COMPANY RESEARCH AND ANALYSIS REPORT

Mipox Corporation

5381

Tokyo Stock Exchange JASDAQ

8-Feb.-2018

FISCO Ltd. Analyst

Noboru Terashima

FISCO

FISCO Ltd.

http://www.fisco.co.jp

Index

Summary

A specialist manufacturer of abrasive papers, polishing films, liquid polishing compounds and more, mainly for high-tech industries. Its advanced technical capabilities have earned it the strong trust of its customers.

Mipox <5381> (hereafter, also "the Company") is a specialist manufacturer of special polishing materials and polishing machines. It has a long history dating back to its establishment in the 1920s and currently holds large shares in various high-tech markets, including for hard disk drives (HDD), optical fiber, and semiconductors. Its product users are spread across a wide range of industries, including electrical machinery, automotive, and precision instruments.

1. FY3/18 1H results

In the FY3/18 1H consolidated results, net sales were ¥3,934mn (up 43.2% year on year (YoY)), operating income was ¥301mn (a loss of ¥74mn from the same period in the previous fiscal year), ordinary income was ¥240mn (a loss of ¥200mn), and profit attributable to owners of parent was ¥151mn (a loss of ¥300mn). Net sales increased from the contribution of an additional three months of sales from Nihon Kenshi Co., Ltd., which was made a subsidiary in 2016, in addition to the strong performance of the Contracting Business. Moreover, the gross margin improved and the SG&A expenses ratio was reduced, and as a result, the operating loss for the same period in the previous fiscal year changed to operating income.

2. The priorities for FY3/18 are strengthening profitability and organization capabilities to solidify the foundations for the future

There have been no changes to the initial forecasts for FY3/18, which is currently underway, of net sales of ¥8,000mn (up 24.8% YoY), operating income of ¥448mn (up 100.9%), ordinary income of ¥417mn (up 179.9%), and profit attributable to owners of parent of ¥306mn (a loss of ¥147mn). Sales are expected to increase from the steady growth of the mainstay polishing materials, the full-year contribution to sales from Nihon Kenshi, which was made a subsidiary in 2016, and the strong performance of the Contracting Business. However, profits will be kept to a low level as the Company is prioritizing strengthening profitability and organizational capabilities to solidify its foundations for the future. But based on the 1H results, the forecasts seem rather conservative, and it is possible that they will be upwardly revised.

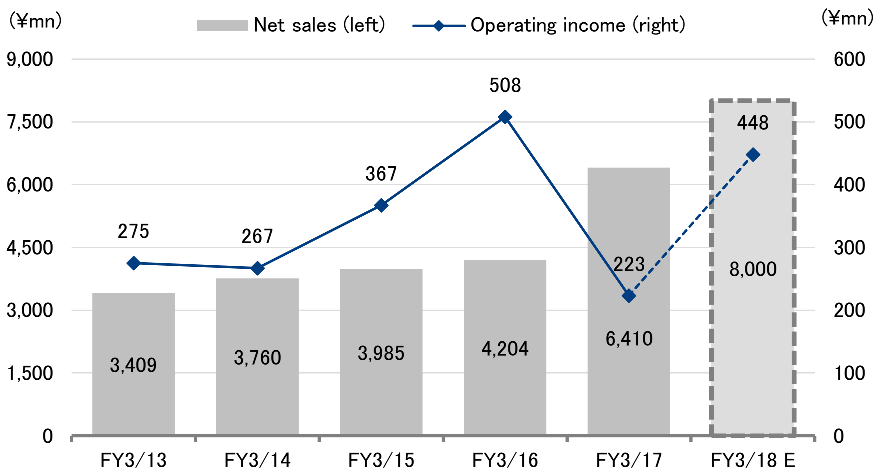
3. Will realize full-fledged growth from FY3/19 onwards

The Company initially forecast a double-digit recovery in the operating margin for FY3/18, which is currently underway. But it has reviewed the overall plan, including the targets for improved profits at Nihon Kenshi, and as a result, it has changed the plan for the current fiscal period (FY3/18) to realize a growth scenario in the future by slowing the pace of growth compared to the initial targets and focusing instead on firmly solidifying foundations. Due to this change, it now anticipates realizing full-fledged growth from FY3/19 onwards.

Key Points

- Its main business is polishing materials for high-tech industries, but it is also using M&A to expand into the general polishing field
- Profits will recover in FY3/18, but it has been positioned as a year to solidify foundations
- Plans to realize full-fledged profit growth from FY3/19 onwards

Results trends



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

Company profile

A specialist manufacturer of polishing materials with a long history and large shares in high-tech markets

1. Company profile

The predecessor of the Company was established as an independent pigment affiliate company from the spin-off of the pigment and foil department of the L. Raybould commercial office. After that, it began producing polishing materials, including various types of polishing tapes, and then in 1981 it changed its company name to Japan Micro Coating Co. Ltd., and unified its products under the Mipox brand. Since the 1990s, it has launched and marketed various products, including liquid crystal panel cleaners, silicon wafer edge polishers, and polishing slurry, and then in 2013 it changed its company name to Mipox Corporation. It was listed on the over-the-counter market (currently, the JASDAQ market) in 2001, and it made a subsidiary of Nihon Kenshi in July 2016.

History

Date	History
November 1925	GERMAN Pigment Partnership established through a spin-off of the pigment and foil division of L.Raybould Mercantile Establishment.L.LEYBOLT SHOKWAN.
December 1941	Re-established as German Pigment Co., Ltd.
September 1970	Started sales of the Finishing Tape brand of polishing tapes.
April 1981	Corporate name changed to Nihon Micro Coating Co., Ltd. Product brand was unified as MIPOX.
November 1989	MIPOX International Corporation (MIC) established in California, USA.
August 1993	LCD panel cleaner developed.
February 1994	Silicon wafer edge polisher developed.
October 1995	Polishing slurry developed.
February 2001	Stock listed on the over-the-counter market Capital increased to ¥1,998.7mn.
June 2008	Jun Watanabe assumed President & CEO.
June 2009	Business alliance with RIKEN CORUNDUM Co.,Ltd.
July 2013	Changed of Brand LOGO.
August 2013	Company name changed to Mipox Corporation.
July 2016	Nihon Kenshi Co., Ltd., a wholly-owned subsidiary, established.
February 2017	The head office was relocated to Shinjuku Ward, Tokyo.
October 2017	Merged Mipox Kyoto Corporation through an absorption-type merger.
January 2018	Establish Mipox (Thailand) Co., Ltd.

Source: Prepared by FISCO from the Company's website and securities report

Business overview

Its main business is polishing materials for high-tech industries, but it is also using M&A to expand into the general polishing field

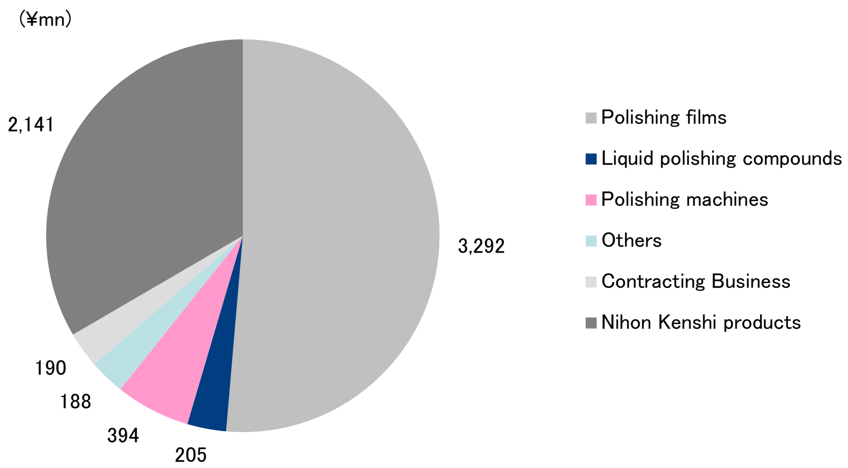
1. Main products

The Company's main business is the manufacture of products such as polishing films, abrasive papers, and liquid polishing compounds that are used for polishing various products and parts. Other than this, it designs and sells polishing machinery and provides contracted services, including for the manufacture of functional films and for polishing processing. In terms of segments, it discloses information on the Product Business and the Contracting Business, and in FY3/17, the Product Business net sales were ¥6,219mn and the Contracting Business net sales were ¥190mn.

Also, the net sales (FY3/17) by product disclosed in the financial results briefing materials were ¥3,292mn for polishing films (51.4% of total net sales), ¥205mn for liquid polishing compounds (3.2%), ¥394mn for polishing machines (6.1%), ¥188mn for others (2.9%), ¥190mn for the Contracting Business (2.9%), and ¥2,141mn for Nihon Kenshi products (33.4%)*.

* Some of the figures disclosed in the financial results summary are different to those in the briefing materials. Also, Nihon Kenshi net sales are for 9 months, from Q2.

Net sales by product(FY3/17)



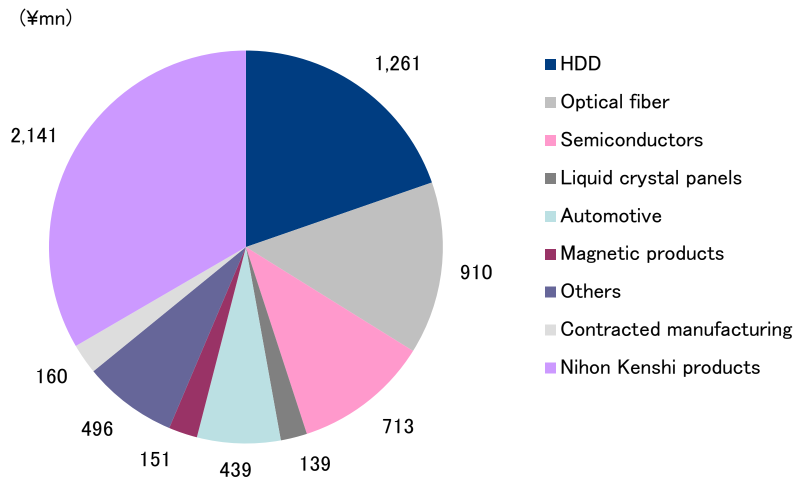
Source: Prepared by FISCO from the Company's results briefing materials

In the Contracting Business, the Company mainly manufactures functional films and carries out polishing processing in accordance with customer orders, and it responds to a wide range of requests, from small lots of just a few items to large lots. Although it only records the processing fees as net sales, the profit margin changes according to the order lot, because larger lots improve the operating rates of the machinery in the Company's factories.

2. Net sales by application

In addition, the net sales by the main industries that the products are sold to (net sales by application, FY3/17) were ¥1,261mn for HDD (19.7% of total net sales), ¥910mn for optical fiber (14.2%), \713mn for semiconductors (11.1%), ¥139mn for liquid crystal panels (2.2%), ¥439mn for automotive (6.8%), ¥151mn for magnetic products (2.4%), ¥496mn for others (7.7%), ¥160mn for contracted manufacturing (2.5%), and ¥2,141mn for Nihon Kenshi products (33.4%). The gross margin is comparatively high for high-tech products and low for general-purpose products.

Net sales by application (FY3/17)



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

(1) For HDD

These products are used for polishing the surfaces of HDD (media). In particular, the Company has a 100% share of the global market for the precision polishing film that is used in the final processing of HDD manufacturing.

(2) For optical fibers

These products are used for polishing the connecting end surfaces of optical-fiber connectors. They are mainly sold in the North America, Europe, and China markets

(3) For semiconductors

The first product is used for polishing the edges, rather than the surfaces, of the silicon wafers. The second product is used for cleaning the probe cards that are used when testing the semiconductors. There are other uses for these, too.

(4) For liquid crystal panels

These products are used to remove the shavings and resin that are generated during the production process.

(5) For automotive and magnetic products

These products are used for polishing automotive parts, including vehicle engines and transmission shafts.

(6) For magnetic products

These products are mainly used for polishing the surfaces of magnetic tape used for recording.

(7) Others

These include products other than high-tech related and for general consumers.

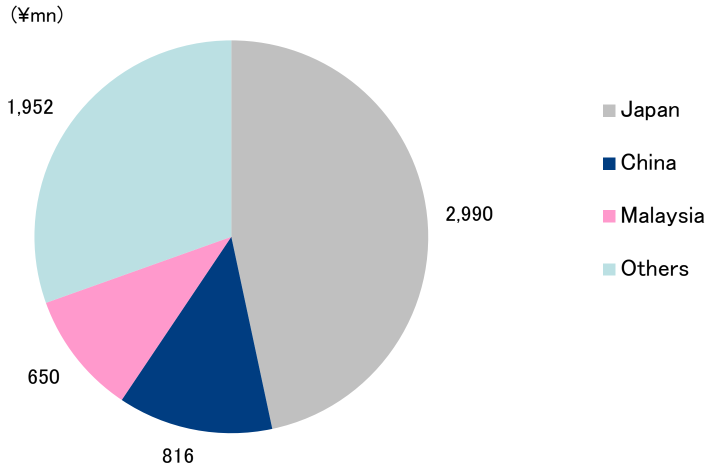
(8) Nihon Kenshi products

These include water-resistant abrasive paper, polishing cloths, fiber-disc products, and fine-diamond products. Many of them can be broadly described as general polishing field products.

3. Net sales by region

The Company currently has three domestic manufacturing bases (Yamanashi, Kyoto, and Fukuyama), including Nihon Kenshi, and three overseas bases (India, Malaysia, and China). It also has 8 domestic sales offices (including the head office that is also a manufacturing base) and 12 overseas sales offices. Reflecting the fact that many of its customers are high-tech related global companies, the net sales by region (FY3/17) are ¥2,990mn from Japan (46.7% of total net sales), ¥816mn from China (12.7%), ¥650mn from Malaysia, (10.1%), and ¥1,952mn from others (30.5%).

Net sales by region (FY3/17)



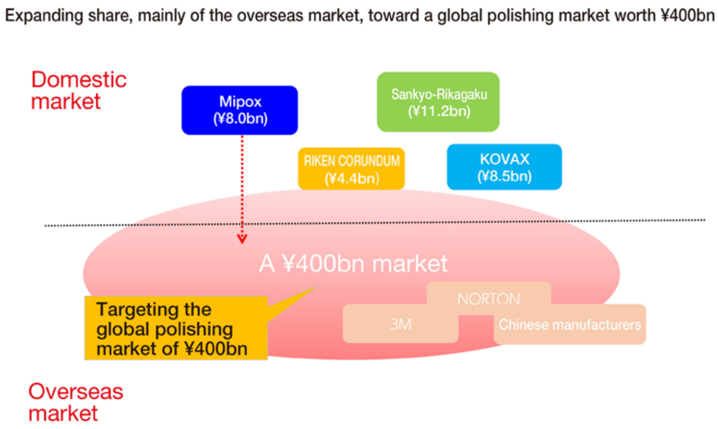
Source: Prepared by FISCO from the Company's financial results

4. Market share and competition

The Company makes many types of polishing-related products, but there are no accurate statistics on them by individual product. Also, since many of its customers are global companies, such as for its polishing films for high-tech products that are its mainstay product, it is necessary to see the market as a global one. According to the Company's estimates, the global polishing materials market is worth approximately ¥400bn, of which, the share of Japanese manufacturers, including the Company, is less than 10%.

Companies such as Norton (currently part of the Saint-gobain Group), 3M, and Chinese companies have comparatively high shares of the global market. There can be said to be four major manufacturers in the domestic market, Sankyo-Rikagaku Co., Ltd., KOVAX Corporation, RIKEN CORUNDUM CO., Ltd. <5395>, and Nihon Kenshi. As Nihon Kenshi joined its Group following the M&A, the Company can now be said to be one of the top four manufacturers in Japan.

Growth scenario for the future – further expansion of the overseas market –



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

However, in many of the above-mentioned domestic manufacturers, a high percentage of total net sales is provided by general-purpose products, but a low percentage by high-tech products. While there are no exact figures, it seems that the Company's shares of high-tech product markets are high and are over 50% for many of its products. There are even products for which it has close to a 100% share, such as for polishing HDD. In this way, the high percentage of the Company's share indicates its advanced technical capabilities and the trust that its customers place in it, but another reason for its high market shares is the fact that there are few other entrants because of the small (niche) markets on the whole.

5. Features and strengths

(1) Advanced coating technical expertise

The Company's greatest strength is its coating technologies that it has cultivated since long ago. It also has high-level technical capabilities for the preparation of polishing materials, and it can be said that a feature and strength of the Company is that these polishing materials can be coated to produce polishing films suitable for micro-fabrication. The provision of polishing materials in a film form makes possible many high-tech products and also the polishing of precision products. It is not an easy task for the Company's industry peers to keep up with its coating technologies, which enables the Company to maintain high market shares and gross margins.

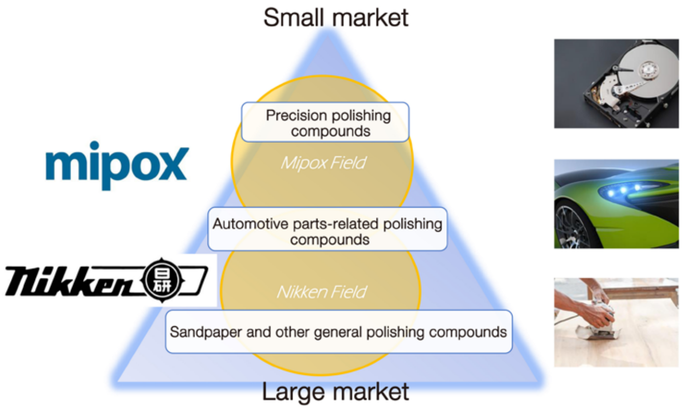
(2) An extensive product lineup and one-stop solutions

The Company's mainstay products up to the present time have mainly been polishing films and liquid polishing compounds for high-tech products, which are high-end products found in small niches of the market as a whole. But currently, the products of Nihon Kenshi, which can be said to be strong in the general polishing field, have been added to these products, so it has enhanced its product lineup to span high-end to general polishing field products.

The Company also conducts the Contracting Business and its basic policy is to accept even small-volume orders. This enables customers to use the Company not only for all the products that they need, but also to order small-volume polishing processing. In other words, they can receive a one-stop solution and this strengthens the relations of trust between the Company and its customers, which can be said to be another of its strengths.

Growth scenario for the future – expanding the scale of the target market

Growth was limited due to a high dependency on precision polishing compounds
Aiming to utilize technologies to expand growth in the expansive general polishing market.



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

(3) A robust, strong organization

Another feature and strength of the Company is that it thoroughly shares information in-house. Apart from some classified information, practically all data and information is notified to and shared with each of its employees. This reduces unnecessary paper documents, meetings, and so on, and also facilitates rapid decision making. While its scale of sales is still small, it can be said that the Company is extremely robust and strong as an organization.

Results trends

Operating income greatly increased from the improved profitability of the Contracting Business, in addition to the growth of the mainstay products

1. Summary of the FY3/18 1H results

(1) Status of profit and loss

In the FY3/18 1H consolidated results, net sales were ¥3,934mn (up 43.2% YoY), operating income was ¥301mn (a loss of \74mn in the same period in the previous fiscal year), ordinary income was ¥240mn (a loss of \200mn), and profit attributable to owners of parent was ¥151mn (a loss of ¥300mn).

Net sales greatly increased, mainly because only three months of sales were recorded in the same period in the previous fiscal year from Nihon Kenshi, which was made a subsidiary in July 2016, while in 1H, sales for six months were recorded, and also as results trended strongly in optical fiber-related and automotive-related. The gross margin rose from 35.9% in the same period in the previous fiscal year to 38.6%, due to changes to the product structure, and the increase in SG&A expenses was kept down to 14.7%. As a result, profits were recorded for each profit item from operating income down.

FY3/18 1H consolidated results trends

(¥mn, %)

	FY3/17 1H		FY3/18 1H			
	Amount	% of sales	Amount	% of sales	Change	% change
Net sales	2,747	100.0	3,934	100.0	1,186	43.2
Gross profit	987	35.9	1,519	38.6	531	53.8
SG&A expenses	1,062	38.7	1,217	31.0	155	14.7
Operating income	-74	-2.7	301	7.7	375	-
Ordinary income	-200	-7.3	240	6.1	441	-
Profit attributable to owners of parent	-300	-10.9	151	3.9	451	-

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

(2) Status by business segment

In the Product Business, net sales were ¥3,483mn (up 29.0% YoY), including due to the effects of Nihon Kenshi, and segment income was ¥234mn (up 169.5%) because of changes to the product structure.

In the Contracting Business, net sales greatly increased to ¥450mn (an increase of around 9 times YoY), including due to the receipt of new orders following expansion in customer base. In profits, segment income, of ¥67mn, was recorded for the first time for 1H (a loss of ¥161mn in the same period in the previous fiscal year), which contributed significantly to the overall increase in profits.

FY3/18 1H results trends by segment

(¥mn, %)

	FY3/17 1H		FY3/18 1H			
	Amount	% of sales	Amount	% of sales	Change	% change
Net sales	2,747	100.0	3,934	100.0	1,186	43.2
Product Business	2,700	98.3	3,483	88.6	782	29.0
Contracting Business	46	1.7	450	11.4	403	864.8
Operating income	-74	-2.7	301	7.7	375	-
Product Business	86	-	234	-	147	169.5
Contracting Business	-161	-	67	-	228	-

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

(3) Net sales by application

Looking at the net sales by the main types of application, they declined to ¥558mn (down 8.8% YoY) for HDD-related due to the effects of production trends at customers, but they trended strongly in optical fiber-related at ¥578mn (up 37.6%). Sales in semiconductor-related were ¥351mn (down 0.8%), but this is not a bad result considering the fairly high level in the same period in the previous fiscal year. In automotive-related, sales were ¥205mn (up 32.3%) thanks to steady performances both domestically and overseas. Moreover, sales from contracted manufacturing greatly increased to ¥430mn (up 1,287.1%), including from the acquisition of new orders. Nihon Kenshi sales were ¥1,308mn (up 83.2%), but this is not necessarily a strong result as the result in the same period in the previous fiscal year was only for three months.

Net sales by application

(¥mn, %)

	FY3/17 1H		FY3/18 1H			
	Amount	% of sales	Amount	% of sales	Change	% change
HDD	612	22.3	558	14.2	-54	-8.8
Optical fiber	420	15.3	578	14.7	158	37.6
Semiconductors	354	12.9	351	8.9	-3	-0.8
Liquid crystal panels	63	2.3	78	2.0	15	23.8
Automotive	155	5.6	205	5.2	50	32.3
Magnetic products	57	2.1	95	2.4	38	66.7
Others	325	11.8	310	7.9	-15	-4.6
Contracted manufacturing	31	1.1	430	10.9	399	1,287.1
Contracted polishing	16	0.6	20	0.5	4	25.0
Nihon Kenshi products	714	26.0	1,308	33.3	594	83.2

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

(4) Net sales by product

Looking at net sales by product, sales of the mainstay polishing films increased to ¥1,795mn (up 25.3%), mainly for the optical fiber-related market, but decreased for all other products. But overall, the gross margin still rose due to the higher sales of polishing films and the greatly improved profits in the Contracting Business.

Net sales by product

(¥mn, %)

	FY3/17 1H		FY3/18 1H			
	Amount	% of sales	Amount	% of sales	Change	% change
Polishing films	1,433	52.2	1,795	45.6	362	25.3
Liquid polishing compounds	101	3.7	84	2.1	17	16.8
Polishing machines	234	8.5	171	4.3	-63	-26.9
Polishing-related products	3.5	1.3	38	1.0	3	8.5
Others	183	6.7	87	2.2	-96	-52.5
Contracting Business	47	1.7	450	11.4	403	857.4
Nihon Kenshi products	714	26.0	1,308	33.3	594	83.2

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

2. Financial condition

At the end of FY3/18 1H, total assets were down ¥314mn on the end of FY3/17 1H to ¥11,033mn. Current assets declined ¥342mn to ¥6,916mn, which was mainly due to a decrease in cash and deposits of ¥593mn, increases of notes and accounts receivable-trade of ¥84mn, and inventory assets of ¥153mn. Conversely, non-current assets rose ¥27mn to ¥4,116mn from the decrease in tangible non-current assets of ¥23mn due to depreciation, increases in intangible non-current assets of ¥17mn because of the rise in goodwill after Nihon Kenshi becoming a subsidiary, and in investments and other assets of ¥33mn following an increase in retirement benefits-related assets.

Total liabilities were down ¥400mn on the end of the previous fiscal year to ¥6,316mn. This was mainly because current liabilities declined ¥1,092mn, while short-term loans payable fell ¥1,221mn. Non-current liabilities rose ¥691mn, primarily due to increases in bonds payable of ¥418mn and long-term loans payable of ¥281mn.

Net assets were up ¥86mn on the end of the previous fiscal year to ¥4,716mn, mainly from the recording of profit attributable to owners of parent of ¥151mn.

Balance sheet

(¥mn)

	FY3/17	FY3/18 1H	Change
Cash and deposits	2,997	2,403	- 593
Notes and accounts receivable – trade	1,782	1,866	84
Inventories	2,048	2,202	153
Total current assets	7,258	6,916	- 342
Property, plant and equipment	3,154	3,130	- 23
Intangible assets	493	511	17
Investments and other assets	440	474	33
Total non-current assets	4,088	4,116	27
Total assets	11,347	11,033	- 314
Notes and accounts payable – trade	776	793	17
Short-term loans payable	1,927	706	- 1,221
Total current liabilities	3,806	2,714	- 1,092
Bonds payable	468	886	418
Long-term loans payable	1,992	2,273	281
Net defined benefit liability	131	131	0
Total non-current liabilities	2,910	3,601	691
Total liabilities	6,716	6,316	- 400
Total net assets	4,630	4,716	86

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

3. Status of cash flows

In FY3/18 1H, cash flow from operating activities was ¥312mn. The main revenue items include profit before income taxes of ¥234mn and depreciation of ¥181mn, while the main expenditure items included increases in notes and accounts receivable – trade of ¥100mn and inventories of ¥136mn. Cash flow used in investing activities was ¥201mn, primarily due to ¥109mn for the purchase of property, plant and equipment. Cash flow used in financing activities was ¥741mn, with the main factors being expenditures of ¥1,059mn for the reduction of long-term loans payable and ¥104mn for dividend payments.

As a result, net increase in cash and cash equivalents during the period was ¥622mn and cash and cash equivalents at the end of FY3/18 1H were ¥2,160mn.

Cash flow statement

(¥mn)

	FY3/17 1H	FY3/18 1H
Cash flows from operating activities	-205	312
Profit before income taxes	-226	234
Depreciation	183	181
Decrease (increase) in notes and accounts receivable - trade	-231	-100
Decrease (increase) in inventories	-117	-136
Cash flows from investing activities	-595	-201
Purchase of property, plant and equipment	-248	-109
Acquisition of shares of subsidiaries	-413	-
Cash flows from financing activities	847	-741
Net increase in loans payable	1,072	-1,059
Cash dividends paid	-105	-104
Net increase (decrease) in cash and cash equivalents	-5	-622
Cash and cash equivalents at the end of period	2,160	2,160

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

Business outlook

Profits are expected to increase in FY3/18, but it has been positioned as a year to solidify foundations

● Company forecast for FY3/18

(1) Profit-loss outlook

There have been no changes to the initial forecasts for FY3/18, of net sales of ¥8,000mn, up 24.8% YoY, operating income of ¥448mn, up 100.9%, ordinary income of ¥417mn, up 179.9%, and profit attributable to owners of parent of ¥306mn (compared to a loss of ¥147mn in FY3/17).

Initially the Company expected a double-digit recovery (10% or more) in the operating margin in FY3/18, but instead it has now positioned it as a year to slow the pace of growth and solidify foundations toward realizing the growth scenario in the future. Therefore, while it does expect operating income to double YoY, the profit-margin level is forecast to remain low. However, in the 1H, the Contracting Business achieved net sales of ¥450mn, so there would seem to be room to upwardly revise its full fiscal year net sales forecast, which has been left at ¥480mn.

In terms of relations with Nihon Kenshi, it will continue to pursue the measures from the previous fiscal year, of “exchanging human resources,” “eliminating waste,” “improving the system environment,” and “reforming methods of working” in an aim to improve profits.

Company forecast for FY3/18

(¥mn, %)

	FY3/17		FY3/18 E		
	Amount	% of sales	Amount	% of sales	YoY
Net sales	6,410	100.0	8,000	100.0	24.8
Product Business	6,219	97.0	7,520	94.0	20.9
Contracting Business	190	3.0	480	6.0	152.6
Operating income	223	3.5	448	5.6	100.9
Ordinary income	149	2.3	417	5.2	179.9
Profit attributable to owners of parent	-147	-	306	3.8	-

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

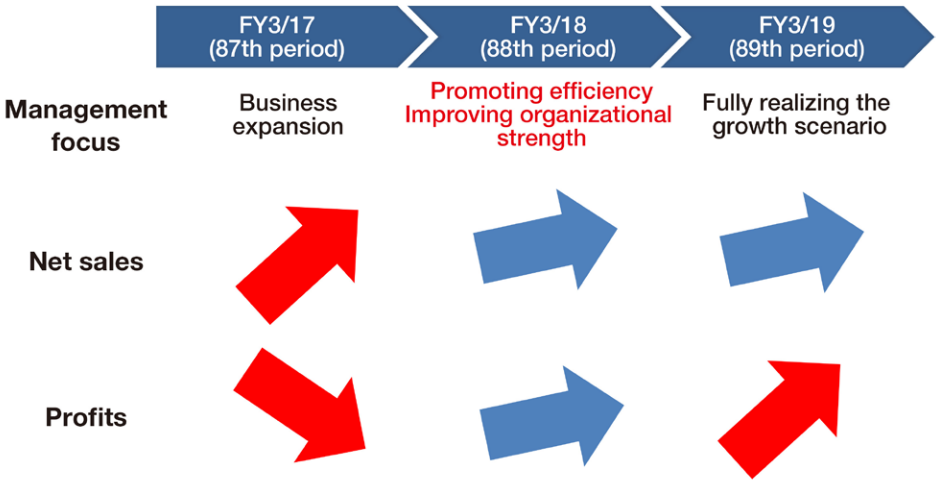
Medium- to long-term growth strategy

Aiming to solidify foundations in FY3/18 and achieve full-fledged growth from FY3/19 onward

1. The image of results growth

The Company initially forecast a double-digit recovery in the operating margin for FY3/18, which is currently underway. But it has reviewed the overall plan, including the targets for improved profits at Nihon Kenshi, and as a result, the plan for the current fiscal period (FY3/18) has been changed to realize a growth scenario in the future by slowing the pace of growth compared to the initial targets and focusing instead on solidifying foundations.

Image of results growth



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

2. Improving profits at Nihon Kenshi and strengthening organizational capabilities

The important issues for the Company to expand earnings in the future are increasing profits at Nihon Kenshi, which it made a subsidiary through an M&A last year, and strengthening its organizational capabilities. To realize these goals, the Company is moving forward on the following specific measures.

(1) Improving profits: relocating the head office

Nihon Kenshi's head office has been relocated to Fukuyama, the site of the factory, and the workforce strengthened. Moreover, the Osaka sales office, which had a lot of wasted space, has been relocated and renewed.

(2) Improving profits: improving efficiency by reviewing lines of movement

The layout and other aspects of Nihon Kenshi's Fukuyama factory had not been reviewed in a long time and it could not be described as being highly efficient. Going forward, the lines of movement at the Fukuyama plant (manufacturing site) will be reviewed and the placement of equipment and personnel will be optimized for further labor saving and efficiency improvements.

(3) Improving profits: incorporating external orders

The Company currently outsources a part of its production operations to 16 outsourcer companies, but it is reviewing its production system and sequentially transferring outsourced orders to in-house production. This is reducing production costs.

(4) Improving profits: making cost prices visible

SAP (ERP), which has already been introduced into Mipox, will also be introduced into Nihon Kenshi and measures to "make costs prices visible" shall be promoted. This will improve the gross margin and establish a cost structure that can compete even in the overseas markets.

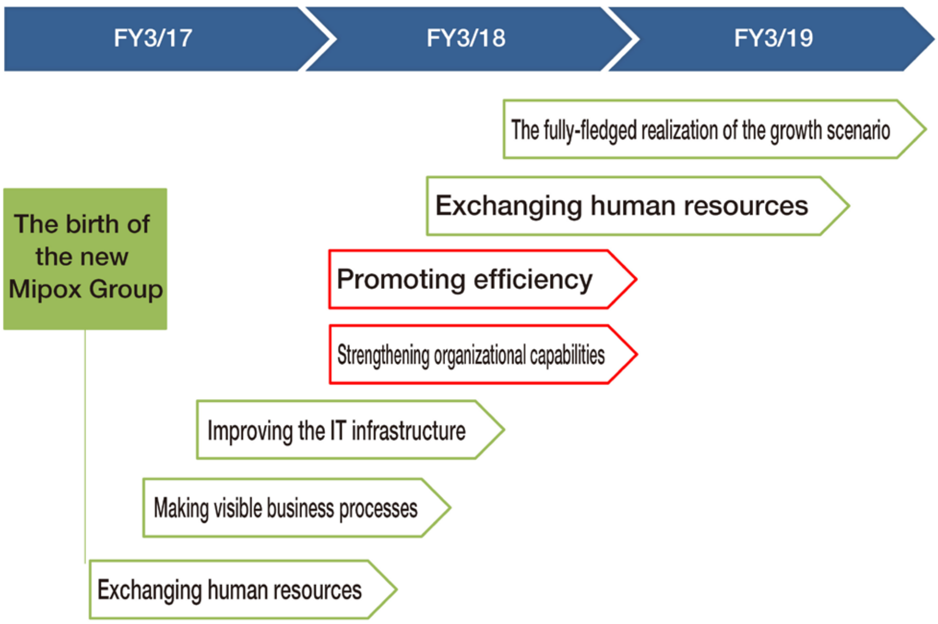
(5) Strengthening organizational capabilities: cross selling

The Company has established three brands with wide product lineups, of Mipox, Ref-lite, and Nikken and they shall be further strengthened and customers provided with comprehensive solutions tailored to their needs. In terms of sales also, whereas Mipox tends to develop sales with technical support, Nihon Kenshi is more orientated toward route sales. So customer satisfaction will be increased by efficiently combining these two approaches.

(6) Strengthening organizational capabilities: exchanges of human resources

The Company's employees at the Shinjuku office and Nihon Kenshi's employees regularly meet to promote exchanges of personnel. The Company's employees are also deepening their understanding of Nihon Kenshi's products and working to solidify the organization toward expanding sales.

Strengthening organizational capabilities



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

Disclaimer

FISCO Ltd. (the terms “FISCO”, “we”, mean FISCO Ltd.) has legal agreements with the Tokyo Stock Exchange, the Osaka Exchange,and Nikkei Inc. as to the usage of stock price and index information. The trademark and value of the “JASDAQ INDEX” are the intellectual properties of the Tokyo Stock Exchange, and therefore all rights to them belong to the Tokyo Stock Exchange.

This report is based on information that we believe to be reliable, but we do not confirm or guarantee its accuracy, timeliness,or completeness, or the value of the securities issued by companies cited in this report. Regardless of purpose,investors should decide how to use this report and take full responsibility for such use. We shall not be liable for any result of its use. We provide this report solely for the purpose of information, not to induce investment or any other action.

This report was prepared at the request of its subject company using information provided by the company in interviews, but the entire content of the report, including suppositions and conclusions, is the result of our analysis. The content of this report is based on information that was current at the time the report was produced, but this information and the content of this report are subject to change without prior notice.

The final selection of investments and determination of appropriate prices for investment transactions are decisions for the recipients of this report.

FISCO Ltd.