

COMPANY RESEARCH AND ANALYSIS REPORT

PIPEDO HD, Inc.

3919

Tokyo Stock Exchange First Section

15-Jun.-2021

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

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Summary

In FY2/21, secured an operating profit increase of 2.6% YoY, despite the impact of the coronavirus

PIPEDO HD, Inc. <3919> (hereafter, “the Company”) is a pure holding company, and PIPED BITS Co., Ltd., its main consolidated subsidiary, is a unique IT company that supplies its proprietary SPIRAL® platform (middleware) in a cloud format. The Company provides a platform for national clients and other large companies, mid-sized companies, and small and medium-sized system integrators and also sells proprietary applications for specific industries (such as beauty and construction industries) and engages in businesses that utilize these applications.

1. Summary of FY2/21 results

In FY2/21, net sales were ¥6,524mn (up 5.1% year on year (YoY)), operating profit was ¥1,427mn (up 2.6%), recurring profit was ¥1,455mn (up 3.7%), and profit attributable to owners of parent was ¥1,226mn (up 78.2%). Despite having been substantially affected by the novel coronavirus pandemic in 1Q, the Company secured an operating profit increase for the full fiscal year having been on a path to recovery from 2H onward. By segment, the mainstay information asset platform business led overall earnings results with increases of 6.4% and 9.3% in sales and profits, respectively. Meanwhile, profits decreased in the sales promotion CRM solutions business due to the novel coronavirus pandemic, but increased in the advertising business, xTech business, and social innovation business, albeit a small amount. On a quarterly basis, there was an increase in sales of 14.8% YoY in 4Q, thereby substantiating the notion of an upward trend. It would appear that the Company achieved strong results amid the pandemic. Profit attributable to owners of parent increased substantially, largely due to a gain on sales of U.S. shares recorded in FY2/21, in addition to loss on valuation of investment securities recorded in FY2/20.

2. FY2/22 outlook

For the FY2/22 consolidated results outlook, it is forecasting ¥7,000mn in net sales (up 7.3% YoY), ¥1,400mn in operating profit (down 1.9%), ¥1,400mn in recurring profit (down 3.8%), and ¥840mn in profit attributable to owners of parent (down 31.5%). Whereas overall earnings results are following an upward trajectory centered on performance of the mainstay information asset platform business, a conservative forecast still holds amid prevailing uncertainties ahead due to the novel coronavirus pandemic. As such, we recommend keeping a close eye on quarterly developments going forward, given that an upward revision stands as a possibility. The annual dividend has been set at ¥25 per share, for a dividend payout ratio of 23.2%.

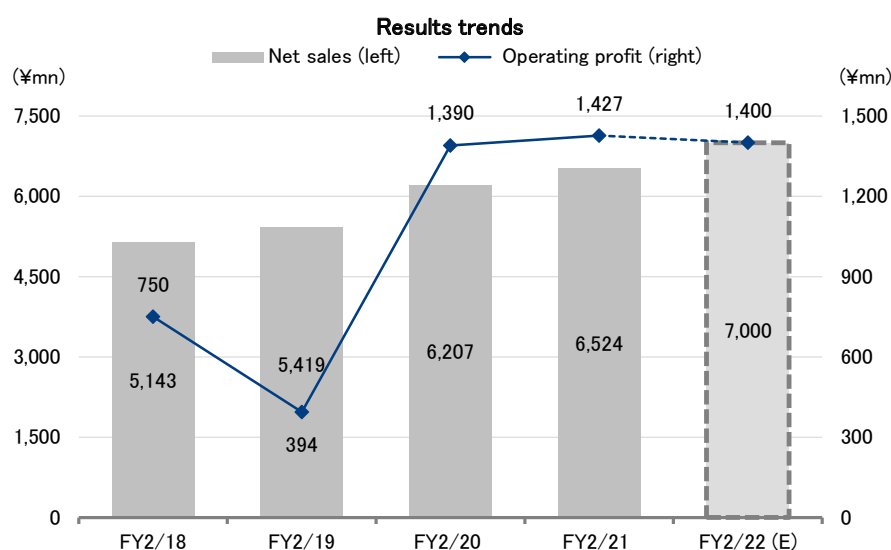
3. Medium-term business plan

The Company released its new 2023 Medium-Term Business Plan, which had been postponed due to the novel coronavirus pandemic. Fundamental policies set forth under the plan call for initiatives that involve: 1) strengthening and upgrading horizontal digital transformation (DX) initiatives, 2) aggressively taking on challenges with respect to vertical DX, 3) taking on new challenges with respect to customer engagement, 4) helping to realize the notion of a carbon-free society, and 5) engaging in recruitment and training on an ongoing basis. Meanwhile, the Company aims to achieve quantitative targets for the plan's final fiscal year of FY2/23 that include net sales of ¥7,500mn, operating profit of ¥1,700mn. Achievement of those quantitative targets translates to compound annual growth rates (CAGR) for the three year period of 6.5% and 6.9% in terms of net sales and operating profit, respectively.

Summary

Key Points

- Conducts businesses that primarily leverage the proprietary SPIRAL® platform
- In FY2/21, secured an operating profit increase of 2.6% YoY, yet conservatively projects a 1.9% decrease in profit for FY2/22
- Announced 2023 Medium-Term Business Plan. It targets ¥7,500mn in net sales and ¥1,700mn in operating profit in FY2/23



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

Company profile

Conducts businesses that primarily leverage the proprietary SPIRAL® platform

1. Company profile

The Company is a pure holding company established through a transfer of shares from PIPED BITS on September 1, 2015. It has 13 consolidated subsidiaries and one equity-method affiliate as of February 28, 2021.

2. History

PIPED BITS was established in April 2000 by Nobuaki Satani, the current president of PIPEDO HD. For most companies, data acquired in the course of business including customer attributes and email addresses form important "information assets," so PIPED BITS commenced operations with services to effectively use them at the same time as managing them securely. What was developed in-house in order to carry out this business was the proprietary SPIRAL® platform for data management (details to follow.) Subsequently, the Company developed a range of applications based around SPIRAL® and has been engaged in rolling out these business applications.

PIPEDO HD, Inc.
3919 Tokyo Stock Exchange First Section

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<https://www.pipedohd.com/>

Company profile

PIPEDO HD history

Sep. 2015	PIPEDO HD was established by a single transfer of shares from PIPED BITS Co., Ltd. and listed on the First Section of Tokyo Stock Exchange (PIPED BITS Co., Ltd. was delisted in August 2015). PIPEDO HD acquired the shares of the four subsidiaries of PIPED BITS via a property dividend, converting them into its own subsidiaries
Dec. 2015	Made additional investment in Current Inc., converting it into a subsidiary
Mar. 2016	Established GONDOLA CO., LTD., FRIENDIT Inc., and BIREKI Co., Ltd.
Oct. 2016	Established BLOOM NOTES, INC.
Mar. 2017	Established VOTE FOR, INC. and I LOVE, INC.
Dec. 2017	Established L Coin, Inc.
Mar. 2018	Established Shimokita Coin, Inc.
Apr. 2018	Implemented an absorption merger with FRIENDIT Inc. as the surviving entity and AsBase Inc. as the eliminated entity
May 2019	Implemented an absorption merger with VOTE FOR, INC. as the surviving entity and Publica Co., Ltd. as the eliminated entity
Mar. 2020	Established Double Sharp Partners Corporation

Source: Prepared by FISCO from the Company's website

PIPED BITS history

Apr. 2000	Established as K.K. Sahara in Tokyo's Setagaya Ward, aiming at e-mail-based marketing support software, after receiving a capital investment from Current Inc. (Tokyo, Setagaya Ward)
Oct. 2000	Developed e-mail marketing platform SPIRAL Messaging Place®
Dec. 2000	Spun off to become independent via an MBO, and relocated headquarters to 1-12-15 Jinnan, Shibuya Ward, Tokyo
Jan. 2001	Changed trade name to PIPED BITS Co., Ltd.
Feb. 2001	Launched SPIRAL Messaging Place® service, an ASP service
Apr. 2001	Introduced a sales agent system to SPIRAL Messaging Place®
Dec. 2001	Introduced SLA (quality certification system) to SPIRAL Messaging Place®
Dec. 2006	Listed on the Tokyo Stock Exchange Mothers market
Apr. 2009	Changed the service name from SPIRAL Messaging Place® to SPIRAL®
Jan. 2010	Acquired certain operations, namely the CMS and EC businesses of HiDESIGNS Inc.
Apr. 2010	Launched apparel EC platform SPIRAL EC®
Dec. 2010	Started to tackle the internet advertising and internet media-related areas and launched media EC operations
Mar. 2011	Acquired the apparel web solution business of Gras CORPORATION and launched e-commerce business to operate, manage, plan and produce e-commerce sites tailored to the apparel and fashion space
Sep. 2011	Increased capital via a third-party capital allotment to United Ventures Inc. Acquired Net de Kaikei®, a cloud-based accounting business, from Business Online Co., Ltd.
Mar. 2012	Acquired Biyoshimeikan, a hair catalogue publication business, from SAMURAI PROJECT CORPORATION Made PaperlessStudio co., Ltd. a subsidiary
Mar. 2014	Made AsBase Inc. a subsidiary via a stock swap
Feb. 2015	Invested in Sprinklr Japan KK
Mar. 2015	Subscribed to a third-party allocation of shares by Current, Inc. Invested in Sprinklr, Inc. (United States)
May 2015	Established Publica Co., Ltd.
Jul. 2015	Established WEARHEART Inc.

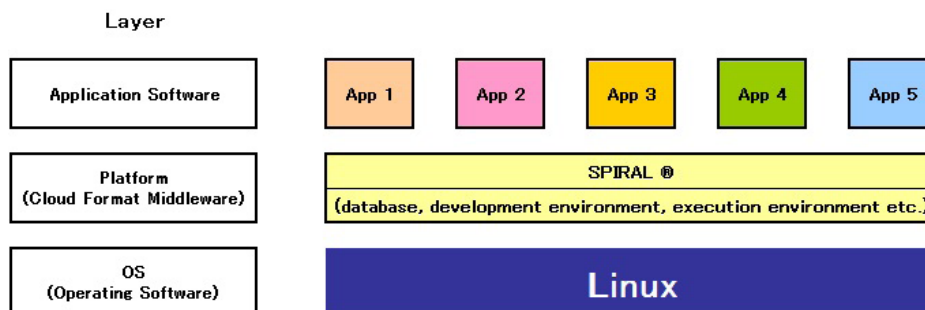
Source: Prepared by FISCO from the Company's website

3. Business overview
(1) Product overview

The Group's flagship business is its proprietary platform SPIRAL®, and the provision to users of related applications, not by way of outright sales but rather in a rental format (a monthly fee method). Within the layers of software, SPIRAL®'s position may be referred to as a cloud-based middleware.

Company profile

Positioning of SPIRAL®



Source: Prepared by FISCO from Company website and materials

Generally, when developing operational and other systems, the majority of companies need to purchase the hardware required to develop and run the system, the operating system (OS), development environment (tools), database(s), middleware and other elements themselves (or outsource development), and by combining them, develop the base (platform) in order to run the system. Additionally, they must also bear the burden (cost) of maintaining its post-development. As SPIRAL® developed by PIPED BITS is already equipped with development tools, this not only enables easier development of different kinds of applications, but customer data and other data stored in SPIRAL® can also be shared and used with other applications thanks to the platform's built-in database. Furthermore, these applications and data may be easily reproduced and delivered. This provides a significant advantage over package software.

As a result, corporate customers may easily and holistically operate with (use) and manage data, and at the same time greatly reduce application development costs by using SPIRAL®. Additionally, given that it is a pay-for-use monthly fee format platform, it further helps to reduce costs. Starting with major financial institutions, the companies that have introduced SPIRAL® include many preeminent corporations.

Recently in the IT industry, the majority of services have been provided in a cloud format, with them being described in a variety of ways depending on the content of the particular cloud format service. SPIRAL® belongs to the area generally called PaaS (Platform as a Service), in other words, this field provides not only applications used in various business operations, but also the platforms that run these applications in a cloud format.

(2) Main product content and prices

The Company's flagship product SPIRAL® is a platform environment. Accordingly, the main customers using it range from large companies which internally develop operating software and other software to small and medium-sized system integrators who develop systems for SMEs and web production and development companies. By using SPIRAL®, the Company is also able to internally develop applications aimed at specific industries and users, and then sell those applications. These types of core products are not sold as a package (outright sales) but are sold entirely in an ASP format. Below are the major products and their monthly pricing (minimum fees).

It goes without saying that in the Company's business model, increases in active (fee-based) accounts are linked to sales growth. However, the fees mentioned below are only basic or minimum fees and the actual fees change depending on data volumes (pay-for-use). Therefore, sales do not simply equal the number of accounts multiplied by the basic fee. But in order to view sales trends, the number of active accounts is an important indicator.

Company profile

a) SPIRAL®

This is the Company's main product. The core platform is equipped with a database, development environment, execution environment, and other features. While it is often utilized in email distribution, seminar management, and questionnaire form creation applications, this product offers many other functions as well. Furthermore, it flexibly coordinates with services from other companies and customization can substantially broaden the scope of applications. Monthly usage fees start from ¥50,000 (excluding tax; the price was revised in October 2020).

b) SPIRAL PLACE®

Cloud format groupware possessing website creation and updating functions, and at the same time linked to SNS. As groupware, SPIRAL PLACE® enables calendar and file sharing while using simple operations to enhance and update web content, as well as traffic analysis. It can also be linked to Facebook and Twitter. It is highly regarded by retail chain stores and others that employ large numbers of staff. Basic fees start at ¥6,000/month (excluding tax).

c) SPIRAL EC®

An e-commerce (EC) platform focused on apparel. It is highly received by the industry for resolving a number of issues, such as simplifying update procedures and maintaining a low budget, while also pursuing a sophisticated brand image for EC sites for apparel. Fees are pay-for-use up to 5% of the transaction amount.

d) SPIRAL Affiliate®

A holistic ASP affiliate management service that reduces the issues and costs associated with introducing and operating affiliate marketing for advertisers. It includes special offers for SPIRAL® users, such as no initial costs.

e) Other

There are also applications aimed at specialist fields and industry sectors. Furthermore, through alliances with various specialist companies, the Company aims to expand the use and applications of SPIRAL®.

(3) Business segments

Up until FY2/18, the Company had four business segments: the information asset platform business, advertising business, solutions business, and social innovation business. Furthermore, from FY2/19, the Company has integrated these four segments into three main segments: the Function-based segment, Field-based segment, and Group Common segment.

The main segments are divided according to target client. The Function-based segment comprises businesses utilizing the cloud and other IT platforms to target companies and organizations expected to have room for improvements in operating efficiency in CRM, sales promotions, and EC. These are businesses in which sales activities can be carried out horizontally. The Field-based segment includes businesses that target specific industries and fields for which innovation through new information-sharing models utilizing the cloud and other IT platforms can be expected. These businesses involve vertical sales. The Group Common segment includes the management costs of the pure holding company, which were previously allocated to business areas, and costs related to Group hiring and development.

Company profile

The Company announced that it will make changes to its business segments to take effect in FY2/22 with the aim of setting the Group on a clearer growth trajectory. Specifically, upon splitting up its existing sales promotion CRM solutions business, the Company will then create a “Horizontal DX” segment which will consist of the solutions portion of its sales promotion CRM solutions business combined with its information asset platform business (cloud services). The Company will also create a new “Customer Engagement” segment which will encompass its advertising business integrated with other operations of the sales promotion CRM solutions business. The name of the current Field-based segment will be changed to the “Virtual DX” segment given that it engages in industry- and sector-specific solutions (details to follow).

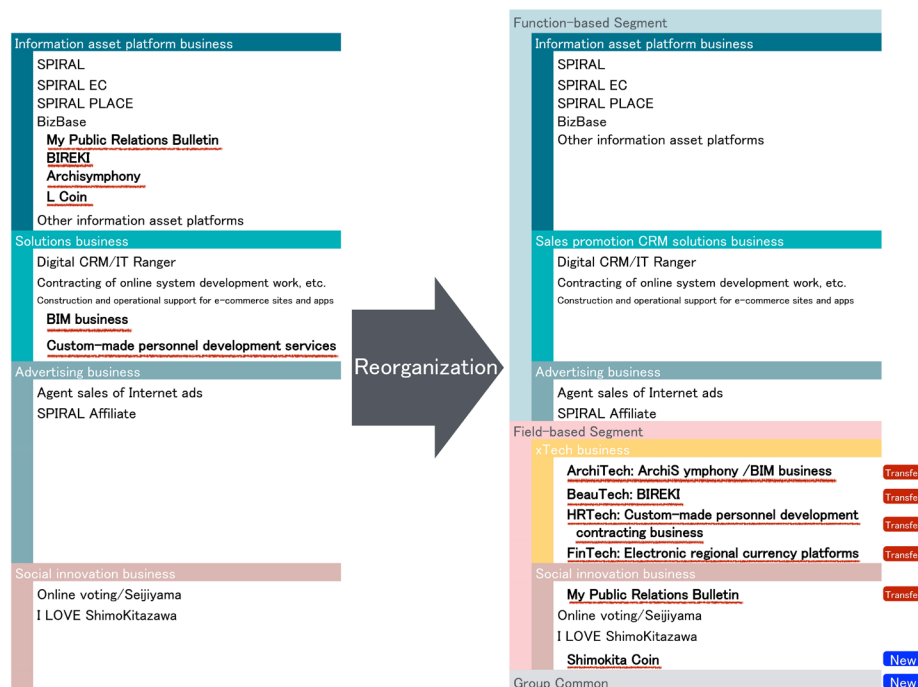
Segment reorganization (Main segments/segment details)

Function-based Segment		Businesses utilizing the cloud and other IT platforms to target companies and organizations expected to have room for improvements in operating efficiency in CRM, sales promotions, and EC
<u>Information asset platform business</u>		Development and provision of systems that assist clients in reducing costs and improving business efficiency to help solve issues in society, where there is a shortage of manpower
<u>Sales promotion CRM solutions business</u>		Provision of services utilizing IT to optimize operations and create contact opportunities with customers as well as enhance these contact points; development of optimal IT systems for clients according to their needs
<u>Advertising business</u>		Planning of promotions tailored to customers’ objectives; production, development and management of advertising contents; agency sales of online ads
Field-based Segment		Businesses targeting specific industries and fields for which innovation through new information-sharing models utilizing the cloud and other IT platforms can be expected
<u>xTech business</u>		Business expected to create innovative services in the industry by utilizing IT to share information across company and organizational lines
<u>Social innovation business</u>		Business engaging in activities with public benefits, aiming not to help individual companies and industries solve internal problems, but to solve broader societal issues
Group Common		The pure holding company’s management costs, costs related to Group hiring and development, etc.

Source: The Company's results briefing materials

Company profile

Segment reorganization (changes in segment by product and service)



Source: The Company's results briefing materials

(4) Main consolidated subsidiaries and their business overviews

In addition to the mainstay businesses (PIPEDO HD's SPIRAL®), the Company also operates various related businesses via the following subsidiaries.

a) PaperlessStudio co., Ltd.

PaperlessStudio is involved in the construction project planning and management and BIM (Building Information Modeling) consultant businesses. The company also runs BIM and CIM (Construction Information Modeling) personnel workshops for people working in design and construction. In May 2012, the company started providing the BIM construction information platform ArchiSymphony®. In September 2017, it also released ArchiSymphonyVBP, the first cloud service in Japan exclusively for BIM/CIM collaboration.

b) VOTE FOR, INC.

The Company established this entity in March 2017 to facilitate internet-based voting. It aims to build voting systems that utilize blockchain and other new technologies. It also continues to operate the Seijiyama® political and election information website that existed internally*.

* Publica underwent an absorption merger on May 1, 2019.

c) GONDOLA CO., LTD.

GONDOLA was formed by the corporate split of the Media Strategy Company on March 1, 2016. The company is active in the three service domains of advertising solutions, web solutions, and social management. By combining an original service lineup, including planning, production, system development, and operation, with IT utilizing information management platforms such as SPIRAL Affiliate® and SPIRAL®, the company enables one-stop solutions for corporate management issues and business activity optimization.

Company profile

d) FRIENDIT Inc.

FRIENDIT provides comprehensive support for e-commerce-related system implementation, online shop management, and omni-channels at the strategic level. Assisting customers with the common issues of personnel shortages and insufficient experience, the company produces marketing activities that directly boost sales volume and sales figures, from IT-based administration optimization through to promoting use of data on products, members, and purchasing. The company was formed on March 1, 2016 by a corporate split-off from the in-house Apparel and Fashion company.

Also, in April 2018, the Company acquired SPIRAL EC® and SPIRAL PLACE® from PIPED BITS, and moreover, it conducted an absorption merger of AsBase Inc., which provided BizBase®, an ASP/SaaS-type call center platform service. Through this, it progressed the development of SPIRAL EC® and SPIRAL PLACE®, and furthermore of a new service integrated with Cloud CTI. But then in May 2020, it transferred SPIRAL PLACE® back to PIPED BITS. Linking the information assets of PIPED BITS' HR cloud service with SPIRAL PLACE®, with which it has high affinity, has made it possible to further advance workstyle reforms and customer companies' business continuity.

e) BIREKI Co., Ltd.

BIREKI provides IT services centered on the digital record app Bireki® for beauty salons. The company's business activities aim to enrich the lives of people by helping to increase the value of as many people working in the beauty industry as possible and making beauty treatments more accessible and enjoyable. The company was newly established on March 1, 2016 through a corporate spin-off from the previous Bireki Company.

f) Current, Inc.

Current's core businesses involve web access improvement and digital CRM for developing loyal users (implementation services such as communication and data management design, message creation and construction, message delivery, and effect verification) while integrating information assets and implementing optimal messaging to users. Aiming to generate business synergies between PIPED BITS, which has expertise in information asset utilization and IT solutions, and Current, with its strengths in stationed marketing support, the Company increased its equity stake in Current in December 2015 and converted it into a subsidiary.

g) I LOVE, INC.

The Company created this entity in March 2017 to make further progress in the I LOVE Shimokitazawa local revitalization project and pursue development of a new transaction format for donations, tips, and other small-sum transactions employing electronic regional currency.

h) L Coin, Inc.

The Company invested 70% in L Coin, which was established in December 2017, making it a consolidated subsidiary. L Coin builds payment systems for local governments, companies, and local financial institutions using an electronic regional currency platform that applies blockchain technology and thereby promotes cashless transactions in local communities. It can also issue unique electronic regional currencies at low costs through the platform and supports smooth development of payment systems and store point systems.

i) Shimokita Coin, Inc.

This company was established in March 2018 as a subsidiary of L Coin (an indirectly owned subsidiary of the Company). Using an electronic regional currency platform provided by L Coin, the company issues electronic regional currency limited to the Shimokitazawa area. Also, the company aims to energize the local economy by working with I LOVE to attract investment and member stores among local shops.

j) Double Sharp Partners Corporation

The Company established this entity on March 4, 2020 as a specialty organization focused on investing in venture companies inside and outside the Group with the aim of promoting longer-term advances and higher profitability by the Group.

SPIRAL®'s primary feature is flexible customization

(5) Special characteristics and strengths

a) Ease of system construction

SPIRAL®'s greatest distinguishing feature is its ability to be freely customized. The Company itself combines SPIRAL®'s functions to develop applications for its own operational systems and specific customers (areas). Almost any operational system could be created by combining SPIRAL®'s functions. These operational systems have been generally developed by operators known as system integrators. However, it is possible to replace the majority of the work traditionally done by system integrators through a combination of SPIRAL®'s functions, with corporate customers able to easily undertake a range of development and system creation themselves. For this reason, SPIRAL® is attractive not only to large corporations, but also SMEs that are unable to bear the high cost of system development, as the platform is affordable and easy to use.

b) Every type of application can be linked

SPIRAL® possesses a broad range of functions. However, the most basic function is that it enables, for example, a corporate customer managing databases over the internet to easily engage in various tasks, from database creation through to data manipulation (such as registration, updating and deletion), batch data registration, and downloading. Specifically, in cases in which companies undertake online surveys, market research or new product evaluations, the company can very easily create a survey, deliver it to targeted and prospective customers, have them complete the surveys, and then collect them using SPIRAL®. If a customer satisfaction questionnaire is linked to the customer database, it becomes possible to analyze them according to customer attributes, and conduct follow-up in order to enhance satisfaction levels. Survey results can be aggregated in real time and compiled into a report. Via SPIRAL®, this series of actions between different applications may all be easily undertaken with simple operations.

In the same way, with regard to creating forms, such as for gift promotions/affinity marketing campaigns, recruitment application forms, inquiry forms, seminar applications, account openings, and information requests, it is possible via SPIRAL® to expeditiously undertake actions such as form creation; the recording, updating, and deletion of member attributes; and login verification. For example, in a case such as holding seminars, even if hypothetically multiple seminars are proceeding simultaneously, the taking of multiple applications and management of cancellations can be carried out instantaneously, making the holding of the seminar more efficient. It is also easy to develop this data in a search form tabulating it, having a yes or no Q&A questionnaire, or creating a summary chart or graph. Also, given the addition of services from AsBase (now FRIENDIT), which possesses voice (telephone) solutions, it is expected that customer convenience will be enhanced further.

Company profile

One of the Company's competitors is salesforce.com Co., Ltd. <CRM> of Japan, but this company has grown through repeated acquisitions of other companies. Therefore, its various applications were developed by the different companies it acquired, so each application was not created on the same platform. Consequently, when a client needs to link multiple applications, in many cases this requires additional development costs and time. On this point, one could say that SPIRAL® is considerably superior to salesforce.com's product, as its applications are on the same platform and as a result, each of the applications can easily (inexpensively and quickly) be linked.

c) Superiority in installation costs and security

Also, because SPIRAL® is not sold as package software, but provided as a pay-as-you-go cloud service, a distinctive feature is that client companies may themselves build requisite systems rapidly and at low costs, without taking and incurring unnecessary time and expenses. That is, even in the initial period when the system is installed, it can be developed from just a small investment without incurring major costs.

In addition to its superiority in terms of costs, the Company also provides guarantees, maintenance and monitoring functions on the security front, which is extremely convenient, particularly for small and medium-sized system integrators. For example, in the event that vulnerability is identified in the SSL (Security Sockets Layer), which is the most widely used communication cryptographic technology on the internet, normally it is necessary for each system integrator to individually deal with this vulnerability. But if SPIRAL® is used, the Company is able to take all necessary actions and the issue is resolved on SPIRAL®, eliminating the need for the system integrators to deal with it individually. Use of SPIRAL®, meanwhile, reassures end customers about security.

Many SMEs cannot afford the expenses required for system development and security. The Company's products solve these issues in a one-stop manner; thus, the Company's products are attractive not only to large corporations but to SMEs as well.

d) Installation case studies

A case study of the Company's installation of SPIRAL® is provided by Oriental Hotel Tokyo Bay. This hotel was using a coupon delivery app to deliver coupons to registered users. But the app was not linked to their PMS*, so it could not be linked to the hotel's members and could not effectively deliver coupons to members. As a result, the hotel could not effectively entice hotel members to visit, and it was losing opportunities to improve earnings. So the Company developed an information system that linked to member information within the hotel's PMS and did not use a smartphone app, but rather used SPIRAL® and LINE, which enabled it to cut development costs in half. Linking SPIRAL®, LINE, and the hotel's PMS and distributing effective information on LINE based on hotel members' frequency of use, gender, and address has made it possible to promote visits by hotel members. All installation case studies are not the same, but this is an excellent case study showing the superiority of SPIRAL®.

| * PMS (Property Management System): A system for accommodation reservations, room management, etc. |

Results trends

In FY2/21, operating profit increased by 2.6% YoY despite the impact of the novel coronavirus pandemic

● Summary of FY2/21 results

(1) Profit and loss conditions

In FY2/21, the Company reported ¥6,524mn in net sales (up 5.1% YoY), ¥1,427mn in operating profit (up 2.6%), ¥1,455mn in recurring profit (up 3.7%), and ¥1,226mn in profit attributable to owners of parent (up 78.2%). Despite having been substantially affected by the novel coronavirus pandemic in 1Q, the Company secured an operating profit increase for the full fiscal year having been on a path to recovery from 2H onward. Profit attributable to owners of parent increased substantially, largely due to a gain on sales of U.S. shares recorded in FY2/21, in addition to loss on valuation of investment securities recorded in FY2/20.

By segment, in the mainstay information asset platform business led overall earnings results with YoY gains of 6.4% and 9.3% in sales and profits, respectively. Meanwhile, profits decreased in the sales promotion CRM solutions business due to the novel coronavirus pandemic, but increased in the advertising business, xTech business, and social innovation business, albeit a small amount. On a quarterly basis, there was a marked increase in sales of 14.8% YoY in the 4Q, thereby substantiating the notion of an upward trend.

In profit-loss, the gross profit margin improved to 75.3% (72.3% in the previous fiscal year), mainly due to the increase in the percentage of total sales provided by the information asset platform business, which has a comparatively high profit margin, and the liquidation of an unprofitable subsidiary, and gross profit was ¥4,910mn (up 9.4% YoY). SG&A expenses increased 12.4%, as although operating expenses (business trip expenses, etc.) decreased due to the impact of the novel coronavirus pandemic, other expenses increased, including personnel expenses following the recruitment of new graduates. As a result, an operating profit increase of 2.6% was secured.

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Results trends

Simplified income statement

	FY2/20		FY2/21		Change
	Amount	% of total	Amount	% of total	
Net sales	6,207	100.0%	6,524	100.0%	5.1%
(Function-based Segment)	5,940	95.7%	6,257	95.9%	5.3%
Information asset platform business	4,249	68.4%	4,522	69.3%	6.4%
Sales promotion CRM solutions business	963	15.5%	965	14.8%	0.2%
Advertising business	727	11.7%	768	11.8%	5.6%
(Field-based Segment)	267	4.3%	266	4.1%	-0.4%
xTech business	188	3.0%	180	2.8%	-4.5%
Social innovation business	79	1.3%	86	1.3%	9.3%
Gross profit	4,489	72.3%	4,910	75.3%	9.4%
SG&A expenses	3,099	49.9%	3,483	53.4%	12.4%
Operating profit	1,390	22.4%	1,427	21.9%	2.6%
(Function-based Segment)	1,813	-	1,903	-	5.0%
Information asset platform business	1,419	-	1,551	-	9.3%
Sales promotion CRM solutions business	84	-	32	-	-61.5%
Advertising business	309	-	319	-	3.4%
(Field-based Segment)	-76	-	-15	-	-
xTech business	-34	-	7	-	-
Social innovation business	-41	-	-22	-	-
Company-wide costs	-346	-	-461	-	-
Recurring profit	1,402	22.6%	1,455	22.3%	3.7%
Profit attributable to owners of parent	688	11.1%	1,226	18.8%	78.2%

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

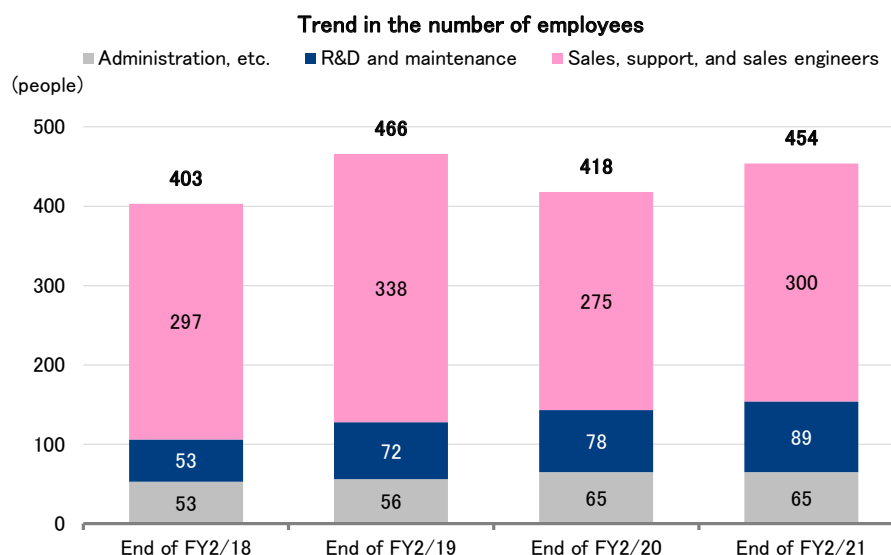
Net sales increased ¥316mn YoY, with the main factors of change including an increase of ¥273mn in the information asset platform business (of which, an increase of ¥280mn for SPIRAL®), an increase of ¥2mn in the sales promotion CRM solutions business (of which, decreases of ¥18mn for digital CRM and ¥18mn for EC operations assistance, and an increase of ¥47mn for development contracting), an increase of ¥40mn in the advertising business (of which, an increase of ¥65mn for SPIRAL Affiliate®), and a decrease of ¥1mn in the xTech business/social innovation business (of which, increases of ¥15mn for BIM, ¥7mn for My Kohoshi and ¥6mn for internet-based voting, and a decrease of ¥25mn for order-made personnel training services). Order-made personnel training services incurred a YoY decrease in sales as a result of the Company haven withdrawn from the business.

Operating profit increased by ¥36mn YoY. Primary factors attributable higher operating profit included an additional ¥316mn due to the increase in net sales and a ¥77mn decrease in outsourcing expenses (largely attributable to training of in-house human resources). Primary factors weighing on operating profit included a ¥164mn increase in personnel expenses/training expenses (primarily attributable to workforce expansion), a ¥113mn increase in work consignment expenses (more outsourcing involving projects), a ¥58mn increase in sales promotion expenses, and a ¥20mn increase in other expenses.

(2) Trend in the number of employees

The Company actively recruited human resources (conducted up-front investment) from FY2/18 to FY2/19 in order to achieve the targets in the medium-term business plan which establishes FY2/20 as the final year, and at the end of FY2/19, it had 466 employees. Subsequently, in FY2/20, it refrained from new recruitment, including of new graduates, so at the end of FY2/20, this number had declined to 418 employees. However, with an eye to growth in the future, on entering FY2/21, it recruited 37 new graduates and 11 recent graduates who had prior work experience but were unemployed at the time. As a result, when combined with the natural decrease, the Company had 454 employees at the end of FY2/21 (up 36 employees compared to the end of the previous fiscal period).

Results trends



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

(3) Profit and loss by segment

The profit and loss in the Function-based segment was as follows.

a) Information asset platform business

Net sales were ¥4,522mn (up 6.4% YoY) and operating profit was ¥1,551mn (up 9.3%). Contract sales (cloud-use monthly fees) were strong, as the number of active SPIRAL® accounts had increased to 3,772 at the end of the period (3,680 at the end of the previous period). On the other hand, due to the impact of the novel coronavirus pandemic there was self-restraint on sales activities and postponements of sales discussions among other events in general sales, which are spot sales. This business's mainstay products are cloud-based, so after passing the profit-loss breakeven point, the profit margin is high, and moreover, the Company curtailed various expenses, mainly personnel expenses. Therefore, alongside the increase in sales, segment profit increased.

b) Sales promotion CRM solutions business

Demand from customers decreased due to the impact of the novel coronavirus pandemic, so net sales slightly increased to ¥965mn (up 0.2% YoY). The increase in net sales was held to a moderate level amid a situation where mainstay e-commerce (EC) drew support from relatively strong general sales results, but endured sluggish performance with respect to the mainstay apparel industry due to the novel coronavirus pandemic. As a result, operating profit decreased by 61.5% to ¥32mn given that revenues were not sufficient to absorb the higher expenses.

c) Advertising business

Net sales were ¥768mn (up 5.6% YoY) and operating profit was ¥319mn (up 3.4%). Although this business was affected by the stagnation of economic activities due to the impact of the novel coronavirus pandemic, a partial shift to online advertising was seen.

Profit and loss in the Field-based segment was as follows.

Results trends

d) xTech business

This business can be expected to create innovative services for industries by utilizing IT technologies to share information across companies and organizations. Net sales decreased to ¥180mn (down 4.5% YoY) despite strong results from BIM (Building Information Modeling), amid sluggish performance of Bireki® given that the novel coronavirus pandemic affected beauty salons, the main customers. On the earnings front, operating profit increased YoY to ¥7mn (versus a loss of ¥34mn in the previous fiscal year), partially due to the liquidation of an unprofitable subsidiary (in December 2019).

e) Social innovation business

This business engages in activities with public benefits, aiming to not just help individual companies and industries solve internal problems, but also to solve broader societal issues. The business booked net sales of ¥86mn (up 9.3% YoY) and an operating loss of ¥22mn (versus a loss of ¥41mn in the previous fiscal year). Due to the impact of the novel coronavirus pandemic, various events were canceled and postponed, and services such as I LOVE Shimokitazawa and Shimokita Coin® were greatly affected. Conversely, sales continued to steadily increase of My Kohoshi (My Public Relations Bulletin), a service that helps local governments open up and utilize their PR magazines. By the end of FY2/21, the number of posting local governments had reached 931, covering around 50% of the local governments within the country. This segment remains small in scale and its contribution to earnings is low, but it is a field that can be expected to grow in the future.

(4) Financial position and cash flow conditions

Looking at the financial position in FY2/21, total assets were ¥8,074mn (up ¥945mn on the end of the previous fiscal period). Current assets increased ¥1,729mn, with the main factors including that cash and deposits increased ¥1,510mn and notes and accounts receivable increased ¥269mn. Fixed assets decreased ¥784mn, as intangible fixed assets decreased ¥50mn and investments and other assets decline ¥733mn. The decrease in investments and other assets was mainly attributable to sales of investment securities (U.S. shares).

Total liabilities were ¥3,582mn (up ¥356mn), mainly due to a ¥477mn increase in short-term loans payable, etc. that includes the current portion of long-term loans payable, a ¥253mn decrease in accrued income tax, and a ¥147mn decrease in long-term loans payable. Net assets were ¥4,491mn (up ¥589mn), primarily because retained earnings increased ¥1,057mn, following the recording of profit attributable to owners of parent, and the acquisition of treasury shares of ¥500mn.

Simplified balance sheet

	(¥mn)		
	End of FY2/20	End of FY2/21	Change
Current assets	5,191	6,921	1,729
Cash and deposits	3,538	5,049	1,510
Notes and accounts receivable	1,371	1,641	269
Fixed assets	1,936	1,152	-784
Tangible fixed assets	85	85	0
Intangible fixed assets	478	428	-50
Investments and other assets	1,372	638	-733
Total assets	7,128	8,074	945
Current liabilities	2,626	3,127	501
Short-term loans payable, etc.	825	1,302	477
Fixed liabilities	600	454	-145
Long-term loans payable	600	453	-147
Total liabilities	3,226	3,582	356
Net assets	3,901	4,491	589

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

Results trends

Net cash provided by operating activities was ¥891mn, with the main revenue items including the recording of net profit before income tax of ¥1,735mn, depreciation and amortization of ¥163mn, and an increase in accounts payable of ¥289mn, while the main expenditure items included gain on sales of investment securities of 293mn and an increase in accounts receivable of ¥269mn. Net cash provided by investing activities was ¥950mn, with the main revenue items including proceeds from sale of investment securities of 1,201mn, while the main expenditure items included the acquisition of intangible fixed assets, mainly software, of ¥107mn and the acquisition of investment securities of ¥154mn. Net cash used in financing activities was ¥337mn, with the main revenue item from borrowing (net) of ¥330mn, and the main expenditure items including the acquisition of treasury shares of ¥501mn and dividend payments of ¥168mn. As a result, cash and cash equivalents increased ¥1,510mn during the period, and the balance of cash and cash equivalents at the end of FY2/21 was ¥5,049mn.

Simplified cash flow statement

	(¥mn)	
	FY2/20	FY2/21
Cash flow from operating activities	1,272	891
Cash flow from investing activities	-175	950
Cash flow from financing activities	17	-337
Change in cash and cash equivalents	1,114	1,510
Balance of cash and cash equivalents at the end of FY2/21	3,538	5,049

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

(5) Main topics during FY2/21

a) Release of SPIRAL® ver.2

In November 2020, the Company launched its new SPIRAL® ver.2 low-code development platform. The platform enables worldwide low-code development, featuring updated SPIRAL® architecture. In addition to striking a balance between low-code development's distinctive sense of speed and high levels of security, the platform also enables a faster pace of international low-code development. More than ten companies have already adopted the SPIRAL® ver.2.

b) SPIRAL® product enhancement

The Company will continue to provide and enhance SPIRAL® ver.1, which boasts 20 years of expertise and high reliability. Meanwhile, SPIRAL® ver.1 in conjunction with SPIRAL® ver.2 will facilitate digital transformation (DX) across a wide range of fields, serving as a low-code development platform.

c) Internet-based voting system offered to local governments

The Company installed an internet-based voting system in Tsukuba City connected with xID. It has been shown to be capable of boosting vote counts by harnessing smartphone-based voting, making voting sites more freely available including overseas locations, and linking with Japan's My Number (personal ID number) card. The Company also furnished an internet-based voting system for polling initiatives carried out in Machida City.

Results trends

Voting process used in the Tsukuba City project

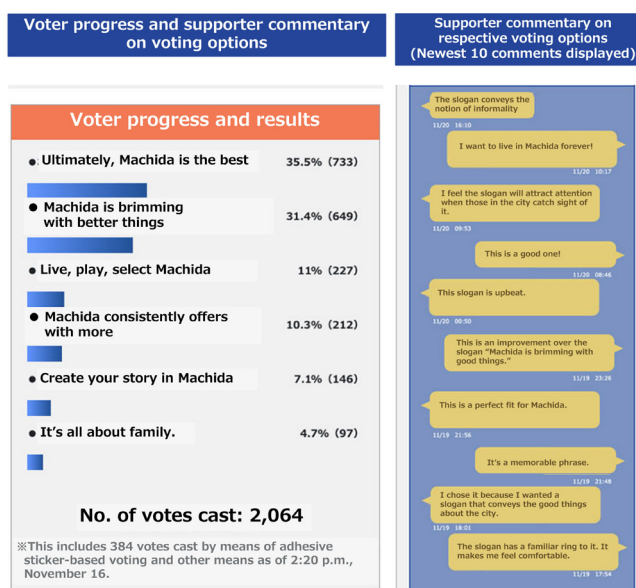
Voters are able to cast their ballots within approximately one to two minutes using their smartphones by following the steps below.

* Screenshots are for illustrative purposes only and actual screens may differ.



Source: The Company's results supplementary materials

Machida City project: Real-time display of voting progress and voter comments



Source: The Company's results supplementary materials

d) Established the CVC (Corporate Venture Capital) fund and launched an investment business

Although the Company previously invested directly (funded) in promising venture companies and other such entities, issues arose from the perspective of efficiency and assessment. With the aim of promoting longer-term advances and higher profitability by the Group, the Company established Double Sharp Partners Corporation as its investment business subsidiary in March 2020. It also formed the Double Sharp Partners Fund-1 (fund scale: ¥500mn, period: 10 years) investment partnership in April as the first fund, and launched an investment business via the partnership.

Results trends

As of the end of FY2/21, the Company has already invested a total of ¥130mn in five companies: 1. Knowledge Merchants Works Inc., provides the Hata Luck store management tool that supports productivity improvement in retail, restaurant, and services sectors (retail tech); 2. JOINS co., Ltd., which provides JOINS, a service that matches individuals working secondary or side jobs in major cities with regional companies (HR tech); 3. Subslife Inc., which provides a furniture subscription-type service (retail tech); 4. BPM Co., Ltd., which provides SaaS with respect to administration of construction maintenance services (construction tech), and; 5. CO-NECT co., Ltd., which provides cloud services that apply smart technology to analog order receipts and deliveries that retailers and restaurants exchange with manufacturers and wholesalers (retail tech). The Company has stated, "In the future, we will invest in companies if there are good candidates."

e) The acquisition of treasury shares

The Company acquired treasury shares in order to improve capital efficiency and to prepare to implement capital policies in the future. Specifically, this was to involve market purchases on the Tokyo Stock Exchange of the Company's common shares, the upper limit of which was to have been 500,000 shares valued at no more than ¥500mn, over an acquisition period extending from April 22, 2020 to October 21, 2020. As a result of the acquisition, the cumulative number of treasury shares acquired was 334,300 shares (upper limit of 66.9%) at a cumulative total of acquisition price of ¥499,936,000 (100.0% of the ¥500mn upper limit) culminating in 334,532 treasury shares held (4.1% of the 8,138,964 total issued shares as of November 30, 2020).

f) Sale of Sprinklr, Inc. shares

In October 2020, the Company recorded a ¥293mn gain on sales of investment securities, upon having sold its holdings of Sprinklr, Inc. (U.S.) shares, constituting investment securities. The Company had entered into a reseller's agreement with Sprinklr, Inc., but sold its shareholdings because that agreement did not yield the anticipated results.

(6) The impact of the novel coronavirus pandemic

In FY2/21 2H, the Company generated order receipts for system projects at an accelerating pace. This was particularly attributable to emergence of demand for IT access, which had previously been stagnant on the sales front, amid factors that included lost orders with respect to projects and prolonged sales discussions. The effects of the coronavirus on each segment are described below.

a) Information asset platform business

The impact on system usage fees (stock sales), which is the basis of the revenue from SPIRAL®, has been minimal. Moreover, the information asset platform business initially encountered difficulties in its efforts to acquire new customers through outbound sales, but is now achieving a gradual recovery amid mounting demand for IT access. In addition, earnings results were buoyed by numerous orders for urgent system projects entailing measures to combat the novel coronavirus, including vaccinations and webinar registrations.

b) Sales promotion CRM solutions business

In sales promotions and CRM management projects, orders have been lost and postponed. Also, for the inside sales agency business, sales discussions for new projects have stalled.

c) Advertising business

This business has been affected by the stagnation of corporate advertising and publicity activities, mainly due to self-restraint on purchasing activities. In particular, it has been impacted by the stagnation of internet advertising relating to traffic advertisements.

d) xTech business/social innovation business

Whereas performance in the BIM (Building Information Modeling) business remained relatively strong, results were adversely affected by successive closures of beauty salons, the main customers of Bireki®. Along with heightening momentum being achieved with online voting using Seijiyama® internet-based voting, there has also been an increase in postings to My Kohoshi (My Public Relations Bulletin), aiding local governments' proactive communication of information. On the other hand, the I LOVE Shimokitazawa has been affected substantially given that it is not possible to hold events, and restaurant circulation of Shimokita Coin® has decreased substantially.

e) The Group common/all companies

Action was taken to have more than 90% of the Group's employees work from home over the duration of the initial state of emergency declaration. Group companies have been promoting initiatives geared to balancing efforts to achieve greater operating efficiency through reduced commuting and travel times with efforts to reduce risk of viral transmission. All the while, the Group companies are honoring their commitment to customers and others with respect to quality of business operations and information security as they continue having their employees work from home under previously established telework arrangements.

Business outlook

Operating profit poised to decrease by 1.9% in FY2/22 due to looming uncertainties

● FY2/22 outlook

For the FY2/22 consolidated results outlook, it is forecasting ¥7,000mn in net sales (up 7.3% YoY), ¥1,400mn in operating profit (down 1.9%), ¥1,400mn in recurring profit (down 3.8%), and ¥840mn in profit attributable to owners of parent (down 31.5%).

Whereas overall earnings results have been following an upward trajectory centered on performance of the mainstay information asset platform business, a conservative forecast still holds amid prevailing uncertainties ahead due to the novel coronavirus pandemic. As such, we recommend keeping a close eye on quarterly developments, given the notion that an upward revision is a possibility depending on developments going forward. The annual dividend has been set at ¥25 per share, for a dividend payout ratio of 23.2%.

FY2/22 forecasts

	FY2/21		FY2/22		Change	
	Amount	% of total	Forecast	% of total	Amount	%
Net sales	6,524	100.0%	7,000	100.0%	475	7.3%
Operating profit	1,427	21.9%	1,400	20.0%	-27	-1.9%
Recurring profit	1,455	22.3%	1,400	20.0%	-55	-3.8%
Profit attributable to owners of parent	1,226	18.8%	840	12.0%	-386	-31.5%

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

Business outlook

Various factors are likely to affect the Company's results for FY2/22. For one, the Group is likely to keep encountering numerous opportunities that enable it to provide value amid a scenario where demand is mounting in certain fields of business because of the novel coronavirus pandemic. For instance, such demand is prevalent with respect to novel coronavirus countermeasures of national and local governments and also with respect to the shift to increasing use of digital technologies across many industrial sectors. In addition, Japan's hosting of the Tokyo 2020 Olympic and Paralympic Games and progress being achieved with respect to vaccinations are other positive factors. Such developments give rise to hopes that domestic business conditions and the economic environment will mount recoveries beginning in the latter half of 2021, while also suggesting the likelihood of a gradual recovery taking hold among the respective Group companies that have been affected by self-restraint due to the novel coronavirus pandemic. On the other hand, personnel expenses are poised to increase amid the Company's ongoing efforts to train and recruit new graduates and mid-career professionals with the aim of securing human resources who will serve as a cornerstone of its sustainable growth.

■ Medium- to long-term growth strategy

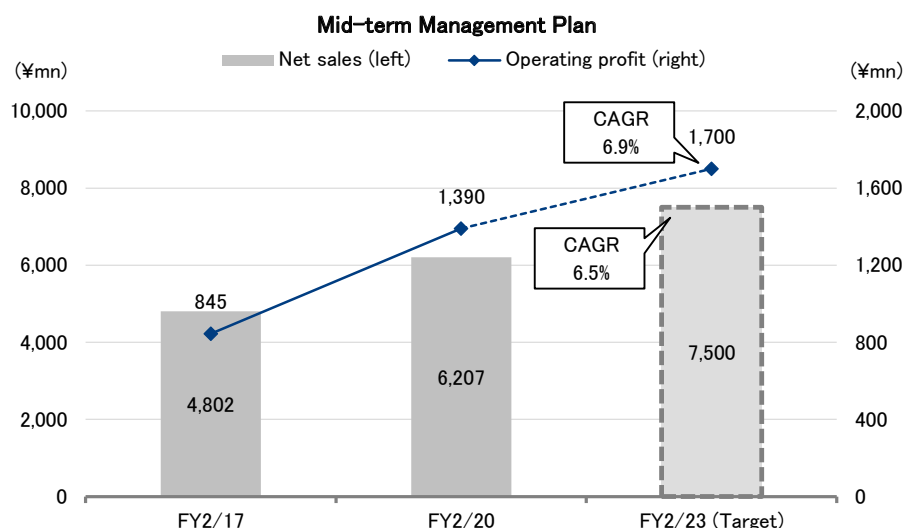
Announced 2023 Medium-Term Business Plan. It targets ¥1,700mn in operating profit in FY2/23

● Medium-term business plan

(1) Fundamental policies and quantitative targets

The Company released its new 2023 Medium-Term Business Plan, the final fiscal year of which is FY2/23. Fundamental policies set forth under the plan call for initiatives that involve: 1) strengthening and upgrading horizontal digital transformation (DX) initiatives, 2) aggressively taking on challenges with respect to vertical DX, 3) taking on new challenges with respect to customer engagement, 4) helping to realize the notion of a carbon-free society, and 5) engaging in recruitment and training on an ongoing basis. Meanwhile, the Company aims to achieve quantitative targets for the plan's final fiscal year of FY2/23 that include net sales of ¥7,500mn, operating profit of ¥1,700mn. Achievement of those quantitative targets translates to compound annual growth rates (CAGR) for the three year period of 6.5% and 6.9% in terms of net sales and operating profit, respectively.

Medium- to long-term growth strategy



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

(2) Business strategy

The Company will engage in the following initiatives, which constitute its primary business strategy under its 2023 Medium-Term Business Plan. The following initiatives include the aforementioned fundamental policies.

a) Strengthening and upgrading horizontal digital transformation (DX) initiatives

The Company aims to develop and provide new cloud services while further upgrading its low-code development platforms centered on SPIRAL®. It will also maintain its support of digital transformation (DX) across a wide range of business sectors and fields, with a focus on strengthening alliances with partners.

b) Aggressively taking on challenges with respect to vertical DX

The Company will give rise to success stories in respective fields of business that include construction, cosmetology, politics and government administration, and town management. In addition, the Company will create new businesses involving vertical DX such that provide total support for digital transformation targeting specific fields of business.

c) Taking on new challenges with respect to customer engagement

The Company aims to offer services that provide support for customer outreach using its existing affiliate management services, along with seamless support when it comes to CRM upon having attracted customers.

d) Launching investment development business

The Company will launch an organization to manage investment funds with the aims of accelerating the growth of Group businesses and strengthening its commitment to investing in outside enterprises.

e) Pursuing Group-wide synergies in sales and development

The Company will promote capacity enhancement and overall optimization of sales and development dispersed across respective Group companies.

f) Achieving workstyle reforms

The Company will promote labor system reforms geared to achieving greater diversity of work arrangements, and will furthermore establish workplace environments that enable fair and flexible styles of work. In addition, the Company will strive to maximize employee job satisfaction from the perspective of each and every employee.

g) Helping to realize the notion of a carbon-free society

The Company will persist in helping to make the notion of a carbon-free society a reality. To such ends, PIPED BITS, provider of SPIRAL®, has been taking steps to achieve carbon neutrality. This has entailed establishing its Green IT Policy in 2008, then subsequently every year since 2009 accordingly achieving offsets in terms of total volumes of carbon dioxide emissions released during the respective years by computers and telecommunication devices configured with SPIRAL®. Moreover, PIPED BITS has furthermore been lending its support to user initiatives involving the Sustainable Development Goals (SDGs). This has entailed issuing Spiral carbon offset certificates to individual users and visually monitoring carbon dioxide emission volumes on a per-user basis.

h) Engaging in recruitment and training on an ongoing basis

Under its 2020 Medium-Term Business Plan, the Company increased its recruitment over the initial two years of the plan, but then held back on hiring during its final fiscal year. Meanwhile, the Company will take an approach that involves combining recruitment with training under its 2023 Medium-Term Business Plan, which will involve hiring new graduates and mid-career professionals every fiscal year of the plan.

i) Overhauling incentive schemes

The Company will devise new incentive schemes that involve ensuring that executives and employees reap benefits of growth achieved by the group.

(3) Changes to business segments

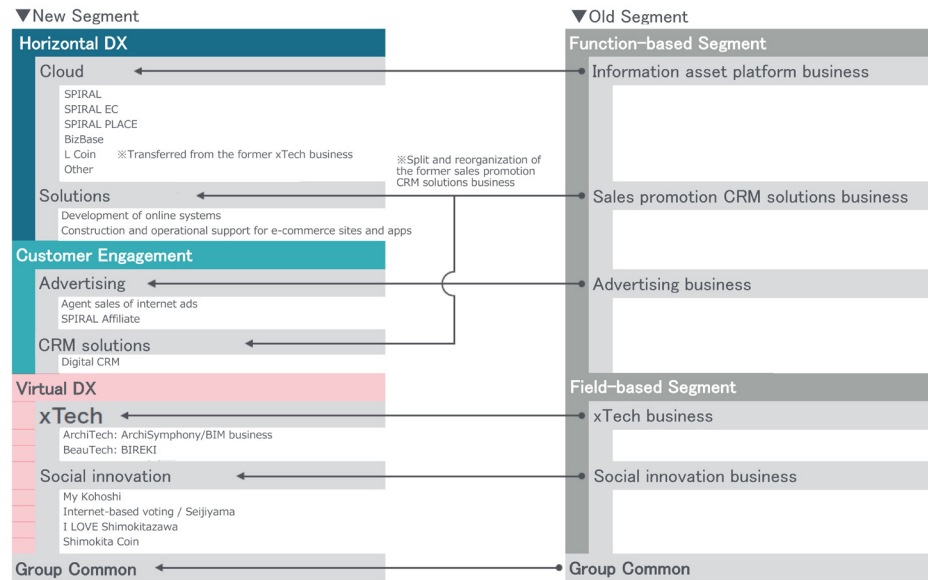
The Company announced that it will make changes to its business segments taking effect in FY2/22, as follows, with the aim of setting the Group on a clearer growth trajectory.

Specifically, with the aim of providing an extensive range of solutions to various customers, the Company will accordingly split up its existing sales promotion CRM solutions business, and subsequently create a “Horizontal DX” segment which is to consist of the solutions portion of its sales promotion CRM solutions business combined with its information asset platform business (cloud services). The Company will also create a new “Customer Engagement” segment which will encompass its advertising business integrated with other operations of the sales promotion CRM solutions business. Integrating these operations will enable the Customer Engagement segment to operate more efficiently, given that it needs to maintain close interaction with its customers. The name of the current Field-based segment will be changed to the “Virtual DX” segment given that it engages in industry- and sector-specific solutions.

PIPEDO HD, Inc. | 15-Jun.-2021
 3919 Tokyo Stock Exchange First Section | <https://www.pipedohd.com/>

Medium- to long-term growth strategy

Changes to business segments



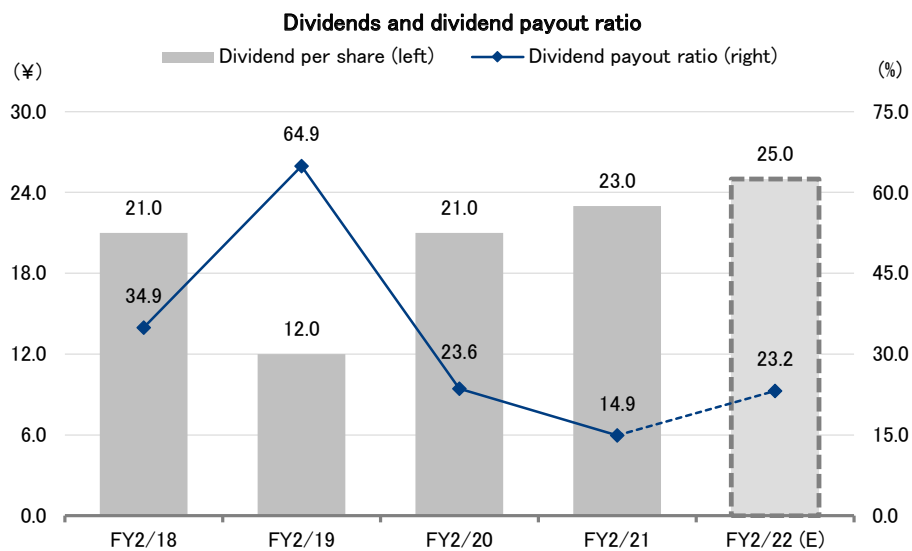
Source: The Company's results supplementary materials

Shareholder return policy

In FY2/22, intends to provide annual dividends of ¥25 for a dividend payout ratio of 23.2%

The Company paid annual dividends of ¥21 per share in FY2/20, having stated a dividend payout ratio of 30% under its shareholder return policy. In FY2/21, the Company ultimately paid annual dividends of ¥23 per share, an amount which had initially been undecided due to the novel coronavirus pandemic. At this point in time, the Company plans to pay out annual dividends of ¥25 per share in FY2/22 (interim dividends and year-end dividends of ¥11 per share and ¥14 per share, respectively), culminating in a 23.2% dividend payout ratio.

Shareholder return policy



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

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