

Prospect Co., Ltd.

3528

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■ Summary

Main business pillars are real estate-related and renewable energy-related

The origins of Prospect Co., Ltd. <3528> (hereafter, also “the Company”) are found in Inami Kigyo Co., Ltd., which conducted a textile business. But in 1994, the Company withdrew from the textile business and changed its main business to a real estate business (primarily sales of condominiums). After that, the Company was temporarily a member of the DAIKYO INCORPORATED Group, which is a major condominium developer. But it left the Group and started independent management in 2007. Mr. Curtis Freeze, the owner and president of the former Prospect Co., Ltd., which had invested in the Company as a fund, was appointed as the representative director and president in 2010*1. Since then, it has used M&A to expand its business domains, including to launch a construction business and custom-built homes business, and by 2019 it was engaged in a wide range of businesses, such as a real estate sales business (condominium sales, land and buildings, and custom-built homes), an asset management business, a construction business*2, and a renewable energy business, including solar power generation. But in 2019, it withdrew from the construction business and asset management business. In FY3/21, the Company furthermore reshuffled its executive team and consolidated its operations into two business segments—the real estate business and the renewable energy business.

*1 Mr. Curtis Freeze resigned from his post of representative director on December 13, 2018 to take responsibility for the confusion caused by the delay in submitting the Company’s earnings report for the second quarter of the fiscal year ending March 31, 2019. Furthermore, he resigned from his post of director on June 27, 2019, in conjunction with the Company’s transition to a company with an audit and supervisory committee from FY3/20.

*2 The construction business has not been included in the segments since FY3/20, because all the shares of a subsidiary were sold in March 2019. Also, due to the resolution to liquidate a subsidiary in May 2019, the results of the asset management business up to May 2019 will be reflected in the FY3/20 consolidated results, but not in subsequent consolidated results. Both segments will be completely abolished by FY3/21.

1. FY3/21 1H consolidated results

In the FY3/21 1H consolidated results, sales were ¥2,931mn (up 59.9% year-on-year (YoY)), operating loss was ¥606mn (compared to a loss of ¥1,383mn in FY3/20 1H), ordinary loss was ¥669mn (a loss of ¥477mn), and net loss attributable to owners of the parent was ¥2,829mn (a loss of ¥536mn). In FY3/21, the Company consolidated its operations into two segments—the real estate business and the renewable energy business. Whereas the real estate business recorded an operating loss of ¥477mn partially due to effects of the COVID-19 pandemic, the renewable energy business posted operating profit of ¥310mn. Under extraordinary losses, the Company recorded a loss on valuation of investment securities of ¥1,952mn with respect to its holdings of listed shares of Canadian equities and recorded a loss on valuation of investment of ¥487mn upon having reviewed the recoverability of investment in the solar power generation business. As a result, the Company’s net loss attributable to owners of the parent was substantially higher than that of FY3/20 1H. However, given that the higher net loss is attributable to valuation losses rather than cash outflows, the Company appears to have made progress in downsizing its balance sheet.

Summary

2. FY3/21 forecasts

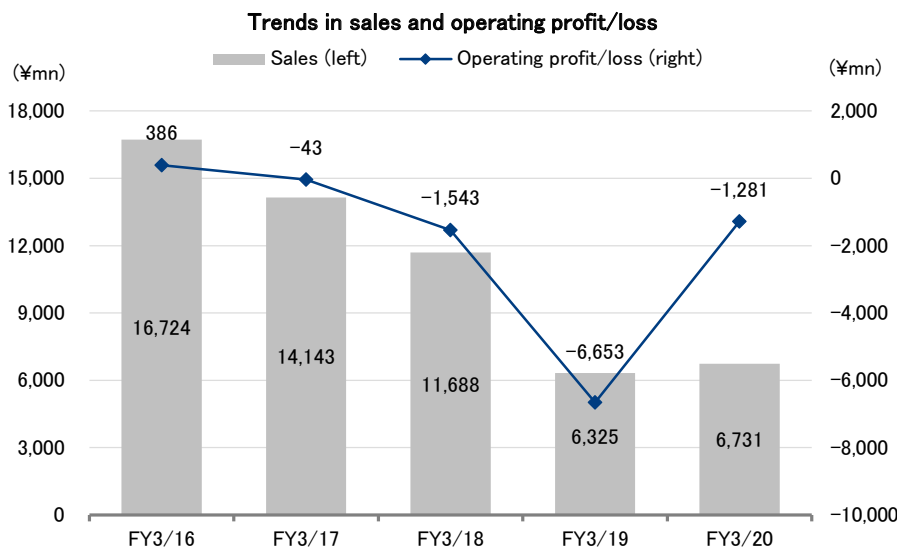
The Company has postponed announcement of its FY3/21 consolidated results forecasts upon having judged that it would be difficult to rationally and accurately ascertain future results given uncertainties as to the ramifications of COVID-19 going forward. It plans to promptly disclose its forecasts in the future at a stage when it becomes possible to do so. Nevertheless, it is highly probable that results for 2H will exceed those of 1H given the likelihood of the business environment in 2H changing for the better relative to 1H, and also given Company's addition of a new consolidated subsidiary. Meanwhile, the Company has not yet declared dividends.

3. Business developments going forward

The Company's executive team was largely replaced per resolution of an extraordinary general meeting of shareholders held in June 2020. Accordingly, four executives now play pivotal roles in its management as of November 30, 2020. This includes Nobuyoshi Fujisawa serving as chairman of the Board of Directors (currently representative director, president and CEO of J Trust Co., Ltd. <8508>), Nobuhiko Izumi serving as representative director, president and CEO, Masaru Oka serving as a director (in charge of the real estate business), and Hiroshi Nishimura serving as a director (in charge of the renewable energy business). Going forward, the Company plans to have these four executives spearhead business development efforts focusing on the real estate business and the renewable energy business. It seems likely that they will place attention on developing business going forward in a manner that involves seeking to narrow down the business domain, thereby shifting from the conglomerate-type (dispersed-business type) management approach enlisted up to this point.

Key Points

- Developing businesses centered on real estate-related and renewable energy-related
- Progressing the renewable energy business as the growth driver
- Also taking steps to downsize the balance sheet



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

■ Company profile

Its origins are in a textile company, but currently it is focused on real estate-related and renewable energy-related businesses

The Company has a long history and its predecessor, Inami Kigyo Co. Ltd., was founded in Toyama Prefecture in 1937. It subsequently changed its corporate name to Carolina Co., Ltd., in 1961, and was listed on the Tokyo Stock Exchange Second Section in 1962. Then on entering the 1990s, it withdrew from the textile business and shifted to its mainstay businesses of condominium sales, and at the same time it joined the DAIKYO Group, which is a major condominium developer.

After that, in 2007 it left the DAIKYO Group and started independent management. In 2010, Mr. Curtis Freeze, who was the owner, president and fund manager of the former Prospect, which had invested in the Company as a fund, was appointed as the representative director and president. In 2013, it made a wholly owned subsidiary of former Prospect through an exchange of shares. In 2014, it merged with this former company through an absorption merger, and at the same time, it changed its corporate name to the current name of Prospect Co., Ltd. During this period, it diversified its business through conducting M&As to make consolidated subsidiaries of Sasaki House Co., Ltd., and Kidoh Construction Co., Ltd., and it then launched a solar business (renewable energy business) in 2015. Also, in July 2017, it made The Prospect Japan Fund (TPJF) a subsidiary through an exchange of shares, then in March 2019 it sold all of its Kidoh Construction shares, and in December 2019 it liquidated The Prospect Japan Fund (TPJF). Through these measures, it withdrew from the construction business and the asset management business. In September 2020, the Company made Gro-Bels Co., Ltd. (formerly Keynote Co., Ltd.) a consolidated subsidiary through a share exchange. Gro-Bels engages in the real estate-related and commercial facility construction businesses.

The Company's executive team was largely replaced per resolution of an extraordinary general meeting of shareholders held in June 2020. Accordingly, four executives now play pivotal roles primarily with respect to management as of November 30, 2020. This includes Nobuyoshi Fujisawa serving as chairman of the Board of Directors, Nobuhiko Izumi serving as representative director, president and CEO, Masaru Oka serving as a director (in charge of the real estate business), and Hiroshi Nishimura serving as a director (in charge of the renewable energy business).

Company profile

History

Year	Major event
1937	Inami Kigyo Co. Ltd., was established in Toyama Prefecture
1961	Changed corporate name to Carolina Co., Ltd.
1962	Listed on the Second Section of Tokyo Stock Exchange
1990	Changed how the name was written in Japanese
1991	Entered an alliance with the DAIKYO INCORPORATED <8840> Group
1993	Began sales of the Morris condominium series (Series No.1 Morris Kawasaki)
1994	Withdrew from the textiles business
1994	Moved head office from Toyama Prefecture to Shibuya Ward, Tokyo
2000	Moved head office to its current location (1-30-8 Sendagaya, Shibuya Ward, Tokyo)
2001	Changed corporate name to Gro-Bels Co., Ltd.
2007	Left the DAIKYO Group and began independent management
2010	Mr. Curtis Freeze was appointed representative director and president
2012	Acquired all the shares and made a consolidated subsidiary of Sasaki House Co., Ltd.
2013	Acquired all the shares and made a consolidated subsidiary of (former) Prospect Co., Ltd.
2013	Entered into the overseas real estate-related business
2014	Acquired all the shares and made a consolidated subsidiary of Kidoh Construction Co., Ltd.
2014	Conducted an absorption merger with a subsidiary, former Prospect, and changed its corporate name to Prospect Co., Ltd.
2015	Launched the solar power generation business (the first project: Asago Tachiwaki Solar Power Plant)
2017	Acquired all the shares and made a subsidiary of The Prospect Japan Fund through an exchange of shares
2018	Mr. Masato Tabata was appointed representative director and president
2019	Sold all shares of Kidoh Construction Co., Ltd. Dissolved and liquidated The Prospect Japan Fund
2020	Acquired all the shares and made a consolidated subsidiary of Gro-Bels Co., Ltd. (formerly Keynote Co., Ltd.) Mr. Nobuhiko Izumi was appointed representative director, president and CEO

Source: Prepared by FISCO from the Company's website

Business overview

Progressing the renewable energy-related business as the growth driver

1. Main business activities

As of FY3/21, the Company has consolidated its operations under the two segments the real estate sales business and the renewable energy business. Previously, it disclosed information on business segments grouped as real estate sales business, asset management business, renewable energy business, and others.

(1) Real estate sales business (% of total sales in FY3/21 1H: 74.2%)

The real estate sales business encompasses disparate operations consolidated into this single segment. It consists of the following components from prior to the segment consolidation: 1. condominium sales (business that involves purchasing land then constructing and selling condominium units, similarly to general condominium developers), 2. land and buildings (business that involves selling residential land, detached housing, and buildings, and; business that mainly involves selling land and buildings that accompany sales of condominiums), and 3. custom-built homes (construction outsourcing, renovation work, etc. with respect to detached housing).

Business overview

(2) Renewable energy business (% of total sales in FY3/21 1H: 25.8%)

The business model is that the Company acquires rights to solar power generation and related, conducts investment and development, and sells the electricity generated to power companies. On one hand, it acquires rights, conducts investment, and collects revenue (cash flow), while on the other hand, it calculates the return on the investment and sells the equipment itself. This approach can be said to be the same as that for the rental building business. As of the end of September 2020, it had six operational plants (the ratio of power generated according to the Company's share, 32.4MW) with two other projects solely involving investment. In Russia also, a plant to manufacture wood pellets for biomass power generation was completed in February 2020 and a long-term contract was concluded with ENGIE ENERGY MANAGEMENT SCRL (hereafter, ENGIE EM) of France for a minimum of 12 years.

2. Business features

As previously stated, at first glance it seems that the Company is developing businesses in different fields, of condominium sales and a renewable energy business. But in fact, they are basically the same on the point that the approach is to purchase land, rights, and projects (purchases or investments), invest in them (capital injections and renovations), and subsequently collect the revenue (cash flow or gain on resale). This point can be said to be a feature of the Company's business development.

Currently, the real estate sales business and the renewable energy business are the core businesses. But the Company plans to actively develop businesses in the future, including through M&A if there are businesses that are line with the above-described approach.

■ Results trends

In FY3/21 1H, sales increased and operating loss was halved relative to FY3/20 1H

1. FY3/21 1H results

In the FY3/21 1H consolidated results, sales were ¥2,931mn (up 59.9% year-on-year (YoY)), operating loss was ¥606mn (compared to a loss of ¥1,383mn in FY3/20 1H), ordinary loss was ¥669mn (a loss of ¥477mn), and net loss attributable to owners of the parent was ¥2,829mn (a loss of ¥536mn).

Although sales increased significantly YoY, that gain amounted to 3.3% YoY when excluding sales of the asset management business given that the asset management business posted sales of negative ¥1,003mn in FY3/20 1H. On a per-segment basis, both sales and profits decreased in the real estate business, but increased in the renewable energy business. Under extraordinary losses, the Company recorded a loss on valuation of investment securities of ¥1,952mn with respect to its holdings of listed shares of Canadian equities and recorded a loss on valuation of investment of ¥487mn upon having reviewed the recoverability of investment in the solar power generation business. As a result, the Company's net loss attributable to owners of the parent was substantially higher than that of FY3/20 1H. However, given that the higher net loss is attributable to valuation losses rather than cash outflows, the Company appears to have made progress in downsizing its balance sheet.

Results trends

FY3/21 1H results

	FY3/20 1H		FY3/21 1H			
	Amount	Ratio to sales	Amount	Ratio to sales	Change	YoY
Sales	1,833	100.0%	2,931	100.0%	1,098	59.9%
Gross profit/loss	-314	-	334	-	649	-
SG&A expenses	1,069	58.3%	941	32.1%	-127	-12.0%
Operating profit/loss	-1,383	-	-606	-	777	-
Ordinary loss	-477	-	-669	-	-191	-
Net loss attributable to owners of the parent	-536	-	-2,829	-	-2,292	-

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

2. Conditions by segment
FY3/21 1H results by segment

	FY3/20 1H		FY3/21 1H			
	Amount	Ratio to sales	Amount	Ratio to sales	Change	YoY
Sales	1,833	100.0%	2,931	100.0%	1,098	59.9%
Real estate business	2,356	128.5%	2,176	74.2%	-180	-7.6%
Asset management business	-1,003	-54.7%	-	-	-	-
Renewable energy business	470	25.6%	755	25.8%	285	60.6%
Operating profit/loss (before depreciation of goodwill)	-1,383	-	-606	-	777	-
Real estate business	29	-	-477	-	-506	-
Asset management business	-1,122	-	-	-	-	-
Renewable energy business	144	-	310	-	166	115.3%
Company-wide expenses	-432	-	-426	-	6	-

Source: Prepared by FISCO from the Company's financial summary report and supplementary financial briefing materials

(1) Real estate business

As stated earlier, under the reporting segment changes that take effect from FY3/21, the Company has transformed the real estate business. This has involved consolidating the detached housing sales and commercial facility construction businesses operated by Gro-Bels, which became a wholly-owned subsidiary through a share exchange, thereby combining it with the components of the prior real estate sales business (condominium sales, land and buildings, custom-built homes, and real estate leasing).

In FY3/21 1H, the Company concluded new contracts primarily involving 62 units worth ¥2,087mn under condominium sales (compared to 26 units worth ¥1,190mn in FY3/20 1H), 1 condominium building (total of 27 condominium units encompassing a total area of 1,115.37m²) and 4 detached houses worth ¥802mn (no contracts concluded in FY3/20 1H) under land and buildings, and 31 dwellings worth ¥805mn under custom-built homes (34 dwellings worth ¥852mn in FY3/20 1H). Meanwhile, sales mainly comprised delivery of 40 units worth ¥1,332mn under condominium sales (compared to 34 units worth ¥1,643mn in FY3/20 1H), delivery of 4 detached houses worth ¥142mn under land and buildings (no contracts concluded in FY3/20 1H), and delivery of 18 dwellings worth ¥693mn under custom-built homes. As a result, in FY3/21 1H total sales in the real estate business amounted to ¥2,176mn (down 7.6% YoY) and segment loss was ¥477mn (compared to segment profit of ¥29mn in FY3/20 1H).

Results trends

(2) Renewable energy business

In this business, the electric power generated through solar power generation facilities invested in and managed by the Company or jointly with others is sold to electric power companies, and it recorded sales of ¥755mn (up 60.6%YoY), and segment profit of ¥310mn (up 115.3%).

At the end of FY3/21 1H, the Company had six projects in operation (Kumamoto Yatsushiro Project, Rikuzentakata Project, Namegata Project, Narita Kanzaki Project, Sanmu Minami Project, and Yorii Project). The Company's share of power generation at these projects is 32.4 MW, with two other projects solely involving investment.

3. Financial position

At the end of FY3/21 1H, total assets were ¥34,349mn, up ¥4,585mn from the end of the previous fiscal year. Current assets were ¥17,221mn, up ¥6,623mn, mainly due to an increase of ¥5,832mn in real estate for sale as a result of having made Gro-Bels a consolidated subsidiary, and an increase of ¥1,448mn in real estate for sale in process. Meanwhile, non-current assets were ¥17,127mn, down ¥2,037mn, mainly due to a decrease of ¥1,745mn in investments and other assets as a result of having recorded losses on valuations of securities and investments in capital.

Total liabilities were ¥18,191mn, up ¥3,796mn from the end of the previous fiscal year, mainly due to an increase of ¥166mn in accrued construction payment as a result of having made Gro-Bels a consolidated subsidiary, a decrease of ¥584mn in short-term loans payable, etc., and an increase of ¥3,179mn in long-term loans payable. Net assets were ¥16,157mn, up ¥788mn, mainly due to an increase in capital surplus associated with issuance of new shares attributable to making Gro-Bels a consolidated subsidiary, and an increase in valuation difference on other securities due to an increase in the market value of securities held.

Balance sheets

	(¥mn)		
	End of FY3/20	End of FY3/21 1H	Change
Cash and deposits	5,080	4,455	-625
Real estate for sale	1,795	7,627	5,832
Real estate for sale in process	2,037	3,485	1,448
Real estate for development	260	0	-260
Total current assets	10,598	17,221	6,623
Tangible fixed assets	9,838	9,555	-283
Intangible fixed assets	610	601	-8
Total investments and other assets	8,716	6,971	-1,745
Investment securities	3,273	2,073	-1,200
Investments in capital	2,064	1,583	-480
Long-term loans	2,711	2,705	-5
Total fixed assets	19,165	17,127	-2,037
Total assets	29,764	34,349	4,585
Accrued construction payment	196	362	166
Short-term borrowings, etc.	3,569	2,984	-584
Total current liabilities	4,329	4,359	29
Long-term borrowings	9,186	12,365	3,179
Total fixed liabilities	10,065	13,832	3,767
Total liabilities	14,394	18,191	3,796
Total net assets	15,369	16,157	788

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

Results trends

4. Cash flow conditions

In FY3/21 1H, cash flow used in operating activities was ¥221mn. The main income items included depreciation of ¥296mn, loss on valuation of securities of ¥1,952mn, and loss on valuation of investment of ¥487mn, while the main expenditure items included net loss before income taxes of ¥2,746mn, gain on negative goodwill of ¥280mn, and an increase in inventories of ¥320mn.

Cash flow from investing activities was ¥2,261mn. The main income items included proceeds from acquisition and sales of investment securities of ¥1,396mn and proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation of ¥825mn.

Cash flow used in financing activities was ¥2,746mn. The main expenditure items included a decrease in long-term borrowings of ¥2,392mn and dividend payments of ¥441mn.

As a result, cash and cash equivalents during the period decreased ¥710mn, and cash and cash equivalents at the end of FY3/21 1H were ¥4,290mn.

Cash flow statements

	(¥mn)	
	FY3/20 1H	FY3/21 1H
Cash flows from operating activities	-1,033	-221
Quarterly net profit (loss) before taxes, etc.	-418	-2,746
Depreciation expense	194	296
Increase (decrease) in allowance for doubtful accounts	-496	-5
Gain on negative goodwill	-	-280
Loss (profit) on valuation of investment securities	-	1,952
Loss (profit) on valuation of investment	-	487
Decrease (increase) in accounts receivable	-68	-2
Decrease (increase) in inventory assets	-687	-320
Increase (decrease) in trade payables	13	41
Decrease (increase) in operating investment securities	1,011	-
Cash flows from investing activities	-2,823	2,261
Expenditure for acquisition of tangible fixed assets	-2,314	-65
Revenue and expenditure for acquisition and sales of investment securities	0	1,396
Revenue from acquisition of shares of a subsidiary accompanying the change in scope of consolidation	-	825
Income from recovery of investment	555	0
Cash flows from financing activities	1,913	-2,746
Net increase (decrease) in loans and bonds	1,886	-2,304
Dividends paid	-1	-441
Net increase (decrease) in cash and cash equivalents	-1,999	-710
Cash and cash equivalents at end of period	3,050	4,290

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

■ Outlook

Has not decided the FY3/21 full year forecasts

1. FY3/21 forecast

(1) Results outlook

The Company is postponing announcement of the FY3/21 consolidated results forecasts, as it judges that it would be difficult to set them properly and rationally due to the uncertainty about the future because of the impact of the spread of the novel coronavirus. It plans to disclose them quickly in the future at the stage when disclosing results forecasts becomes possible.

However, the business environment is such that 2H results will most likely exceed those of 1H, amid a scenario where performance of subsidiaries is bound to contribute to the Company's results as business proceeds in 2H with respect to deliveries of already sold condominiums that were postponed amid the COVID-19 pandemic and sales of new properties. Also, given recovery of stock markets worldwide the possibility of any further investment security write-downs seems low.

(2) Dividend forecast

As with the results forecasts, the Company has not yet declared dividends for FY3/21.

2. Progress made for new businesses

As the next renewable energy business, the Company has announced that, following on from the solar power generation business in Japan, it is entering into the biomass fuel (wood pellets) manufacturing business. Together with the RFP (Russia Forest Products) Group of Russia, it has launched a joint venture (RFP Wood Pellets (hereafter, RFP WP), the Company's equity-method subsidiary). Using the sawdust discharged from the timber sawmill of the RFP Group, they will construct a manufacturing plant adjacent to the sawmill and intend to export the wood pellets as fuel to biomass power generation plants in Japan. It is anticipated that the main customers will be biomass power generation plants that use FIT.

In terms of the progress made up to the present time, in February 2020 the plant being constructed in Amursk in the Khabarovsk region of Russia was completed. Continuing on from this, in March of the same year, RFP WP concluded a long-term contract (minimum of 12 years) with ENGIE EM (France) to supply wood pellets. This contract is the first transaction that will contribute to the long-term and stable supply of biomass fuel from the Russian Far East to Japan, and RFP WP and ENGIE EM are aiming to open-up a new supply route for the biomass fuel market in Japan.

Outlook

Subsequent to completion of the plant's primary facilities in February 2020, the project's trial runs and a quality inspection by a third-party organization encountered delays as a consequence of the proliferation of COVID-19 within Russia, restrictions imposed on entry from other countries, and other such unforeseen developments. In September 2020, however, engineers were able to travel from Europe to Russia, which enabled the plant to embark on production of prototypes, after which it achieved outstanding assessment results upon undergoing quality inspection performed by the third-party organization JSC Bureau Veritas Rus. To help improve cash flow prior to commencement of official sales, RFP WP concluded an initial spot sales contract after having drawn on the inspection results in efforts to seek a spot sales buyer who would be willing to make small-lot purchases. As it continues to seek spot sales buyers going forward, RFP WP will also ensure the very best quality control with respect to manufacturing processes until the commencement of official sales made under its long-term contract with ENGIE EM starting from April 2021. Meanwhile, RFP WP is committed to maintaining its focus on the renewable energy business going forward in part by expanding the plant to align with demand, and accordingly projects sales of 60,000 tons in FY3/22 and aims to achieve production and sales amounting to 135,000 tons in the future.

■ Shareholder return policy

FY3/21 dividends yet to be declared

The Company pays dividends in order to return profits to shareholders, but it has not formulated a specific basic policy for it. In FY3/18, the Company paid an annual dividend of ¥4 per share, but it did not pay a dividend in FY3/19. However, in FY3/20, it resumed an annual dividend payment of ¥1. The company has not yet declared dividends for FY3/21.



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