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On **May 8, 2019**, Medical System Network Co., Ltd. announced earnings results for full-year FY03/19.

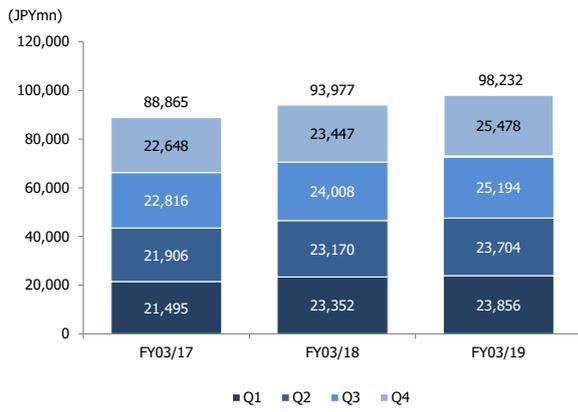
Cumulative (JPYmn)	FY03/18				FY03/19				FY03/19	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Sales	23,352	46,522	70,530	93,977	23,856	47,560	72,754	98,232	102.9%	95,500
YoY	8.6%	7.2%	6.5%	5.8%	2.2%	2.2%	3.2%	4.5%		1.6%
Gross profit	9,069	18,109	27,515	36,607	9,079	17,887	27,527	37,271		38,009
YoY	11.0%	10.0%	8.6%	7.2%	0.1%	-1.2%	0.0%	1.8%		3.8%
GPM	38.8%	38.9%	39.0%	39.0%	38.1%	37.6%	37.8%	37.9%		39.8%
SG&A expenses	8,476	16,837	25,226	33,444	8,867	17,410	26,487	35,842		36,309
YoY	6.5%	5.8%	4.8%	4.3%	4.6%	3.4%	5.0%	7.2%		8.6%
SG&A ratio	36.3%	36.2%	35.8%	35.6%	37.2%	36.6%	36.4%	36.5%		38.0%
Operating profit	592	1,271	2,288	3,163	212	476	1,040	1,428	84.0%	1,700
YoY	179.2%	131.5%	80.7%	49.7%	-64.2%	-62.5%	-54.5%	-54.9%		-46.3%
OPM	2.5%	2.7%	3.2%	3.4%	0.9%	1.0%	1.4%	1.5%		1.8%
Recurring profit	590	1,272	2,334	3,250	192	438	1,010	1,501	91.0%	1,650
YoY	196.5%	134.7%	84.4%	54.1%	-67.5%	-65.6%	-56.7%	-53.8%		-49.2%
RPM	2.5%	2.7%	3.3%	3.5%	0.8%	0.9%	1.4%	1.5%		1.7%
Net income	289	363	944	1,022	101	119	372	462	88.8%	520
YoY	-	450.0%	185.2%	79.0%	-65.1%	-67.2%	-60.6%	-54.8%		-49.1%
Net margin	1.2%	0.8%	1.3%	1.1%	0.4%	0.3%	0.5%	0.5%		0.5%

Quarterly (JPYmn)	FY03/18				FY03/19			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	23,352	23,170	24,008	23,447	23,856	23,704	25,194	25,478
YoY	8.6%	5.8%	5.2%	3.5%	2.2%	2.3%	4.9%	8.7%
Gross profit	9,069	9,040	9,406	9,092	9,079	8,808	9,640	9,744
YoY	11.0%	9.1%	6.0%	2.9%	0.1%	-2.6%	2.5%	7.2%
GPM	38.8%	39.0%	39.2%	38.8%	38.1%	37.2%	38.3%	38.2%
SG&A expenses	8,476	8,361	8,389	8,218	8,867	8,543	9,077	9,355
YoY	6.5%	5.2%	2.8%	2.9%	4.6%	2.2%	8.2%	13.8%
SG&A ratio	36.3%	36.1%	34.9%	35.0%	37.2%	36.0%	36.0%	36.7%
Operating profit	592	679	1,017	875	212	264	564	388
YoY	179.2%	101.5%	41.8%	3.3%	-64.2%	-61.1%	-44.5%	-55.7%
OPM	2.5%	2.9%	4.2%	3.7%	0.9%	1.1%	2.2%	1.5%
Recurring profit	590	682	1,062	916	192	246	572	491
YoY	196.5%	98.8%	46.7%	8.7%	-67.5%	-63.9%	-46.1%	-46.4%
RPM	2.5%	2.9%	4.4%	3.9%	0.8%	1.0%	2.3%	1.9%
Net income	289	74	581	78	101	18	253	90
YoY	-	-1.3%	119.2%	-67.5%	-65.1%	-75.7%	-56.5%	15.4%
Net margin	1.2%	0.3%	2.4%	0.3%	0.4%	0.1%	1.0%	0.4%

Source: Shared Research based on company data

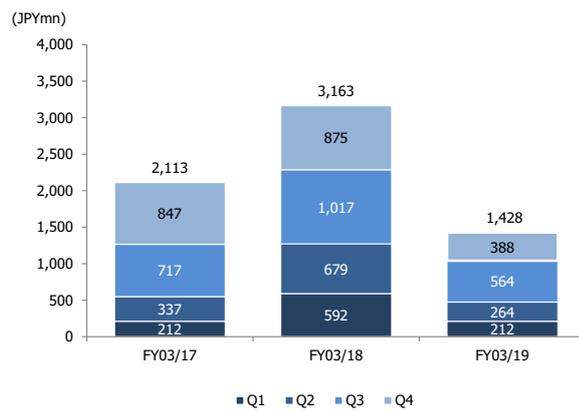
Note: Figures may differ from company materials due to differences in rounding methods.

Quarterly sales



■ Q1 ■ Q2 ■ Q3 ■ Q4

Quarterly operating profit



■ Q1 ■ Q2 ■ Q3 ■ Q4

Source: Shared Research based on company data

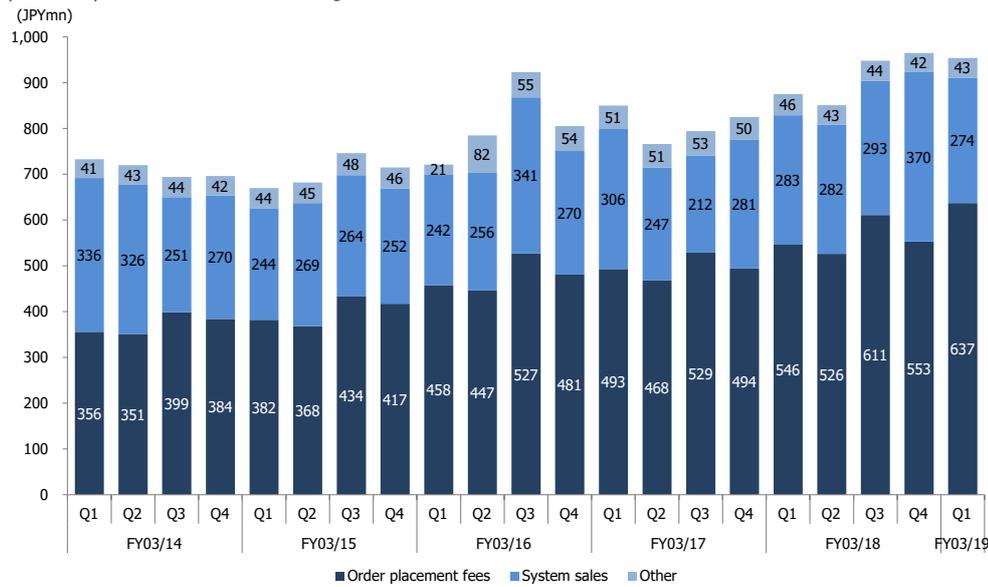
By segment (cumulative)		FY03/17				FY03/18				FY03/19			
(JPYmn)		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Total sales		21,495	43,401	66,217	88,865	23,352	46,522	70,530	93,977	23,856	47,560	72,754	98,232
YoY		0.9%	3.1%	2.6%	1.3%	8.6%	7.2%	6.5%	5.8%	2.2%	2.2%	3.2%	4.5%
Pharmaceuticals Network		851	1,617	2,411	3,237	875	1,728	2,675	3,639	955	1,818	2,897	3,951
YoY		13.2%	7.3%	-0.8%	0.1%	2.8%	6.9%	10.9%	12.4%	9.1%	5.2%	8.3%	8.6%
% of total sales		3.8%	3.6%	3.5%	3.5%	3.6%	3.6%	3.7%	3.8%	3.9%	3.7%	3.9%	3.9%
Dispensing Pharmacy		19,718	39,858	60,820	81,650	21,525	42,863	65,215	87,172	22,222	44,035	67,291	90,706
YoY		1.1%	1.6%	0.5%	-0.4%	9.2%	7.5%	7.2%	6.8%	3.2%	2.7%	3.2%	4.1%
% of total sales		88.6%	88.9%	89.0%	89.0%	89.3%	89.3%	89.6%	89.8%	90.3%	89.8%	89.6%	89.5%
Leasing and Facility-related		501	989	1,516	2,046	521	1,086	1,561	2,031	600	1,508	2,382	3,320
YoY		-56.4%	-36.4%	-22.8%	-15.8%	4.0%	9.8%	3.0%	-0.7%	15.2%	38.9%	52.6%	63.5%
% of total sales		2.3%	2.2%	2.2%	2.2%	2.2%	2.3%	2.1%	2.1%	2.4%	3.1%	3.2%	3.3%
Food Service		1,155	2,315	3,487	4,667	1,156	2,298	3,279	4,103	788	1,586	2,382	3,161
YoY		113.9%	110.8%	107.8%	64.9%	0.1%	-0.7%	-6.0%	-12.1%	-31.8%	-31.0%	-27.4%	-23.0%
% of total sales		5.2%	5.2%	5.1%	5.1%	4.8%	4.8%	4.5%	4.2%	3.2%	3.2%	3.2%	3.1%
Other		36	77	114	163	33	53	71	92	33	91	166	261
YoY		12.5%	4.1%	2.7%	14.0%	-8.3%	-31.2%	-37.7%	-43.6%	0.0%	71.7%	133.8%	183.7%
% of total sales		0.2%	0.2%	0.2%	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%	0.2%	0.2%	0.3%
Segment sales adjustments		-768	-1,457	-2,133	-2,900	-759	-1,478	-2,274	-3,063	-743	-1,479	-2,365	-3,167
Operating profit		212	549	1,266	2,113	592	1,271	2,288	3,163	212	476	1,040	1,428
YoY		-76.5%	-68.7%	-53.3%	-44.1%	179.2%	131.5%	80.7%	49.7%	-64.2%	-62.5%	-54.5%	-54.9%
Pharmaceuticals Network		439	838	1,280	1,718	471	934	1,444	1,949	554	1,060	1,697	2,331
YoY		3.3%	-0.6%	-5.0%	-3.3%	7.3%	11.5%	12.8%	13.4%	17.6%	13.5%	17.5%	19.6%
% of operating profit		72.7%	66.0%	54.2%	47.8%	47.5%	45.4%	41.0%	40.8%	89.8%	87.1%	74.4%	72.6%
Dispensing Pharmacy		270	706	1,469	2,314	591	1,220	2,210	3,060	130	202	712	1,068
YoY		-56.2%	-49.6%	-37.9%	-32.2%	118.9%	72.8%	50.4%	32.2%	-78.0%	-83.4%	-67.8%	-65.1%
% of operating profit		44.7%	55.6%	62.2%	64.4%	59.6%	59.3%	62.8%	64.1%	21.1%	16.6%	31.2%	33.3%
Leasing and Facility-related		-15	-85	-129	-143	-40	-73	-109	-182	-32	10	-51	-84
YoY		-	-	-	-	-	-	-	-	-	-	-	-
% of operating profit		-	-	-	-	-	-	-	-	-	0.8%	-2.2%	-2.6%
Food Service		-47	-102	-139	-129	5	34	49	45	1	18	28	34
YoY		-	-	-	-	-110.6%	-133.3%	-135.3%	-134.9%	-80.0%	-47.1%	-42.9%	-24.4%
% of operating profit		-	-	-	-	0.5%	1.7%	1.4%	0.9%	0.2%	1.5%	1.2%	1.1%
Other		-41	-86	-119	-163	-35	-58	-75	-97	-36	-73	-105	-136
YoY		-	-	-	-	-	-	-	-	-	-	-	-
% of operating profit		-	-	-	-	-	-	-	-	-	-	-	-
Segment profit adjustments		-392	-721	-1,094	-1,482	-400	-785	-1,231	-1,610	-405	-741	-1,240	-1,784

By segment (quarterly)		FY03/17				FY03/18				FY03/19			
(JPYmn)		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Total sales		21,495	21,906	22,816	22,648	23,352	23,170	24,008	23,447	23,856	23,704	25,194	25,478
YoY		0.9%	5.3%	1.8%	-2.4%	8.6%	5.8%	5.2%	3.5%	2.2%	2.3%	4.9%	8.7%
Pharmaceuticals Network		851	766	794	826	875	853	947	964	955	863	1,079	1,054
YoY		13.2%	1.5%	-14.0%	2.6%	2.8%	11.4%	19.3%	16.7%	9.1%	1.2%	13.9%	9.3%
% of total sales		3.8%	3.4%	3.4%	3.5%	3.6%	3.6%	3.8%	4.0%	4.4%	3.5%	4.1%	4.0%
Dispensing Pharmacy		19,718	20,140	20,962	20,830	21,525	21,338	22,352	21,957	22,222	21,813	23,256	23,415
YoY		1.1%	2.1%	-1.5%	-3.0%	9.2%	5.9%	6.6%	5.4%	3.2%	2.2%	4.0%	6.6%
% of total sales		88.6%	89.1%	89.2%	89.0%	89.3%	89.3%	90.1%	90.6%	103.2%	89.3%	89.2%	89.1%
Leasing and Facility-related		501	488	527	530	521	565	475	470	600	908	874	938
YoY		-56.4%	19.9%	28.9%	14.0%	4.0%	15.8%	-9.9%	-11.3%	15.2%	60.7%	84.0%	99.6%
% of total sales		2.3%	2.2%	2.2%	2.3%	2.2%	2.4%	1.9%	1.9%	2.8%	3.7%	3.4%	3.6%
Food Service		1,155	1,160	1,172	1,180	1,156	1,142	981	824	788	798	796	779
YoY		113.9%	107.9%	102.1%	2.4%	0.1%	-1.6%	-16.3%	-30.2%	-31.8%	-30.1%	-18.9%	-5.5%
% of total sales		5.2%	5.1%	5.0%	5.0%	4.8%	4.8%	4.0%	3.4%	3.7%	3.3%	3.1%	3.0%
Other		36	41	37	49	33	20	18	21	33	58	75	95
YoY		12.5%	-2.4%	0.0%	53.1%	-8.3%	-51.2%	-51.4%	-57.1%	0.0%	190.0%	316.7%	352.4%
% of total sales		0.2%	0.2%	0.2%	0.2%	0.1%	0.1%	0.1%	0.1%	0.2%	0.2%	0.3%	0.4%
Segment sales adjustments		-768	-689	-676	-767	-759	-719	-796	-789	2,320	-736	-886	-802
Operating profit		212	337	717	847	592	679	1,017	875	212	264	564	388
YoY		-76.5%	-60.4%	-25.2%	-21.1%	179.2%	101.5%	41.8%	3.3%	-64.2%	-61.1%	-44.5%	-55.7%
Pharmaceuticals Network		439	399	442	438	471	463	510	505	554	506	637	634
YoY		3.3%	-4.5%	-12.3%	2.1%	7.3%	16.0%	15.4%	15.3%	17.6%	9.3%	24.9%	25.5%
% of total segment profit		72.7%	59.9%	40.6%	35.5%	47.5%	43.5%	34.9%	40.3%	89.8%	84.3%	59.9%	68.0%
Dispensing Pharmacy		270	436	763	845	591	629	990	850	130	72	510	356
YoY		-56.2%	-44.5%	-20.7%	-19.4%	118.9%	44.3%	29.8%	0.6%	-78.0%	-88.6%	-48.5%	-58.1%
% of total segment profit		44.7%	65.5%	70.0%	68.4%	59.6%	59.1%	67.7%	67.8%	21.1%	12.0%	48.0%	38.2%
Leasing and Facility-related		-15	-70	-44	-14	-40	-33	-36	-73	-32	42	-61	-33
YoY		-	-	-	-	-	-	-	-	-	-	-	-
% of total segment profit		-	-	-	-	-	-	-	-	-	-	-	-
Food Service		-47	-55	-37	10	5	29	15	-4	1	17	10	6
YoY		-	-	-	-130.3%	-110.6%	-152.7%	-140.5%	-	-80.0%	-41.4%	-33.3%	-250.0%
% of total segment profit		-	-	-	0.8%	0.5%	2.7%	1.0%	-	0.2%	2.8%	0.9%	0.6%
Other		-41	-45	-33	-44	-35	-23	-17	-22	-36	-37	-32	-31
YoY		-	-	-	-	-	-	-	-	-	-	-	-
% of total segment profit		-	-	-	-	-	-	-	-	-	-	-	-
Segment profit adjustments		-392	-329	-373	-388	-400	-385	-446	-379	-405	-336	-499	-544

Source: Shared Research based on company data

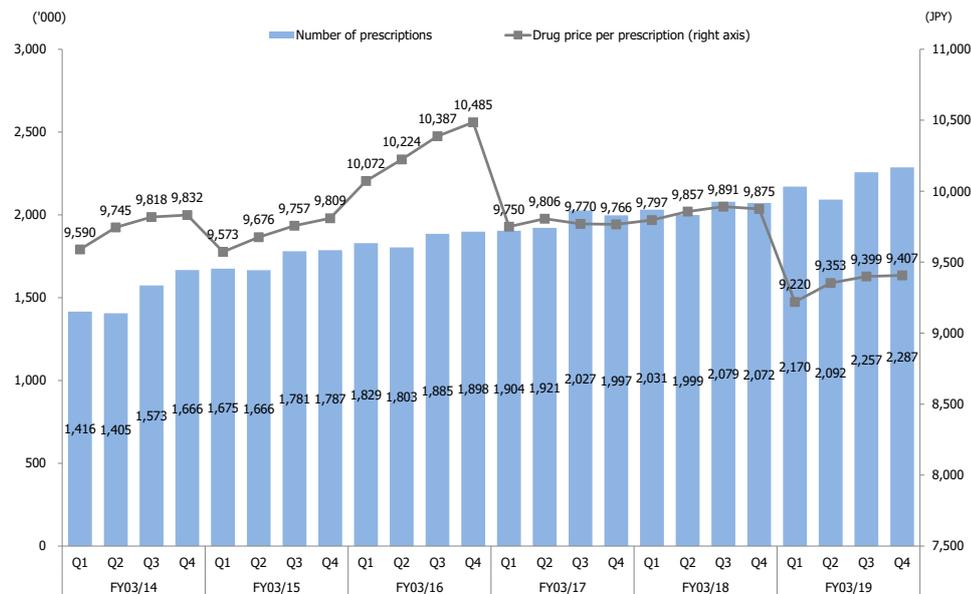
Note: Figures may differ from company materials due to differences in rounding methods.

(Reference) Pharmaceuticals Network segment sales



Source: Shared Research based on company data
Undisclosed from Q2 FY03/19

Prescription volume and drug price per prescription (Dispensing Pharmacy segment; all stores)



Source: Shared Research based on company data
Note: NHI drug price and dispensing fee revisions were put into effect on April 1, 2014, April 1, 2016, and April 1, 2018.

Full-year FY03/19 earnings results (out May 8, 2019)

Overview

Full-year FY03/19 (April 2018 to March 2019) earnings results

- ▷ Sales: JPY98.2bn (+4.5% YoY)
- ▷ Operating profit: JPY1.4bn (-54.9% YoY)
- ▷ Recurring profit: JPY1.5bn (-53.8% YoY)
- ▷ Net income*: JPY462mn (-54.8% YoY)
- ▷ *Net income refers to net income attributable to parent company shareholders.

- ▷ Business environment: NHI drug price and dispensing fee revisions were conducted in April 2018. Dispensing pharmacies had to streamline their management structures following the implementation of the MHLW “Guidelines for distributor compliance to improve ethical drug distribution” whose purpose is to ensure stable supply of ethical drugs
- ▷ Company response: The Pharmaceuticals Network business increased the number of network members (affiliates), mainly among small and mid-tier pharmacies. The company also made changes in the Dispensing Pharmacy business, such as acquiring new pharmacies and closing others, to improve the business makeup of its dispensing pharmacies amid an increasingly severe earnings environment

Segment performance

Pharmaceuticals Network

FY03/19 (April 2018–March 2019) segment earnings results

- ▷ Segment sales: JPY4.0bn (+8.6% YoY; includes internal sales or transfers between segments; same hereafter)
- ▷ Segment profit: JPY2.3bn (+19.6% YoY)
- ▷ Number of new affiliates: Following the start of distribution improvement guidelines in April 2018, the company surpassed its year-end objective of 3,200 new affiliates for a total of 3,790 as the number of affiliates joining the network was steady amidst growing needs for distribution efficiency. The company is also engaging in initiatives aimed at responding to these needs
- ▷ Number of affiliates (as of March 31, 2019): 3,729 dispensing pharmacies, 3,790 total including 61 hospitals and clinics (+1,281 compared to end-FY03/18)

Dispensing Pharmacy

FY03/19 (April 2018–March 2019) segment earnings results

- ▷ Segment sales: JPY90.7bn (+4.1% YoY)
- ▷ Segment profit: JPY1.1mn (-65.1% YoY)
- ▷ Location improvements: In response to dispensing fee revisions, the company encouraged its locations to exercise their functions as local pharmacies that support the health of local residents in a variety of ways and as family pharmacies/pharmacists that engage in in-home medical treatment initiatives
- ▷ Review of locations: In addition to opening five dispensing pharmacies during the period, the company acquired two companies (25 pharmacies) through a share acquisition and obtained five other pharmacies through a business transfer. On the other hand, the company closed 11 dispensing pharmacies and three drug stores, and disposed of six pharmacies through a business transfer
- ▷ Nagatomi Pharmacy Corp., which became a consolidated subsidiary in January 2019 after the company acquired its shares, operates 23 stores (dispensing pharmacies) in Oita Prefecture. This has strengthened its positioning in the Kyushu area
- ▷ Number of locations (as of March 31 2019): 420 dispensing pharmacies, one care plan center, and five drug stores

Measures implemented in response to dispensing fee revisions

Basic dispensing fee (points)		FY03/19	
FY03/18		FY03/19	
Basic fee 1	41	Basic fee 1	41
Basic fee 2	25	Basic fee 2	25
Basic fee 3	20	Basic fee 3-b	15

Generic drug dispensing premium			
FY03/18		FY03/19	
75% or higher	22	85% or higher	26
65% or higher	18	80% or higher	22
		75% or higher	18

Community support system premium			
FY03/18		FY03/19 (new)	
Standard dispensing premium	32	Community support system premium	35

		FY03/18 Act.		FY03/19 Est.		FY03/19 Act.	
Basic dispensing fee		No. of pharmacies					
41 points		307	77.1%	-	45.0%	204	48.5%
25 points		9	2.3%	-	1.7%	9	2.1%
15 points		-	-	-	53.3%	208	49.4%
20 points		82	20.6%	-	-	-	-
Total number of pharmacies		398		-		421	

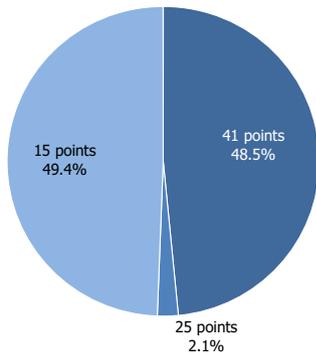
		FY03/18 Act.		FY03/19 Est.		FY03/19 Act.	
Generic drug dispensing premium		No. of pharmacies					
26 points		-	-	-	19.7%	120	28.5%
22 points		239	60.1%	-	25.3%	114	27.1%
18 points		105	26.4%	-	28.8%	89	21.1%
0 point		54	13.6%	-	26.2%	98	23.3%
Total number of pharmacies		398		-		421	

		FY03/18 Act.		FY03/19 Est.		FY03/19 Act.	
Standard dispensing premium		No. of pharmacies		Eliminated			
32 points		217	54.5%	-	-	-	-
0 point		181	45.5%	-	-	-	-
Total number of pharmacies		398		-		-	
Community support system premium				Newly established			
35 points		-	-	-	33.4%	143	34.0%
0 point		-	-	-	66.6%	278	66.0%
Total number of pharmacies		-		-		421	

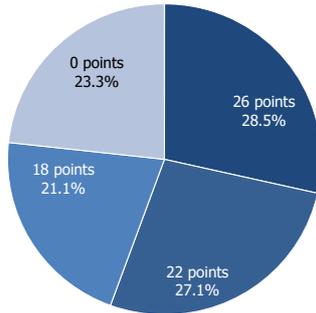
Source: Shared Research based on company data
Note: Excludes pharmacies that were closed

Store breakdown by fees/premiums in FY03/19

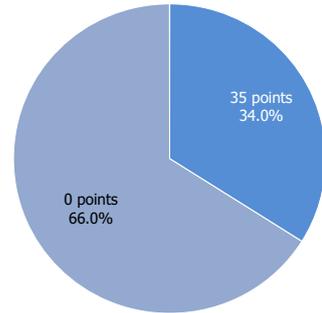
Basic dispensing fees



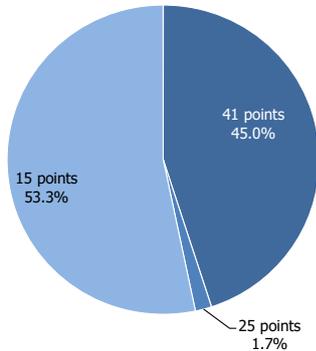
Generic drug dispensing premiums



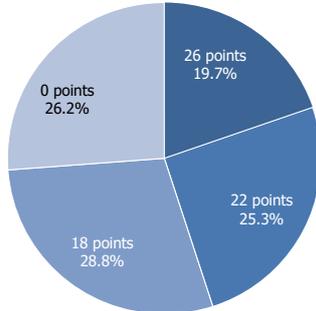
Community support system premiums



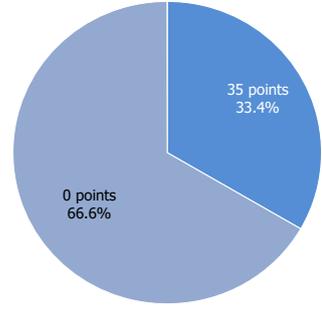
Estimated



Estimated



Estimated



Weighted average points per prescription

FY03/18 results (pre-revision): 36.0 pts
FY03/19 forecast (post-revision): 28.3 pts
FY03/19 results (post-revision): 29.1 pts

Weighted average points per prescription

FY03/18 results (pre-revision): 17.2 pts
FY03/19 forecast (post-revision): 15.2 pts
FY03/19 results (post-revision): 16.6 pts

Weighted average points per prescription

FY03/18 results (pre-revision): 18.8 pts
FY03/19 forecast (post-revision): 13.8 pts
FY03/19 results (post-revision): 14.3 pts

Source: Shared Research based on company data

Leasing and Facility-related

FY03/19 (April 2018–March 2019) segment earnings results

- ▷ Segment sales: JPY3.3bn (+63.5% YoY)
- ▷ Segment loss: JPY84mn (loss of JPY182mn in FY03/18)
- ▷ Reason for increase in sales: Steady inflow of leasing revenue and growth in supervision of the design and construction of medical facilities
- ▷ Reason for increase in profit: Operating loss continued due to upfront spending on serviced elderly housing facility Wisteria Minami Ichijo, opened in November 2018. However, at end-FY03/19, the occupancy rate improved as 56 of the 82 units of Wisteria Senri Chuo and 47 of the 115 units of Wisteria Minami Ichijo were occupied

Wisteria series facilities

Property	Opened	Occupancy
Wisteria N17	December 2007	90.6%
Wisteria Kiyota	May 2013	98.7%
Wisteria Otaru Inaho	December 2015	92.6%
Wisteria Senri-Chuo	May 2016	68.3%
Wisteria Minami Ichijo	November 2018	40.9%

Source: Shared Research based on company data (as of March 31, 2019)

Food Service

FY03/19 (April 2018–March 2019) segment earnings results

- ▷ Segment sales: JPY3.2bn (-23.0% YoY)
- ▷ Segment profit: JPY34mn (-24.4% YoY)
- ▷ Business reforms: Profit fell due to increased labor costs at some of the facilities, despite progress in withdrawing from unprofitable facilities

Other

FY03/19 (April 2018–March 2019) segment earnings results

- ▷ Segment sales: JPY261mn (+183.7% YoY)
- ▷ Segment loss: JPY136mn (loss of JPY97mn in FY03/18)
- ▷ Medical product manufacturing and sales business: Conducted by Feldsenf Pharma Co., Ltd., which sells 34 items based on 17 components as of March 31, 2019 and aims to provide a stable supply of high-quality, low-cost generic drugs

Shared Research plans to update the report following interviews with the company.

Full-year FY03/20 company forecasts

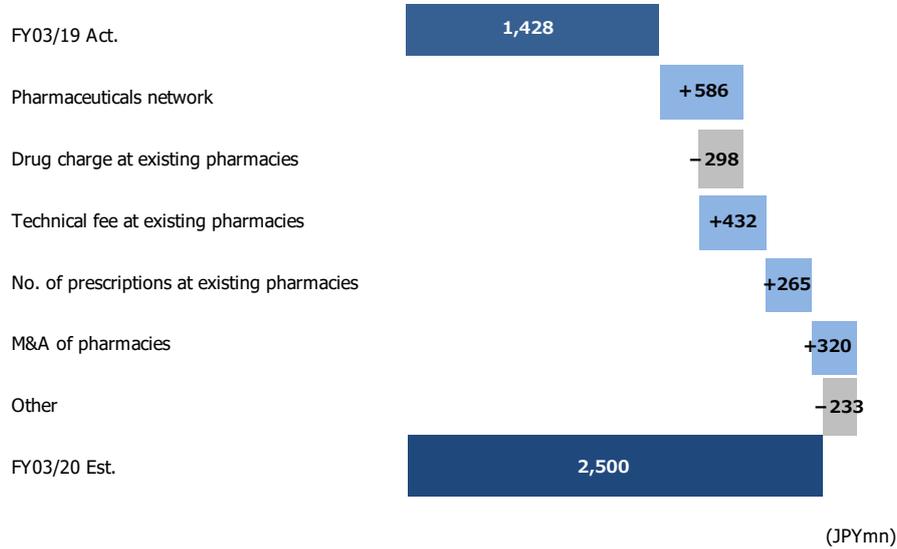
On May 8, 2018, Medical System Network announced its fifth medium-term plan starting FY03/19. Forecasts for full-year FY03/20 are sales of JPY103.0bn (+4.9% YoY), operating profit of JPY2.5bn (+75.1% YoY), recurring profit of JPY2.4bn (+59.9% YoY), and net income attributable to parent company shareholders of JPY650mn (+40.7% YoY).

Company recognizes the harsh environment

The company believes the pharmaceuticals industry can continue to expect market expansion in the longer term as healthcare spending continues to rise alongside the percentage of elderly people in the Japanese population. At the same time, however,

trends such as measures to improve the distribution of ethical drugs, patient-centered separation of prescribing and dispensing functions, and NHI drug price and dispensing fee reviews are targeting reduction of healthcare spending. In this context, dispensing pharmacies are under pressure to streamline their management.

Company estimate on FY03/20 consolidated operating profit



Source: Shared Research based on company data

On the other hand, Medical System Network has expressed a policy of strengthening management support for small and mid-tier pharmacies that underpin regional healthcare by expanding its pharmaceuticals network. In the operation of its own dispensing pharmacies, the company plans to make a greater contribution to regional healthcare and family pharmacy functions to make a qualitative improvement to their services. The company will also continue to work on improving the distribution of ethical drugs by manufacture and sales of generic drugs through consolidated subsidiary Feldsenf Pharma.

This note is the most recent addition to the [full report](#).

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