay Integrated Solutions Business, Steel- and Airport-Related businesses saw strong growth. The Domestic Logistics Business posted higher sales and profits due mainly to the increase in the volumes handled by its apparel center and the dropout of the startup costs associated to the Nishi-Osaka Distribution Center posted previous year. The growth in sales and profits in the International Logistics Business was driven by the increases in shipping volumes generated by overseas subsidiaries in Shanghai, Vietnam, and elsewhere.

FY3/18 results

(¥mn, %)

	FY3/17		FY3/18			
	Amount	% of total	Amount	% of total	YoY change	YoY change rate
Net sales	258,332	100.0	276,761	100.0	18,429	7.1
Gross profit	23,270	9.0	24,642	8.9	1,372	5.9
SG&A expenses	13,037	5.0	13,575	4.9	538	4.1
Operating income	10,232	4.0	11,067	4.0	835	8.2
Ordinary income	10,721	4.2	11,536	4.2	815	7.6
Profit attributable to owners of parent	7,310	2.8	7,042	2.5	-268	-3.7

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

(1) Summary by segment

Net sales were ¥192,065mn in the Integrated Solutions Business (up 7.7% YoY), ¥49,028mn in the Domestic Logistics Business (up 1.9%), and ¥35,667mn in the International Logistics Business (up 11.7%). Segment income was ¥14,014mn in the Integrated Solutions Business (up 4.3%), ¥1,723mn in the Domestic Logistics Business up 8.3%), ¥970mn in the International Logistics Business (up 63.0%), and ¥27mn in Others (¥36mn in FY3/17).

* The allocation method used for corporate overhead expenses was changed in FY3/18 to better reflect the results of individual segments. The figures in FY3/17 have also been adjusted to reflect this change.

FY3/18 trends by segment

(¥mn, %)

	FY3/17		FY3/18			
	Amount	% of total	Amount	% of total	YoY change	YoY change rate
Net sales	258,332	100.0	276,761	100.0	18,429	7.1
Integrated Solutions Business	178,265	69.0	192,065	69.4	13,800	7.7
Domestic Logistics Business	48,133	18.6	49,028	17.7	895	1.9
International Logistics Business	31,934	12.4	35,667	12.9	3,733	11.7
Others	-	-	-	-	-	-
Operating income	10,232	4.0	11,067	4.0	835	8.2
Integrated Solutions Business	13,440	-	14,014	-	574	4.3
Domestic Logistics Business	1,592	-	1,723	-	131	8.2
International Logistics Business	595	-	970	-	375	63.0
Others	36	-	27	-	-9	-25.0
(Adjustment)	-5,432	-	-5,670	-	-	-

Note: “Others” is a business segment not included in the reporting segments. It includes the Group’s asset management and other operations.
Note: Figure for operating income under "% of total" column represents operating income margin
Source: Prepared by FISCO from the Company’s results briefing materials

In the Integrated Solutions Segment, sales and profits growth was underpinned by a steady stream of orders for construction projects in the Steel-Related Business, contributions from recently acquired companies in the Airport-Related Business, and a steady rise in handling volumes in the food-Related Business. The Domestic Logistics Business posted higher sales and profits due mainly to the increase in the volumes handled by its apparel center and the dropout of the startup costs associated to the Nishi-Osaka Distribution Center, which the Company commenced operation in 2Q. The International Logistics Business also reported higher sales and profits thanks to growth in handling volumes of electronics and other air cargo, and strong performances at overseas subsidiaries in Shanghai, Thailand, and elsewhere.

(2) Overview by field

By field, we find FY3/18 net sales in the Steel-Related Business rising 6.9% YoY to ¥63,709mn on the back of increases in spot business and contributions from consolidated subsidiaries overseas. In the Food-Related Business, net sales rose 3.5% to ¥72,900mn thanks to strong demand for outsourcing operations from beverage companies. In the Medical-Related Business, net sales rose 4.6% to ¥18,036mn, underpinned by growth in the hospital business. In the Airport-Related Business, net sales jumped 41.7% to ¥20,490mn on the acquisition of new businesses at regional airports. The Life-Related Business (Life-Related Operations) continued to post higher sales with a 2.5% rise to ¥16,929mn on increases in handling volumes of office products and daily goods. In the Life-Related Business (Logistics Operations), net sales rose 3.4% to ¥30,728mn, driven by an increase in handling volumes. In the Food-Related Business (temperature controlled), net sales slipped 0.6% to ¥18,229mn as the Company pulled out of unprofitable businesses. In the Overseas-Related Business, net sales rose by double digits, rising 11.7% to ¥35,667mn on acquiring shipments of large-scale manufacturing equipment and installation work.

Overview of FY3/18 net sales by field

(¥mn, %)

	FY3/17		FY3/18			
	Amount	% of total	Amount	% of total	YoY change	YoY change rate
Net sales	258,332	100.0	276,761	100.0	18,429	7.1
Steel-Related Business	59,600	23.1	63,709	23.0	4,109	6.9
Food-Related Business	70,457	27.3	72,900	26.3	2,443	3.5
Medical-Related Business	17,236	6.7	18,036	6.5	800	4.6
Airport-Related Business	14,460	5.6	20,490	7.4	6,029	41.7
Life-Related Business (Life-Related Operations)	16,510	6.4	16,928	6.1	417	2.5
Life-Related Business (Logistics Operations)	29,720	11.5	30,728	11.1	1,007	3.4
Food-Related Business (Temperature-Controlled)	18,412	7.1	18,299	6.6	-112	-0.6
Overseas-Related Business	31,934	12.4	35,667	12.9	3,733	11.7

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

The financial condition is stable: the equity ratio became 45.4%

2. Financial condition

The financial condition in FY3/18 was as follows. Current assets were ¥87,915mn (up ¥2,695mn on the end of the previous fiscal year), which was mainly due to increases in cash and deposits of ¥2,427mn and notes and accounts receivable-trade of ¥4,415mn. Non-current assets were ¥123,893mn (up ¥4,458mn), with the main factors being a decrease in property, plant and equipment of ¥139mn and increases in intangible assets of ¥2,806mn (mainly goodwill) and investments and other assets of ¥1,790mn. As a result, total assets were ¥211,808mn (up ¥7,153mn).

Current liabilities were ¥53,467mn (up ¥ 3,484mn), due to factors including that notes and accounts payable-trade increased ¥1,052mn, short term loans payable increased ¥789mn and current portion of long-term loans payable decreased ¥1,264mn. Non-current liabilities were ¥57,177mn (down ¥2,146mn), primarily because net defined benefit liability increased ¥1,620mn, long-term loans payable fell ¥258mn and bonds payable decreased ¥3,000mn. Consequentially, total liabilities were ¥110,645mn (up ¥1,3382mn). Total net assets increased ¥5,814mn from the end of the previous fiscal year to ¥101,162mn, mainly due to the increase in retained earnings from the recording of profit attributable to owners of parent . As a result, at the end of FY3/18, the equity ratio became 46.2%.

Consolidated balance sheet

(¥mn)

	End of FY3/17	End of FY3/18	YoY change
Cash and deposits	32,466	30,039	-2,427
Notes and accounts receivable-trade	46,547	50,962	4,415
Total current assets	85,220	87,915	2,695
Property, plant and equipment	97,147	97,008	-139
Intangible assets	3,127	5,933	2,806
Investments and other assets	19,160	20,905	1,790
Total non-current assets	119,435	123,893	4,458
Total assets	204,655	211,808	7,153
Notes and accounts payable-trade	14,546	15,598	1,052
Short term loans payable	3,455	4,244	789
Current portion of long-term loans payable	4,401	3,137	-1,264
Accrued expenses	9,954	10,841	887
Total current liabilities	49,983	53,467	3,484
Bonds payable	23,000	20,000	-3,000
Long-term loans payable	8,760	8,502	-258
Net defined benefit liability	17,728	19,348	1,620
Total non-current liabilities	59,323	57,177	-2,146
Total liabilities	109,307	110,645	1,338
Total net assets	95,348	101,162	5,814

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

3. Cash flow conditions

Cash flow provided by operating activities during FY3/18 was ¥14,351mn. Major inflows include profit before taxes and other adjustments of ¥11,333mn, depreciation of ¥7,420mn, and a ¥1,946mn increase in trade notes payable-trade; major outflows include a ¥4,250mn increase in trade notes receivable. Cash flow used in investing activities was ¥9,989mn, with the outflows consisting mainly of ¥5,727mn in purchase of property, plant and equipment and ¥3,297mn in purchase of shares of subsidiaries. Cash flow used in financing activities was ¥6,483mn, with ¥1,520mn inflow from increase in short-term loans payable versus outflows of ¥2,230mn in repayments of long-term loans payable and ¥2,020mn in cash dividends paid.

As a result, the balance of cash and cash equivalents declined ¥2,138mn to at ¥29,114mn at the end of FY3/18.

Cash flow statements

(¥mn)

	FY3/17	FY3/18
Cash flow from operating activities	16,508	14,351
Profit before taxes and other adjustments	10,900	11,333
Depreciation	7,320	7,420
Decrease (increase) in notes and accounts receivable – trade	-2,773	-4,250
Increase (decrease) in notes and accounts payable – trade	361	1,946
Cash flow from investing activities	-6,281	-9,989
Purchase of property, plant and equipment	-6,740	-5,727
Purchase of shares of subsidiaries	0	-3,297
Cash flow from financing activities	1,420	-6,483
Net increase (decrease) in short-term loans payable	544	1,520
Net increase (decrease) in long-term loans payable	-3,292	-2,230
Cash dividends paid	-1,934	-2,020
Net increase (decrease) in cash and cash equivalents	11,443	-2,138
Cash and cash equivalents at end of period	31,398	29,114

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

Business outlook

Forward-looking investment spending expected to leave earnings down in FY3/19

1. FY3/19 results outlook

For FY3/19, the Company is forecasting lower profits on higher sales with net sales of ¥284,800mn (+2.9% YoY), operating income of ¥10,000mn (-9.6%), ordinary income of ¥10,300mn (-10.7%), and profit attributable to owners of parent of ¥6,100mn (-13.4%). The projected decline in profits reflects the Company's decision to prioritize spending on infrastructure over profits during the plan period to realize its vision for 2030, as discussed later in this report.

FY3/19 results forecast

(¥mn, %)

	FY3/18		FY3/19 E			
	Amount	% of total	Amount	% of total	YoY change	YoY change rate
Net sales	276,761	100.0	284,800	100.0	8,038	2.9
Integrated Solutions Business	192,238	69.5	198,597	69.7	6,359	3.3
Domestic Logistics Business	49,028	17.7	49,396	17.3	368	0.8
International Logistics Business	35,494	12.9	36,805	12.9	1,311	3.7
Operating income	11,067	4.0	10,000	3.5	-1,067	-9.6
Integrated Solutions Business	13,911	-	13,276	-	-634	-4.6
Domestic Logistics Business	1,723	-	2,023	-	300	17.4
International Logistics Business	1,074	-	956	-	-117	-11.0
Others	27	-	25	-	-1	-7.4
(Adjustment)	-5,670	-	-6,283	-	-	-
Ordinary income	11,536	4.2	10,300	3.6	-1,236	-10.7
Profit attributable to owners of parent	7,042	2.5	6,100	2.1	-942	-13.4

Note: “Others” is a business segment not included in the reporting segments. It includes the Group’s asset management and other operations.
Note 2: The composition of some segments changed in FY3/19; the figures for FY3/18 have been adjusted to reflect these changes.
Source: Prepared by FISCO from the Company’s results briefing materials

2. Outlook by segment and by field

For the Integrated Solutions Business, the Company is forecasting lower profits on higher sales with net sales of ¥198,595mn (+3.3%) and segment income of ¥13,276mn (-4.6%). The projected decline in segment income reflects expectations of a slowdown in the Steel-Related Business and concerns about rising personnel and other costs in the rapidly growing Airport-Related Business.

For the Domestic Logistics Business, the Company is forecasting net sales of ¥49,396mn (+0.8%) and segment income of ¥2,023mn (+17.4%). The higher sales and profits outlook reflects the addition of new customers in the Food-Related Business (Temperature-Controlled) and reductions in warehouse leasing expenses and increases in ecommerce handling volumes in the Logistics Operations.

For the International Logistics Business, the Company is forecasting net sales of ¥36,805mn (+3.7%) and segment income of ¥956mn (-11.0%). The projected sales increase on lower profits reflects the acquisition of an ODA bridge project but it is expecting less machinery installation work, which carries relatively high margins.

FY3/19 net sales forecast by field

(¥mn, %)

	FY3/18		FY3/19 E			
	Amount	% of total	Amount	% of total	YoY change	YoY change rate
Net sales	276,761	100.0	284,800	100.0	8,038	2.9
Steel-Related Business	48,157	17.4	47,767	16.8	-389	-0.8
Environment/Engineering-Related Business	15,724	5.7	16,603	5.8	879	5.6
Food-Related Business (Food)	32,227	11.6	33,058	11.6	831	2.6
Food Products-Related	40,673	14.7	41,433	14.5	760	1.9
Medical-Related Business	18,036	6.5	18,635	6.5	599	3.3
Airport-Related Business	20,490	7.4	23,185	8.1	2,695	13.2
Life-Related Business (Life-Related Operations)	16,928	6.1	17,914	6.3	986	5.8
Life-Related Business (Logistics Operations)	30,728	11.1	30,738	10.8	10	0.0
Food-Related Business (Temperature-Controlled)	18,299	6.6	18,657	6.6	358	2.0
Overseas-Related Business	35,494	12.8	36,805	12.9	1,311	3.7

Note 2: The composition of some segments changed in FY3/19; the figures for FY3/18 have been adjusted to eflect these changes.
Source: Prepared by FISCO from the Company's results briefing materials

In the Steel-Related Business, the Company sees net sales declining 0.8% YoY to ¥47,767mn as a decline in spot business offsets expected increases in steel shipping volumes. In the new Environment/Engineering Business (spun off from the Steel-Related Business), the Company sees net sales rising 5.6% to ¥16,603mn as contract operations expand and new projects come in. In the Food-Related Business, the Company sees net sales rising 2.6% to ¥33,058mn as handle volumes increase along with the startup of new warehousing operations. In the new Food Products-Related Business (spun off from the Food-Related Business), the Company sees net sales rising 1.9% to ¥41,433mn as it expands its outsourcing business with beverage companies and enjoys continued solid growth at its delivery services.

In the Medical-Related Business, the Company sees net sales rising 3.3% to ¥18,635mn on acquiring new customers in the hospital business. In the Airport-Related Business, the Company sees net sales rising 13.2% to ¥23,185mn on the back of contributions from a new consolidated subsidiary. In the Life-Related Business, the Company sees sales rising as gains stemming from newly opened facility in Osaka offset the effect from the sale of a subsidiary. And in the Overseas-Related Business, the Company sees its acquisition of an ODA bridge project leading to a 3.2% rise in net sales to ¥36,805mn.

3. Capital investment plans

The Company's ¥12,900mn capital investment amount for FY3/19 represents a massive ¥5,920mn increase over FY3/18. Large projects include the construction of a new warehouse (roughly ¥1,300mn) at its Okayama Hayashima Distribution Center, slated for completion in February 2019. Spurred by the sharp increase in capital investment, depreciation expenses is expected to rise ¥1,179mn to ¥8,600mn.

Capital investment plans

(¥mn)

	FY3/18 Results	FY3/19	
		Plan	YoY change
Capital investment amount	6,979	12,900	5,920
Integrated Solutions Business	3,232	9,100	5,867
Domestic Logistics Business	886	1,700	813
International Logistics Business	2,447	1,200	-1,247
Others	1	-	-1
(Shared use)	411	800	388
Depreciation	7,420	8,600	1,179
Integrated Solutions Business	4,824	5,600	775
Domestic Logistics Business	1,470	1,600	129
International Logistics Business	792	900	107
Others	1	0	-1
(Shared use)	330	500	169

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

Medium- to Long-Term Growth Strategy

Building infrastructure with eye on 2030

Under the previous medium-term management plan (covering FY3/16 through FY3/18), the Company had been targeting net sales of ¥300.0bn and operating income of ¥15.0bn but finished well short of these targets. After examining the reasons it failed to reach the targets set under the previous plan, Konoike put together a new medium-term management plan (outlined below). As this new plan is designed to lay the groundwork that will allow the Company to realize its vision for 2030, it will serve as an important test for Konoike as it prepares for the future. An overview of the new medium-term management plan is provided below.

1. Company vision for 2030

Below is the Company's vision for its business in 2030 released last year.

(1) Company plans for years leading up to 2030

Given the outlook for years after 2030, when there is expected to be a severe structural shortage of workers and advances in technologies may have brought about innovations in manufacturing and logistics processing, Konoike acknowledges a sense of crisis regarding the possibility in the future that the way it has been doing business may no longer be applicable. The Company also acknowledges that it will not be able to sustain growth in the future unless it modifies its business and management practices and, during the years leading up to 2030, accepts more risks as it seeks out business opportunities and uses a repeated trial-and-error process. This will of course require more investment spending on its part, but Konoike understands that increasing capital investment alone will not be enough, that it must also focus on the returns on those investments and the cost of capital so that it can ultimately increase its return on invested capital and its return on equity.

(2) Plans for realizing vision for 2030

Outlined below is the Company's basic vision for its business in 2030.

□ Direction and key performance indicators
■ Diversifying its business with the aim of establishing at least ten main business divisions by 2030
— Net sales: ¥350.0bn to ¥500.0bn
— Net sales from logistics versus services = 40:60
  Net sales from domestic versus overseas businesses = 80:20
— Operating income margin: 5%+
— Return on equity: 10%+

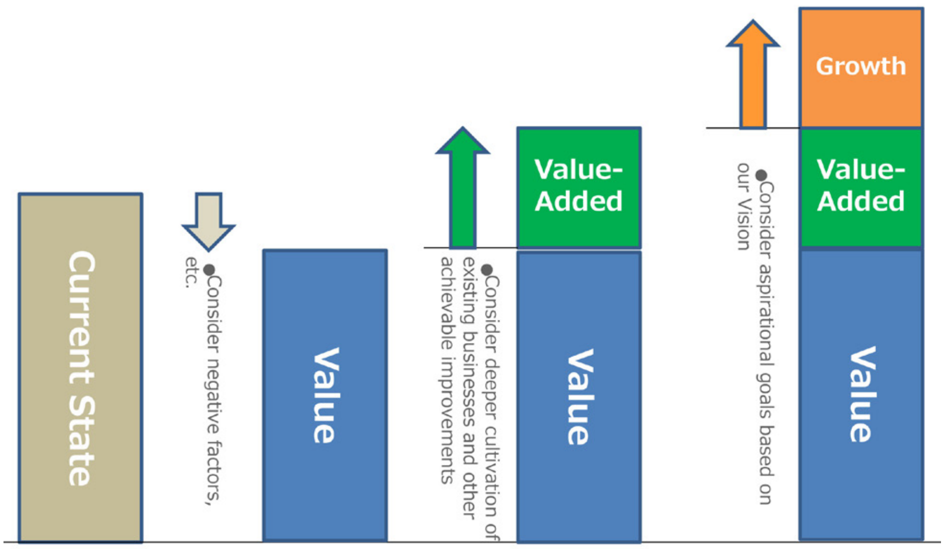
The spinoff of the Environment/Engineering Business from the Steel-Related Business and the spinoff of the Food Products Business from the Food-Related Business represents the start of the Company's move to establish at least ten main business divisions. The Company will continue to develop existing businesses and further establish new businesses.

(3) Outlook for growth: Value, Add Value, Growth

When putting together its previous medium-term management plan and all business plans prior to that, the Company always started by setting quantitative targets. In other words, it was a top-down type plan that always meant the Company would either finish above or below plan. Breaking with this past practice, this time around the Company put together a plan that reflects a totally different way of thinking about growth, as detailed below.

○ Value (real): Straight-line projections for existing businesses have been conservatively revised and potential negative factors have also been taken into consideration
○ Add Value: Further develop existing businesses, grow and improve businesses where the odds of success are high, where M&A will be taken if needed.
○ Growth: Undertake bold initiatives based on 2030 vision, including starting new businesses and conducting M&A

Outlook for growth



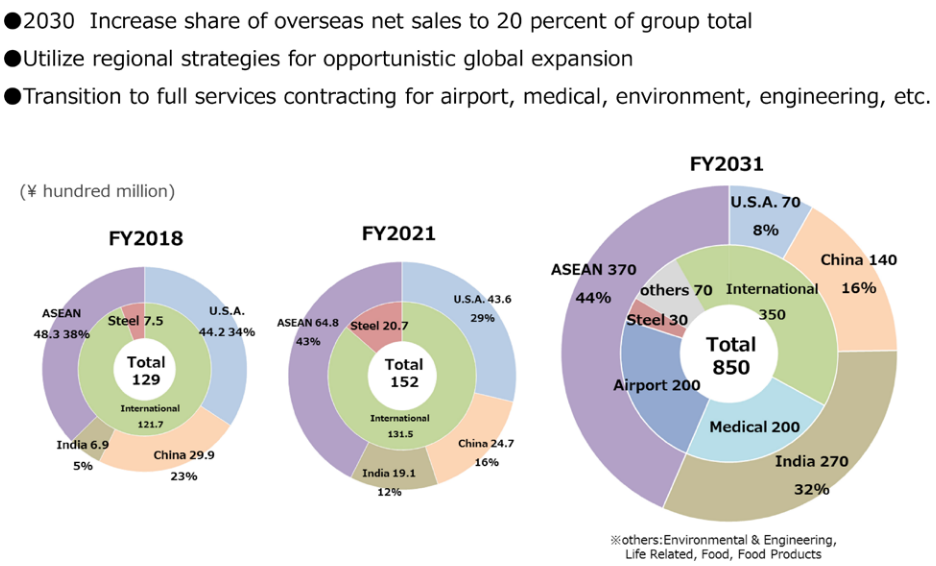
Source: Prepared by FISCO from the Company's results briefing materials

The Company has clarified management responsibility with the "Value" and "Add Value" parts of the plan being the responsibility of the individual business division while the "Growth" part of the plan would be the responsibility of the New Business Development Division established in April 2018. Showing its commitment in developing new businesses, the Company appointed Director & Senior Managing Executive Officer Tadatsugu Konoike as the Executive General Manager of New Business Development Division.

(4) Outlook for net sales breakdown: 80:20 ratio for domestic versus overseas, 40:60 for logistics versus services

Of the ¥300.0bn ~ 500.0bn in net sales the Company is targeting for 2030, its target for overseas sales is 20% (5% at present). To reach this goal the Company intends to employ two major strategies. First, the Company plans to use a regional strategy to effectively develop its business globally. And second, the Company aims to go beyond its role as a logistics service provider and fully develop its outsourcing services business, especially in the Airport-Related and Medical-Related businesses.

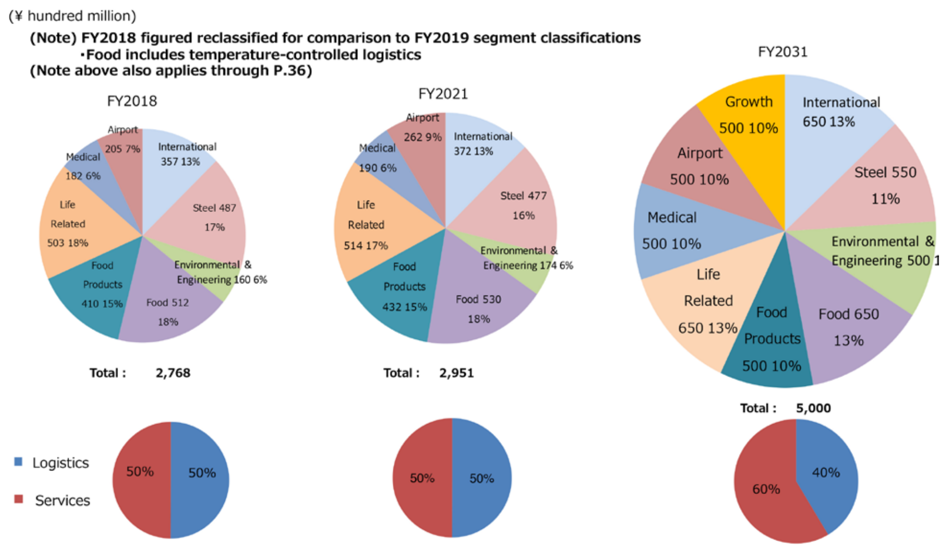
Vision for overseas sales leading up to 2030



Source: From the Company's results briefing materials

Another important ratio the Company is looking at is the ratio of net sales from logistics versus services. Right now that ratio is 50:50, but come 2030 the Company wants to make it 40:60. To meet that goal Konoike is looking to further expand its existing outsourcing business in the Airport-Related and Medical-Related businesses, both of which are areas with good growth potential. It is also looking to aggressively expand its Environment/Engineering Business that was recently spun off from its Steel-Related Business.

Vision for services leading up to 2030



Source: From the Company's results briefing materials

2. Review of previous medium-term management plan (summary)

(1) Net sales and operating income

The Company saw positive growth in net sales and operating income during the three-year period from FY3/16 through FY3/18, though final-year results finished well below plan with net sales of ¥276.7bn and operating income of ¥11.0bn against the target of ¥300.0bn in net sales and ¥15.0bn in operating income.

(2) Capital investment

The previous medium-term management plan initially called for capital investment of ¥19.0bn in the first year, ¥13.5bn in the second year, and ¥16.7bn in the final year of the plan. This would have meant total capital of ¥49.2bn over three years. The actual total of ¥27.0bn was well short of that figure, however, we believe the Company's lack of discussions on management vision and strategic direction to follow-through on the aggressive capital investment target.

(3) Four reasons why the Company failed to meet targets under previous medium-term management plan

The reasons for the Company's failure to meet the targets under its previous medium-term management plan are summarized below.

i. Lack of discussions on management vision and strategic direction
ii. Insufficient analysis of current business conditions from multiple standpoints
iii. Lack of clarity in assignment of authority and responsibility for overseeing and executing the plan
iv. Insufficient marketing across divisional lines

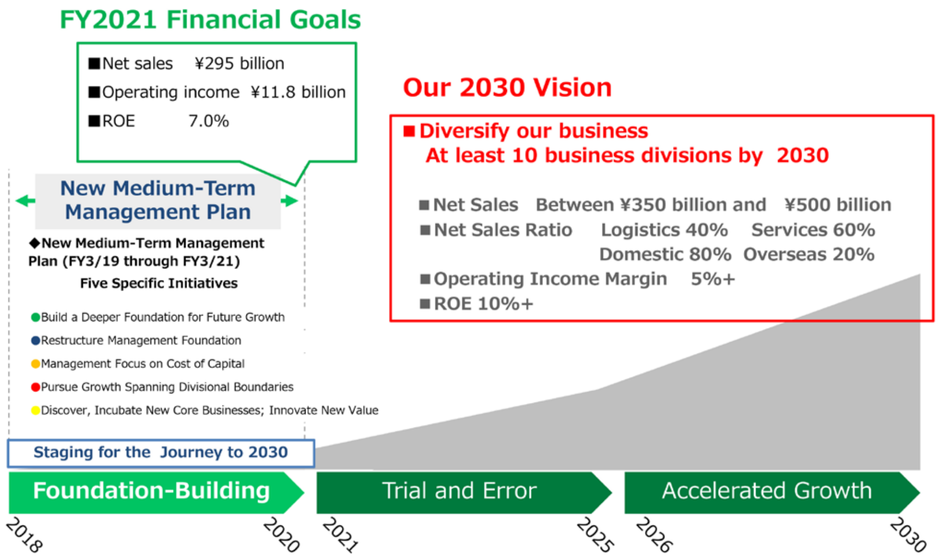
After careful consideration of these points, the Company put together a new medium-term management plan aimed at laying the groundwork needed for it to realize its vision for 2030.

3. Overview of the new medium-term management plan

(1) New medium-term management plan priority: laying the groundwork to meet vision for 2030

The new medium-term management plan is aimed at laying the groundwork that will allow the Company to realize its vision for 2030. Put another way, the new medium-term management plan period (FY3/19 to FY3/21) is aimed at creating a rock-solid foundation for the Company's businesses that will allow it to meet the quantitative and qualitative targets of its vision for 2030. The plan calls for the Company to make maximum use of all management resources as it undertakes five specific initiatives as outlined below. Under the plan, the Company is putting infrastructure building over near-term quantitative performance measures (i.e., net sales and profits), and thus we find its FY3/19 forecast projecting a drop in profits. (See figure below.)

Road to achieving vision for 2030



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

(2) Specific initiatives under the new medium-term management plan
—Creating rock-solid foundation to realize its vision for 2030—

1) Strengthen business foundation to facilitate future growth

a) Step up hiring and employee training

In addition to regular employee training, the Company is also looking to train more managers. This will help it resolve the severe shortages it is experiencing in worksite supervisory positions and increase its onsite planning and respond capabilities.

b) Improve productivity with investments in new ICT

The Company plans to concentrate its investments in ICT in two main areas. First, it is looking to create a ICT that allows customer transactions to be handled as a group (batch processing); compared with its current system in which each customer is handled separately, the new system will increase the productivity of employees dealing with customers. Second, the Company is looking to create a system that brings together all management data. This will make it possible to share more management data with senior executives and managers, and facilitate management oversight and coordination among group companies (as discussed below). To oversee these system upgrades, the Company has established a new ICT Promotion Division.

c) Measures to improve quality and safety

Safety and quality are the foundation of the Company's business. To further reinforce this foundation, the Company has established Corporate / Quality Division to work across the sales and management divisions.

2) Business restructuring

a) Strengthen governance structure, making it easier to oversee group operations

This goes beyond creating a corporate governance structure suitable for a listed company. This means creating a governance structure befitting a company like Konoike with a long and dignified history.

b) Promote delegation of authority

Here, the Company is looking to create a more flexible and muscular corporate culture by accelerating the speed with which authority is delegated while at the same time making it clear where responsibility lays.

c) Create management oversight structure

Assure effective execution of supervisory functions over business activities.

3) Increase management awareness of capital cost

a) Start using ROIC as management indicator

The Company has long considered the ROIC (return on invested capital) metric when making business decisions. Going forward, however, the use of ROIC will no longer be limited to senior executives, as the Company aims to heighten the use of ROIC in business decision-making down to lower level management in all divisions. In doing so, it aims to get all managers to think not just of increasing business in absolute terms but rather undertaking only those investments that provide the desired return on invested capital.

d) Restructure business portfolio

In order to grow businesses with good potential, the Company is looking revitalize businesses going forward. This will be achieved in part by taking a good look at existing businesses from the perspective of return on invested capital, as mentioned previously. At the same time, the Company is also looking to restructure its business portfolio by developing new businesses and spinning off parts of businesses in promising growth areas from existing businesses and providing additional resources so they can stand on their own.

4) Foster growth by promoting cooperation across divisional lines

a) Improve intra-group cooperation with establishment of newly established Sales Division

By improving coordination among group companies, the entire group will be able to provide value to the customer.

5) Initiatives aimed at "value innovation" and discovering and nurturing new core businesses

a) New Business Development Division to lead the way with initiatives aimed at discovering and nurturing new core businesses

To catch the new business opportunities that arise as the operating environment changes, the Company is looking to discover and nurture new businesses that have the potential to become core businesses in the future. Towards this end, the Company has established New Business Development Division that is tasked with discovery of new businesses.

b) "Value innovation" through introduction of new technologies

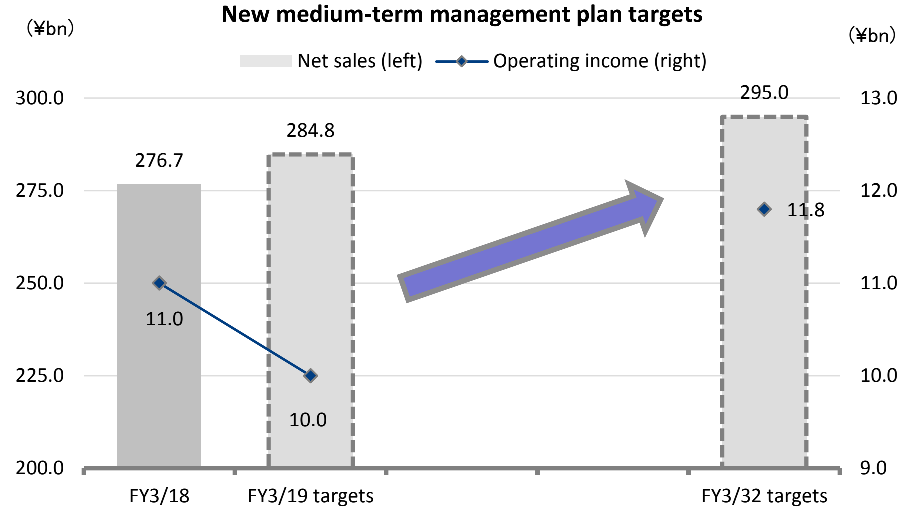
By making use of new technology at its existing businesses, the Company will also be looking to create additional value for customers through its services.

When it comes to implementing these new initiatives, the most important factor determining whether the Company reaches its goals will undoubtedly be the mindset of employees. Because to make its plan work, the Company says that all employees—from top management to the frontline staff on worksite—need to abandon the "this is the way we've always done it" attitude and be prepared to change.

(3) Net sales and operating income target under the new medium-term management plan (FY3/19–FY3/21)

Profits is expected to decline in the first year of the new medium-term management plan as spending increases with the start of the abovementioned five initiatives. The Company is still aiming for a record high profits in the final year of the plan with operating income of ¥11.8bn. However, costs related to labor shortages are likely to remain even after the plan comes to an end. The figure below depicts the quantitative targets the Company has set out for the period covered by the new medium-term management plan.

New medium-term management plan targets

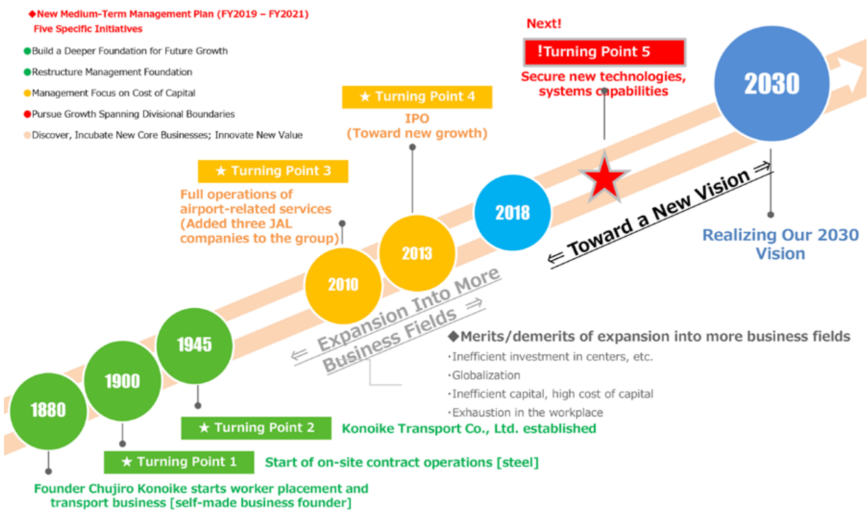


Source: Prepared by FISCO from the Company's results briefing materials

(4) Konoike coming up on turning point No. 5

According to the Company, in order to realize its vision for 2030 it will have to get through the fifth major turning point in its storied history. It is common knowledge that the Company started as founder Chujiro Konoike began a worker placement and transportation business as a private company. Since then, the Company has faced four major turning points in its long history.

Major turning points in Company History: Now coming up on turning point No. 5



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

1st turning point: In 1900, the Company began providing onsite outsourcing services (now its Steel-Related Business)
2nd turning point: In 1945, Konoike Transport was spun off from Konoike Gumi and established as independent company.
3rd turning point: After starting Medical-Related Business and Airport-Related Business during the 1990s, the Company conducted M&A in Airport-Related Business and began full-scale push into the outsourcing services field.
4th turning point: With IPO in 2013, embarked on new growth stage as a publically listed company.

The Company will have to get through its fifth major turning point in order to realize its vision for 2030. The Company is calling it a "turning point" because it fears for the Group's future if it just continues doing the same thing it is doing now. In short, the Company recognizes that it must make changes in order to not only survive but also prosper in the future, and must make those changes sooner rather than later. The Company believes it has no future unless it makes changes and, more importantly, its employees change their way of thinking. From top management all the way down to new employees, the Company believes that it is crucial that all employees be prepared to change, and whether employees can change will be the important point.

Thus, the Company is not merely asking employees to make changes that can be measured quantitatively, as it has done in the past, it is asking employees to make qualitative changes, particularly in regard to their way of thinking about the business. To realize its vision for 2030, the Company has set high goals in the new medium-term management plan, saying there is no future if it fails to change the employees' mindsets. Thus, investors will want to keep a close eye on the Company's progress on executing the plan and the various initiatives going forward.

Shareholder return policy

Plans to maintain a dividend payout ratio of around 30%

The Company has decided its dividend policy based on its basic policy of "Returning to shareholders the cash flow realized through measures to improve corporate value." Its dividend payout ratio results in the past three years were 29.3% in FY3/16, 27.2% in FY3/17 and 29.1% in FY3/18, while the full year dividend for FY3/19 is forecast to be ¥36.0, and if it achieves its income forecasts, the dividend payout ratio will be 33.6%. The Company plans to maintain the dividend payout ratio at around 30% for the time being.

In addition to planned dividend payments, the Company has also announced a share buyback program, setting an upper limit of 3,000,000 shares and ¥5,000mn for share buybacks to be executed between May 16, 2018 and May 15, 2019. Coming at the same time as the announcement of its planned dividend payments, the announcement of the share buyback program shows the Company's strong stance on its new medium-term management plan. With the announcement of a share buyback program, the Company is in effect saying that it stands ready to absorb at least some of the downside should a lack of progress under the new medium-term management plan lead to a decline in its share price.

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