

Softbrain Co., Ltd.

4779 Tokyo Stock Exchange
First Section

11-May-15

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and disclaimers appear
at the end of this document.

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■ A major player in SFA/CRM software with record high in FY 2014 (the year ending December 31, 2014)

Softbrain <4779> (hereafter, “the company”) is a major player in SFA (Sales Force Automation) / CRM (Customer Relationship Management) software, which support resolving corporate sales issues, and holds 20–30% of the domestic market share in the SFA field. The field marketing business operated by its subsidiary company is developing into a second core revenue stream.

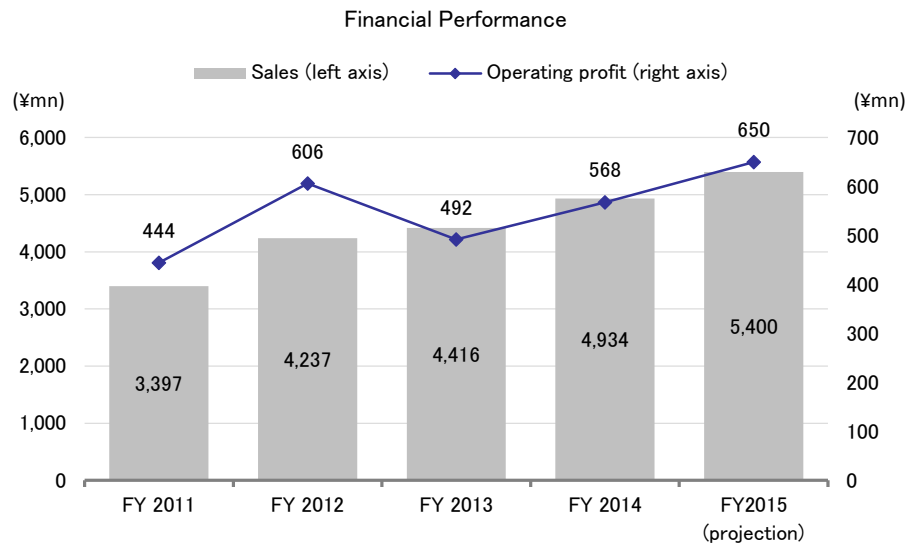
The company’s consolidated financial results for FY 2014, the year ending December 31, 2014 (hereafter, “FY 2014”), recorded high for the first time in seven years with 11.7% sales growth year-on-year (hereafter, “y/y”) to ¥4,934mn while operating profit increased by 15.4% to ¥568mn, its first profit increase in two years. Field marketing business sustaining its high growth through expansion in the number of customers and share of trade, and earnings recovery in systems development and other businesses contributed to the profit increase. e-Sales Manager related business, however, reported profit fall due to the accumulation of upfront investment including costs for development and sales-promotion, though sales revenue increased steadily.

The increase both in sales and profit is projected to continue in FY 2015, with sales increasing by 9.4% y/y to ¥5,400mn and operating profit by 14.3% y/y to ¥650mn. In addition to field marketing business in good condition, the company also aims to enlarge the number of customers in its e-Sales Manager related business by advancing the product development which will enhance the convenience. The company focuses on sales growth in e-Sales Manager related business, and aims for double-digit sales growth in this term while strengthening its partnerships with enterprises which have strong sales channel for small- and medium-sized companies.

The company does not plan to pay a dividend this term. The company is currently considered to be in an investment phase in order to expand its businesses, therefore its retained earnings will preferentially be allocated to such areas as development investment and sales-promotion costs. The company will consider reviewing its shareholder return policy in accordance with its financial condition.

■ Check Point

- Increase in proportion of stock-type (recurring) revenue from cloud and on-premises contracts
- Profitability indicators such as operating profit margin, ROE, and ROA exceed 10%
- New large-scale deals and growth of “rounder” (field merchandiser) human resources business are expected



■ Business Outline

Cumulative total of installation of the company's product exceeds 3,000 companies, from large companies to small- and medium-sized companies

The company's operations are classified in 4 categories; e-Sales Manager related business, field marketing business, system development business, and other businesses. The majority of both sales and profit are coming from e-Sales Manager related and field marketing business, which are the two main revenue streams. There are 5 consolidated subsidiaries as of the end of December 2014, each of which business outlines are as described in the table below.

List of Consolidated Subsidiaries and Business Outlines

Name of company	Ownership	Primary business
e-Sales Manager related business		
Softbrain Co., Ltd.	-	Sales of SFA licenses, cloud services, customized development, sales consulting, and sales skills training
Softbrain Service Co., Ltd.	98.7%	
Field marketing business		
Softbrain Field Co., Ltd.	58.1%	Field activities operations, market research
System development business		
Softbrain Offshore Co., Ltd.	100.0%	Customized development of software
Other businesses		
Softbrain Integration Co., Ltd.	100.0%	Consulting & education in business operations using smartphone
Diamond Business Planning Inc.	70.0%	Planning, editing, & publishing of business publications

Oe-Sales Manager related business

This includes sales of licenses for SFA software named "e-Sales Manager", cloud services, customized development, as well as sales consulting and skills training.

"e-Sales Manager" is a software tool which helps identify areas for improvement and enhance sales efficiency by enabling users to grasp the situation quantitatively and to visualize each process in sales activities, which are described as process management of sales activities.
















■ Outline of Businesses

Sales for e-Sales Manager can be divided into two types; on-premises type which yields revenue from sales of software licenses, and cloud type with which usage fees are collected. In recent years, the majority of contracts have been cloud-type services that do not require a capital expenditure burden and that can keep down the initial installation costs. As for the cloud type, the company provides e-Sales Manager Remix Cloud (¥6,000/month per user) as well as e-Sales Manager nano (¥500/month per user), which is simplified with functions usable for small- and medium-sized companies with 10 employees or less.

The domestic market scale of SFA (Sales Force Automation) is approx. ¥5 to 8 billion, out of which the company is thought to hold a share of 20–30%. Competitors include NI Consulting CO., LTD. (unlisted), and Salesforce.com Inc. (cloud type only). Salesforce.com holds the top share with more than 40% in the market of cloud-type SFA.

The cumulative total of e-Sales Manager installation exceeds 3,000 companies, which consists of a broad range of companies from manufacturers to service providers, from large companies to small- and medium-sized companies. The unique selling propositions of the company's product include, on top of its usability such as user-friendliness and processing speed, compatibility to both on-premises and cloud sales types, and that it is well-supported by services such as consulting and educational services to help improve the outcome of installation.

Example of companies with e-Sales Manager installed

Trading companies / wholesale 	Insurance / finance 	System integration 
Food / daily necessities 	Services 	Construction / real estate 
Medical treatment / nursing 	Energy 	Healthcare 
Information / communication 	Education 	Groups 
Travel / hotels 	Retail 	Vehicles / machinery / precision instruments 
Information / communication 	Education 	Publishing / advertising

The company names and logos listed above are the registered trademarks or trademarks of each company. *Limited to those who agreed to be listed.

Source: Company data

○ Field marketing business

Field marketing business, which has been developed by a subsidiary company named Softbrain Field Co., Ltd., mainly carries out field activities at stores and market research using “casts” (registered staff members) which consist mostly of housewives. It also provides services such as temporary staffing of and referrals to “rounders” (field merchandiser) who carry out field activities as well as shoppers' databases collected by the company.

■ Outline of Businesses

Field activities mainly represent business negotiation, layout of sales floors, and creation of point-of-purchase ads at retail stores when consumable manufacturers launch new products such as food items and daily commodities. Although these activities used to be accomplished by employees of the manufacturer, outsourcing of the activities has become more popular for the purpose of improving cost efficiency in sales promotion. There are more than 200 corporate customers including customers in the past with a broad range of manufacturers for food and beverage and for healthcare-related products. The number of “casts” exceeded 50,000 people as of the end of December 2014, and the stores covered include various types of businesses such as drug stores and convenience stores, with which nationwide coverage is one of the company’s strengths.

Number of stores covered – by type of business

Type of business	Number of chain stores	Number of stores
Drug stores	186	19,831
GMS & SM	321	19,651
Convenience stores	18	16,658
Book stores	12	9,153
Hardware stores	45	4,164
Discount stores	16	2,216
Electronic retail stores	12	2,863
Specialty stores		24,124
Other stores		16,484
Total	610	115,144

Note: as of January 2015

Further, a new marketing support service named “POB – Point of Buy” (which provides data on reasons for purchase) was commenced in 2013 jointly with Credit Saison (8253), a leading company in the credit-card industry. It provides more reliable customer behavior analysis by enabling users to collect data such as reasons for purchase of products in retail stores and/or menu items ordered at restaurants with receipts attached. It is structured in a way where customers, on the other hand, are eligible to acquire the points on Eikyufumetsu.com (points that never expire) by Credit Saison. The number of registered members (consumers) exceeds 120,000 people and it is building the nation’s largest platform.

○Systems development business

Contracted software development is undertaken by Softbrain Offshore Co., Ltd., a subsidiary company. Divestiture of the subsidiary company in China was conducted in September 2013 as a part of its business structural reforms though it keeps a business relationship as a subcontractor, and the company continues to utilize its Vietnamese and domestic near-shoring bases.

○Other businesses

This includes business consulting, sales and support in installation of smart devices, and educational services by Softbrain Integration Co., Ltd., and planning, editing and publishing of sales promotion-related publications by Diamond Business Planning Inc.

■ Business Trends

Increase in proportion of stock-type (recurring) revenue from cloud and on-premises contracts

(1) Overview of the results for FY 2014

The consolidated results for FY 2014 that were announced on January 30 showed growth in each category such as sales by 11.7% y/y to ¥4,934mn, operating profit by 15.4% y/y to ¥568mn, and current profit by 17.5% to ¥578mn, also showed a decline in net profit by 35.4% y/y to ¥252mn, which means all the results surpassed those in the previous term except net profit. In addition, all the results, including net profit, exceeded the beginning-of-year forecast.

The company recorded its highest sales in seven terms (FY 2007: ¥4,546mn) with field marketing business as the driving force. Although SG&A costs including sales-promotion costs and labor costs rose, operating profit increased for the first time in two terms as a result of the increased sales and the structural reforms to the systems development business. Net profit declined, which is affected by the normalization of the tax burden and the increased minority interest in conjunction with the increased income at subsidiaries including Softbrain Field. An overview of conditions in each business segment is shown below.

FY 2014 consolidated results

(unit: ¥mn)

	FY 2013		Plan at BOY	FY 2014			
	Result	Ratio (-to-sales)		Result	Ratio (-to-sales)	y/y	Achievement rate (-to-plan)
Sales	4,416	-	4,800	4,934	-	11.7%	2.8%
COGs-	2,658	60.2%	-	2,906	58.9%	9.4%	-
SG&A costs	1,260	28.5%	-	1,442	29.2%	14.4%	-
Operating profit	492	11.2%	530	568	11.5%	15.4%	7.3%
Current profit	492	11.2%	530	578	11.7%	17.5%	9.2%
Pretax profit-	510	11.5%	-	577	-	13.2%	-
Corporate income tax	75	-	-	242	-	222.0%	-
Minority interest	43	-	-	82	-	88.9%	-
Net profit	391	8.9%	250	252	5.1%	-35.4%	1.1%

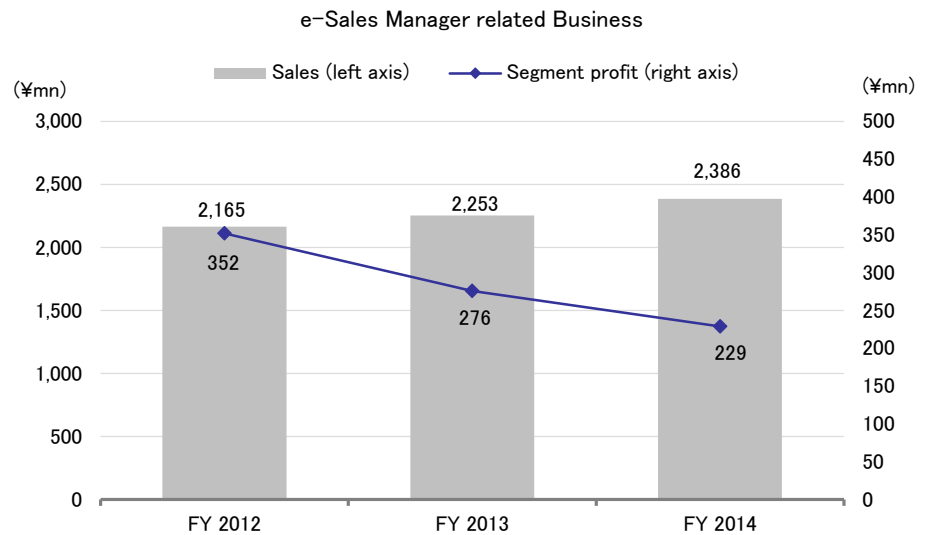
Oe-Sales Manager related business

In e-Sales Manager related business, sales (for external customers, the same shall apply hereafter) grew by 5.9% y/y to ¥2,386mn, while segment profit declined by 17.2% to ¥229mn.

e-Sales Manager Remix Cloud, which constitutes approx. 40% of this business, achieved double digit growth y/y in sales due to the steady development of new customers through incremental enhancement of functionality. Moreover, there was an increase in cases of orders for the various consulting services such as sales education & training and Process Management College, which accounts for approx. 20 to 30% of the business, in parallel with installation of e-Sales Manager which resulted in a y/y double digit increase in profit. On-premises type, conversely, recorded large-scale deals in 2013, therefore its results remained unchanged.

Segment profit were down for the second consecutive period, for which the main reasons are the increased prior investment in such areas as development to enhance the functionality of e-Sales Manager, and sales promotion to acquire customers. The sales ratio for stock-type services, which includes cloud services and maintenance services for on-premises contracts, rose to around 50% of this business and the stability of revenue base is steadily improving.

■ Business Trends



○Field marketing business

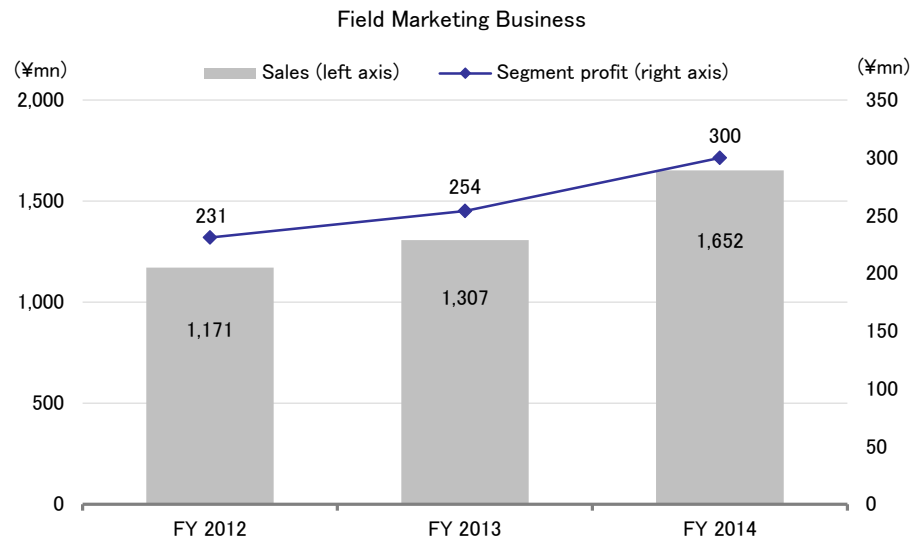
Field marketing business maintained high growth, with sales increasing by 26.4% y/y to ¥1,652mn, and segment profit by 18.0% y/y to ¥300mn. It receives high evaluation marks from their customers on their service quality and the cost-efficiency. Accumulated continuous projects with its primarily-targeted consumables manufacturers including pharmaceuticals, foodstuffs, and commodities and acquisition of periodic large-scale deals contributed to the increase in profit.

Although revenue contribution from POB business which commenced in February 2013 is yet small, the number of registered members exceeds 120,000 people and it is steadily building a platform with a high usage value for corporate marketing analysis. A website named RECEIPO was established in October 2014 which introduces products in the form of a ranking with reviews by real customers who have bought the product, and it aims to further expand this business by acquiring more members.

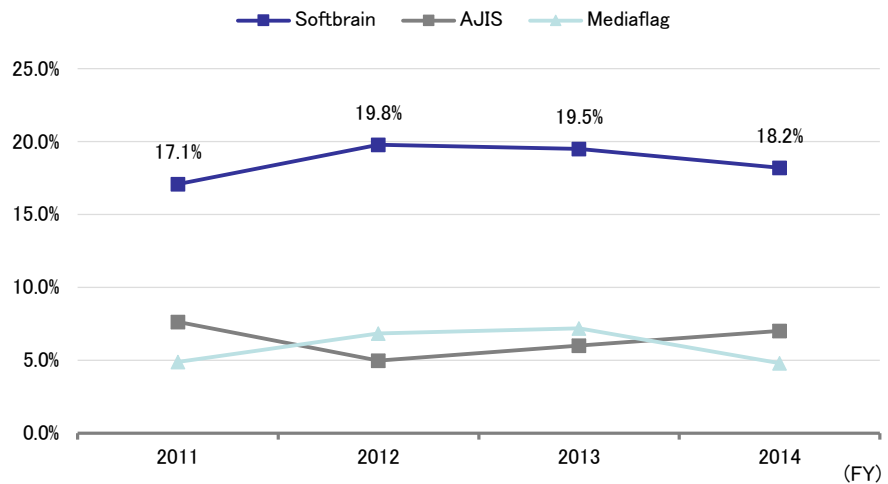
Similarly, the rounder human resources business that was launched in March 2013 (temporary staffing of and referrals to field support staff) is also achieving a certain result as in deals made with more than 50 companies, and it is expected to contribute to revenues in the future.

Despite the increase in segment profit, the profit margin fell slightly from 19.5% to 18.2%, which is thought to be affected by intensified competition and higher costs in conjunction with the launch of new businesses. However, the company persists maintaining profitability in comparison to peers in the field marketing industry.

■ Business Trends



Comparison of operating profit margins at Softbrain and other companies



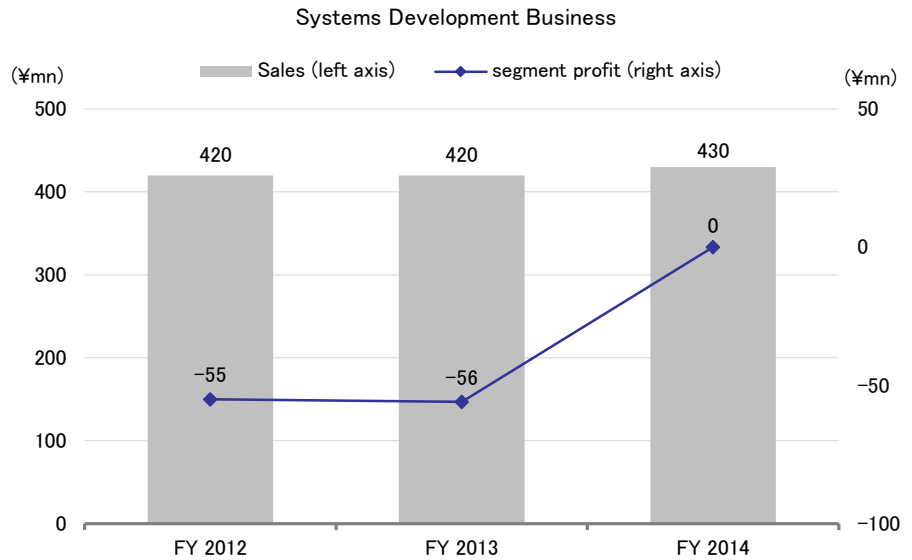
Note: FY 2014 result for AJIS is based on forecast.

○ **Systems development business**

The results of the system development business showed sales increased by 2.3% y/y to ¥430mn and segment profit at ¥0.04mn (¥56mn loss in the previous year) which means it turned into the black slightly.

Against the backdrop of the recovery in IT investment and the chronic shortage of human resources required for development, the temporary staffing business, in which development personnels are dispatched to corporate customers, performed favorably which resulted in increased profit. In terms of profit and loss, moreover, the reduction in fixed costs by the divestiture of the subsidiary development company in China in addition to the fact that the impact of the unprofitable project, which was generated in the previous term, took a round, contributed to the improved profit.

■ Business Trends

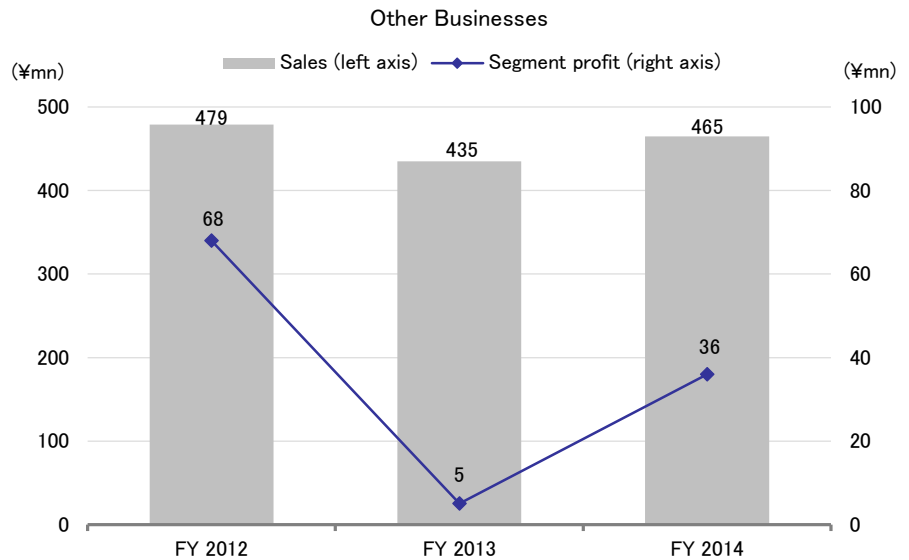


○ Other businesses

Results in other businesses showed sales increased by 7.0% y/y to ¥465mn and segment profit increased by around 6 times to ¥36mn.

Softbrain Integration performed strongly, benefiting from the cross-selling effects between e-Sales Manager and operational consulting & educational services utilizing smart devices such as iPad. Softbrain Integration was certified in Apple Consultants Network in July 2014 for its achievement in introducing iPad to organizations. It continues to develop professional services with leading-edge information and technologies as an Apple certified IT consultant.

Publishing business at Diamond Business Planning also recorded an increase in both sales and profit due to the increased demand for corporate publications.



Profitability indicators, such as operating profit margin, ROE, and ROA, exceed 10%

(2) Financial position and management indices

Examining the financial position at the end of December 2014, total assets increased by ¥478mn y/y to ¥4,145mn. Items that mainly impacted the rise and fall are; cash and deposits increased by ¥619mn, sales receivables and deferred tax assets decreased by ¥40mn and ¥71mn respectively.

On the other hand, liabilities at the end of the term rose to ¥1,134mn with a ¥189mn increase. Interest bearing liabilities increased by ¥30mn and each of arrears, advances received, and notes and accounts payable slightly increased in conjunction with business expansion. Net assets have grown to ¥3,011mn with a ¥288mn increase including ¥248mn in retained earnings and ¥35mn in minority interest.

Looking at the main management indices, all the indices including the current ratio, shareholders' equity ratio and debt/equity ratio which indicate stability slightly worsened compared to the end of the previous term, however, it can still be said that the company has maintained financial strength. Each indicator of profitability, such as ROA, ROE, and the operating profit margin, are more than 10%. However, there has been a noticeable decline in ROE due to the enhancement of shareholders' equity in conjunction with the increase in profit, therefore it seems that the company will be required to be committed to maintaining and improving its capital efficiency.

Consolidated Balance Sheet

(unit: ¥mn)

	FY 2011	FY 2012	FY 2013	FY 2014	Variation
Current assets	2,085	2,706	3,061	3,589	528
(Cash and deposit)	1,267	1,751	2,058	2,677	619
Fixed assets	369	500	606	555	-50
Total assets	2,454	3,206	3,667	4,145	478
Current liabilities	694	924	944	1,124	179
(Interest bearing liabilities)	150	150	150	180	30
Fixed liabilities	-	-	-	9	9
Net assets	1,759	2,281	2,722	3,011	288
(Shareholders' equity)	1,504	1,963	2,361	2,613	252
(Minority interest)	260	318	361	397	35
Main management indices					
(Stability) %					
Quick ratio	300.1%	292.7%	324.0%	319.1%	
Shareholders' equity ratio	61.1%	61.2%	64.4%	63.0%	
D / E ratio	10.1%	7.7%	6.4%	6.9%	
(profitability) %					
ROA	19.7%	22.0%	14.3%	14.8%	
ROE	26.1%	26.5%	18.1%	10.2%	
Sales operating profit margin	13.1%	14.3%	11.2%	11.5%	

Future Outlook

An increase in sales and profit is expected from the high growth in the field marketing business

(1) FY 2015 Outlook

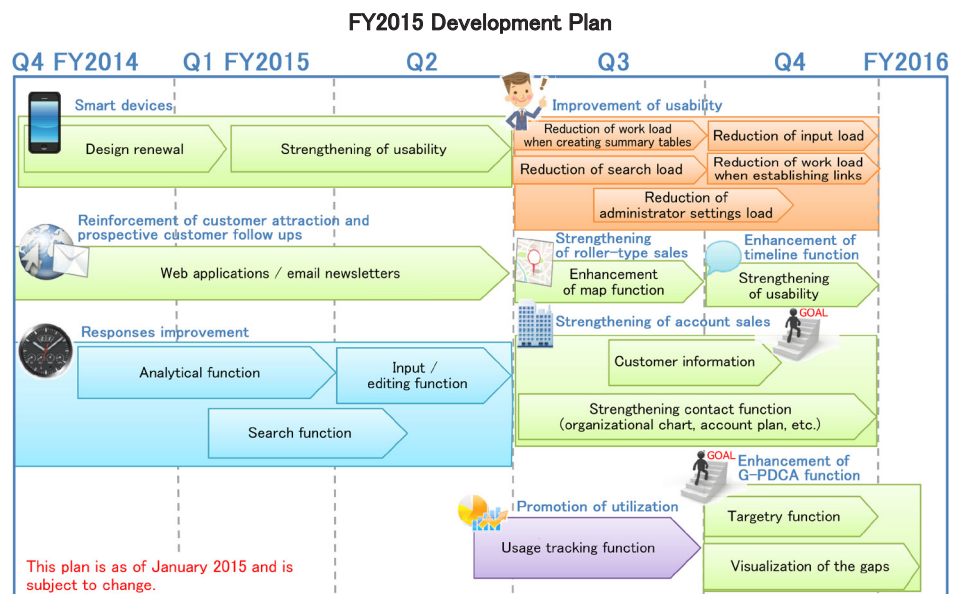
Consolidated result in FY 2015 (the year ending December 31, 2015) projects that sales will rise by 9.4% y/y to ¥5,400mn, operating profit by 14.3% to ¥650mn, current profit by 12.3% to ¥650mn, and net profit by 18.7% to ¥300mn. In addition to field marketing business continuing high growth, the company also aims to enlarge the number of customers in its e-Sales Manager related business by strengthening functionality on a continuous basis. System development business and other businesses are forecasted to remain unchanged y/y. This year's efforts for the two core businesses are as described below.

Aims to increase the number of customers both for cloud and on-premises type while enhancing functionality

(2) e-Sales Manager related business

The company aims for a more than 10% sales increase (y/y) for e-Sales Manager related business this year. Their strategy is to proactively invest in product development pursuing "SFA with No.1 usability" and to increase the number of customers both for cloud and on-premises type while enhancing functionality.

Function enhancement was implemented four times in the previous year all of which were highly evaluated by customers. The design of its smart phone version was renewed in January this year to improve user-friendliness. The company plans to strengthen its product competitiveness by continuous function enhancement as shown below.





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4779 Tokyo Stock Exchange
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11-May-15

■ Future Outlook

Upgrades implemented in FY 2014

Date implemented	Function added and improved points
February 28, 2014	Design improvements to the PC version
	Upgraded to a simple and easy-to-navigate design, reducing wasted space on the screen by 35.8%. The number of clicks required when entering data was reduced by an average of 47%, achieving improved usability.
June 9, 2014	Newly installed timeline function
	Information input in sales activity reports gets automatically posted on the timeline, which facilitates information sharing within the company in the shortest time possible, and it allows supervisors and/or parties concerned to issue instructions on the timeline. It not only reduces wasteful reporting in meetings, but also contributes to the acceleration of responses to customers.
June 16, 2014	Excel linkage function
	Linked excel to data input in e-Sales Manager, with which time required to prepare for meetings is greatly reduced
June 30, 2014	Contact management function
	Unified the management of customer/ prospective customer contacts, which enables users to establish coordinated and efficient strategies on visits.

The company's strategic direction for new business development is to focus particularly on developing its main market segment such as small- and middle-sized companies, for which the company aims to further strengthen partnership with other companies, which has been intensified since the previous term, and also to actively invest in sales-promotion including Web advertisement.

Initiatives in e-Sales Manager partnerships

October 2013	Launches sales of e-Sales Manager Remix Cloud via Otsuka Corporation
February 2014	Partners with ITX, a major player in mobile phone sales, and launches sales of e-Sales Manager Remix Cloud and nano via corporate sales department of the company
May 2014	Partners with Kodak Japan Ltd. and launches sales of e-Sales Manager Rmix Cloud optimized for the printing industry at both companies
July 2014	Forms a business alliance with Benefit One Inc. and commences to provide a new service that simultaneously enables "visualization" and "evaluation" of sales processes.
August 2014	Forms a business alliance with NeoJapan Inc. and Gexeed Co., Ltd., with which interconnection of groupware and SFA is materialized, and commences cooperative business
December 2014	Partners with Ring & Link Corporation, which provides Internet support services for real estate companies, aligns e-Sales Manager nano with SFA designed for real-estate, and commences cooperative business
January 2015	Partners with Hitachi INS Software Ltd., aligns e-Sales Manager Remix Cloud with their BI tool, and commences cooperative business

Although its profit may stagnate as a result of the increased development costs and sales-promotion costs, the company gives customer acquisition the greatest priority in this business. This is because it is projected that installation of SFA software as a tool for sales productivity improvement will be accelerated hereafter along with the popularization of smart devices in business corporations. The number of domestic companies that have installed SFA is said to be approximately 20,000. Since there are approx. 3-4 million corporate entities domestically out of which 1 million entities are estimated to have a sales division, SFA penetration rate yet remains at a small percentage therefore there is a significant growth potential.



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* Charge on a per-visit basis: As the outsourcing fees are set on per-visit, per-service, and per-reporting basis, customers do not get charged for the time a cast spends travelling. In the conventional charging model on the other hand, hourly rate is applied which means that when a cast member is responsible for multiple stores, the customer is charged for the time required for travelling between stores.

■ Future Outlook

New large-scale deals and growth in the rounder human resources business are expected

(3) Field marketing business

This term's sales figures in field marketing business are expected to greatly increase by 20% y/y. In addition to expected new large-scale deals for field support, growth in the "rounder" (field merchandiser) human resources business is projected.

The driving forces behind its growth in field support operations are its competitive advantages such as customers' cost-effectiveness due to the high quality of the company's services and its service charges on a per-visit basis*, and its extensive and rapid job performance as a result of deploying 50,000 casts throughout the nation. It is projected to continue the high growth for the time being aided by the growing trend toward outsourcing of field support operations in the market.

In addition, there is an increasing demand for competent in-house field support staff with high value experience in the context of the growing shortfall in human resources in a number of industries. Sales figures in the rounder human resources business, which was launched in March 2013 in order to meet those needs, is expected to account for approx. 15% of the entire business. Although the profitability is projected to become less than in the past because its temp services take up the majority between temp services and referral services, it is expected to contribute to the company's business expansion.

Moreover, the POB business is smoothly expanding services not only for consumables manufacturers but also for restaurant chain companies. It launched a service where customers can browse shoppers' insight information in comparison with similar products of other companies (purchased products, reasons for purchase, stores where purchased, comparative products, etc.) collected from approx. 120,000 membership base at low cost, and can also browse information on each category - in May 2014 for consumables manufacturers and in June 2014 for the restaurant industry respectively.

Since the information such as buying motivations and product evaluations can be collected in a short time from actual product buyers, the value of this service as a corporate marketing tool is expected to grow in the future. It is thought that it will take a few more years before the business expands to the extent that it has an impact on revenues, though it is expected to grow into one of the stable revenue streams as it is a stock-type business.

■ Plan of Shareholder Return

Flexible dividends based on operating results

The company sets their basic shareholder return policy as “flexible dividends depending on its stage of growth and operating results while focusing mainly on enriching retained earnings ratio in order to strengthen its corporate financial position and to promote business development in the future”. The company did not pay dividends in FY 2014 (the year ending December 31, 2014) as it judged that neither of its reserves nor profit are yet at the level where dividends can be paid. Currently no dividend is planned for FY 2015 (the year ending December 31, 2015) neither, which is because, as was noted above, the company is currently in the investment phase in such businesses as e-Sales Manager and new businesses, therefore its policy is to actively invest retained earnings in development of these businesses and in sales promotion. In the future, however, the company will consider reviewing its shareholder return policy in accordance with the changes in economic environment and its financial condition.

Consolidated Income Statement, FY2011–2015

(Unit: ¥mn, %)

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015 forecast
Sales	3,397	4,237	4,416	4,934	5,400
(y/y)	-1.2	24.7	4.2	11.7	9.4
COGs	1,710	2,163	2,658	2,906	
(COGs ratio)	50.4	51.0	60.2	58.9	
SG&A costs	1,234	1,460	1,260	1,442	
(SG&A ratio)	36.4	34.5	28.5	29.2	
Operating profit	444	606	492	568	650
(y/y)	7.3	36.3	-18.7	15.4	14.3
(Operating profit margin)	13.1	14.3	11.2	11.5	12.0
Current profit	454	622	492	578	650
(y/y)	9.5	37.0	-20.9	17.5	12.3
(Current profit margin)	13.4	14.7	11.2	11.7	12.0
Pretax profit	447	614	510	577	650
(y/y)	10.3	37.2	-16.9	13.2	12.7
(Pretax profit margin)	13.2	14.5	11.5	11.7	12.0
Corporate income tax	21	103	75	242	
(Effective tax rate)	4.7	16.9	14.7	41.9	
Minority interest	80	52	43	82	
Net profit	346	458	391	252	300
(y/y)	4.5	32.4	-14.6	-35.4	18.7
(Net profit margin)	10.2	10.8	8.9	5.1	5.6
Average number of shares outstanding (thds)	29,255	29,255	29,255	29,255	29,255
EPS (¥)	11.83	15.67	13.37	8.64	10.25
DPS (¥)	0.00	0.00	0.00	0.00	0.0
BPS (¥)	51.23	67.11	80.70	89.34	-

Note: The company conducted a 100-for-1 share split in 2013. Per-share figures for previous fiscal years have been revised accordingly.



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