

Japan Animal Referral Medical Center

6039

Tokyo Stock Exchange Growth Market

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FISCO Ltd. Analyst

Masanobu Mizuta



FISCO Ltd.

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

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Summary

Operation of general animal hospitals specializing in advanced medical care for dogs and cats, and aiming to be a comprehensive company in the animal medical care industry

Japan Animal Referral Medical Center <6039> (hereinafter, also “the Company” and “JARMeC”) operates general animal hospitals (secondary clinics) that specialize in providing advanced medical care for pets (dogs and cats) and aims to be a comprehensive company in the animal medical care industry.

1. Offers advanced animal medical care through the division of labor with local “family animal hospitals”

It provides advanced medical care (secondary medical care) for animals with severe conditions that are difficult to treat at primary clinics through referrals from regional animal hospitals that are the pet owners’ “family animal hospitals” (the primary clinics), through referrals from these primary clinics. As needs are rising among pet owners for more varied and advanced animal medical care based on pet owners’ desire for pets to receive the same advanced medical care as people, the Company is providing advanced and complete animal medical care through the division of labor with nationwide “family animal hospitals.”

2. FY3/22 sales and profits increased with record-high results

In the FY3/22 consolidated results, net sales increased 4.6% year-on-year (YoY) to ¥2,979mn, operating profit increased 8.3% to ¥439mn, ordinary profit rose 6.7% to ¥438mn, and profit attributable to owners of parent increased 0.6% to ¥286mn. Both sales and profits increased, with net sales and operating profit both being record highs. In conjunction with the increase in the number of collaborating clinics, there were steady increases in both first hospital visits (referrals) and the total number of medical care services provided, and this absorbed the increase in expenses targeting business growth, including the increase in personnel costs. The number of first hospital visits (referrals) increased 4.4% YoY.

3. Forecasting a significant increase in both sales and profits in FY3/23, partly due to the contribution from M&A

For the FY3/23 consolidated results, the Company is forecasting a significant increase in both sales and profits, with net sales increasing 29.6% YoY to ¥3,860mn, operating profit rising 21.8% to ¥535mn, ordinary profit increasing 22.9% to ¥540mn, and profit attributable to owners of parent up 27.2% to ¥365mn. On the cost front, costs will be incurred with the opening of the Osaka Hospital (scheduled to open around March 2023), but first hospital visits are expected to steadily increase (expecting growth of around 4.0%) and the new consolidation of terucom Co., Ltd. (made a consolidated subsidiary in March 2022) will also contribute to results. This forecast seems very conservative on the whole, and at FISCO we think there is room for the results to exceed the Company’s forecasts.

Summary

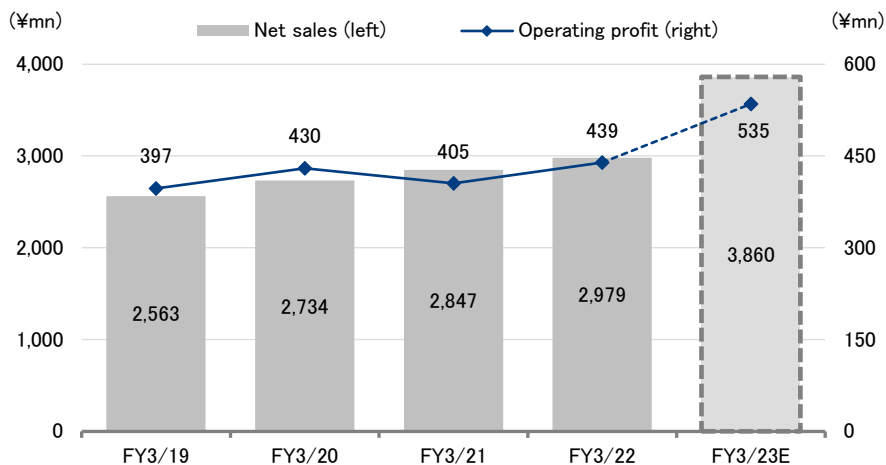
4. Aiming to be a comprehensive company in the animal medical care industry and moving toward a new growth stage

The Company’s medium-term growth strategy includes increasing the number of bases and collaborating clinics, securing, training and retaining personnel, and expanding the scope of business, including by utilizing M&A, as the Company aims to be comprehensive company in the animal medical care industry. The market environment for the pet market and advanced medical care for animals is favorable, and there is significant room for further market growth. At FISCO, we think there is a high possibility for the Company to enter a new growth stage, due to the favorable market environment, the Company’s strength as a general animal hospital that can provide advanced medical care services, the opening of the Osaka Hospital, and synergies with terucom.

Key Points

- Operates general animal hospitals specializing in advanced medical care for pets (dogs and cats)
- Forecasting large increases in net sales and profits in FY3/23, partly due to the contribution from M&A
- Aiming to be a comprehensive company in the animal medical care industry and moving toward a new growth stage

Results trends



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

■ Company profile

Operation of general animal hospitals specializing in advanced medical care for dogs and cats

1. Company profile

The Company operates general animal hospitals (secondary clinics) that specialize in providing advanced medical care for pets (dogs and cats). The Company operates animal hospitals that provide advanced, specialized medical care (secondary medical care) for animals with severe conditions that are difficult to treat at primary clinics through complete referrals and reservations from regional animal hospitals (the primary clinics), which are “family animal hospitals” for pet owners. As its business bases, the Company operates the Kawasaki Main Hospital, which is a general hospital specializing in advanced medical care (opened in June 2007, Takatsu Ward, Kawasaki City, Kanagawa Prefecture), the Nagoya Hospital (opened in December 2011, Tenpaku Ward, Nagoya City, Aichi Prefecture), and the Tokyo Hospital (opened in January 2018, Adachi Ward, Tokyo). The fourth site, the Osaka Hospital (Minoo City, Osaka Prefecture) is scheduled to be completed in February 2023 and open around March 2023.

Consolidated subsidiary CAMIC Co., Ltd. operates animal diagnostic centers (diagnostic imaging services for animals using advanced medical devices) at three bases in Metropolitan Tokyo (in Setagaya Ward and Edogawa Ward in Tokyo, and in Saitama City, Saitama Prefecture). In March 2022, the Company made terucom, which manufactures, sells, and rents “oxygen houses” necessary for in-home care for animals, a consolidated subsidiary.

At the end of FY3/22, total assets were ¥6,966mn, net assets were ¥2,509mn, capital was ¥385mn, the equity ratio was 36.0%, and net assets per share was ¥1,078.80, while the total number of outstanding shares (including 109,616 treasury shares) was 2,436,200 shares.

2. History

The Company was established in Takatsu Ward, Kawasaki City, Kanagawa Prefecture in September 2005, and it opened the Kawasaki Main Hospital in June 2007. In March 2009, it was designated “clinical practice medical facilities for small animals” by the Minister of Agriculture, Forestry and Fisheries, the first such designation in the private sector. Subsequently, the Company opened the Nagoya Hospital in December 2011, and opened the Tokyo Hospital in January 2018. In relation to stocks, in March 2015, the Company was newly listed on the Tokyo Stock Exchange (TSE) Mothers Market, and in April 2022 the Company’s listing was changed to the TSE’s Growth Market accompanying the TSE’s restructuring of its market segments.

Company profile

History

Date	Major event
September 2005	Japan Animal Referral Medical Center was established in Takatsu Ward, Kawasaki City, Kanagawa Prefecture
June 2007	Opened the Kawasaki Main Hospital
March 2009	Designated "clinical practice medical facilities for small animals" by the Minister of Agriculture, Forestry and Fisheries, the first such designation in the private sector
December 2011	Opened the Nagoya Hospital
January 2014	Made CAMIC Co., Ltd. a subsidiary by acquiring its shares from Olympus Business Creates Co., Ltd.
March 2015	Newly listed on the TSE Mothers market
January 2018	Opened the Tokyo Hospital
February 2019	Released "PLUS CYCLE," an IoT health management tool for pets
March 2022	Made terucom Co., Ltd. a subsidiary
April 2022	The Company's shares were transferred to the TSE's Growth Market in conjunction with the TSE's market restructuring

Source: Prepared by FISCO from Company material

Business overview

Provides advanced medical care for animals through the division of labor with local family animal hospitals

1. Business summary

The same as human medical care, the Company has advanced medical care facilities and equipment, such as CT, MRI, and radiation-therapy equipment, and it provides advanced medical care (testing and treatment) for pets, mainly by veterinarians who conduct research and clinical practice on conditions specific to pets. It does not provide primary medical care, such as vaccinations and preventive medicine. Also, it requests that the care after its medical treatment be carried out by the referring primary clinics.

As pets are becoming part of the family, are living longer, and their medical conditions are becoming more diverse, needs are rising among pet owners for more varied and advanced animal medical care, from "wanting pets to receive the same advanced medical care as people." In this situation, the Company is realizing an advanced, complete animal medical care system through the division of labor with "family animal hospitals," which are the primary clinics, in regions throughout the country. Additionally, in March 2009, the Company was designated "clinical practice medical facilities for small animals" by the Minister of Agriculture, Forestry and Fisheries, the first such designation in the private sector. The Company is aiming to contribute widely to society by providing advanced medical care, as venues to conduct training and research such as establishing an environment to train human resources who will be active in clinical and educational settings in the animal medical care industry and taking on challenges in conducting clinical research to improve animal medical care technologies.

For the diagnostic imaging services of the subsidiary CAMIC, it receives referrals from primary clinics for pet owners who only want a diagnostic imaging service. Through a complete referral and reservation system, it takes images using MRI and CT and reports its findings to the primary clinics, and its basic stance is positioned as a supporter of the primary clinics. Medical care equipment manufacturer terucom, which the Company made a subsidiary in March 2022, manufactures, sells, and rents "Oxygen House" (a set comprising an oxygen concentrator, a cage, and an oxygen concentration meter, etc.) which is necessary for in-home medical care for animals, on a nationwide basis.

The Company's strengths and features include advanced medical care from specialist medical departments and a medical care system through teams

2. Strengths and features

As an operator of general animal hospitals specializing in advanced medical care for pets (dogs and cats), a feature is that it provides advanced and comprehensive veterinary medical care. The Company has in place specialist medical departments and cutting-edge medical facilities and devices that cover a wide range of fields, and uses them to conduct medical care through multiple medical departments for conditions in concurrent fields and for conditions with symptoms that are difficult to diagnose. In FY3/22, among the percentages of first hospital visits by medical department, urology and gastroenterology provided about 38%, neurology and orthopedics about 27%, oncology about 23%, cardiology and respiratory about 11%, and ophthalmology about 1%. Looking at past trends, there have been no particularly large changes in the ratios of hospital visits by medical department.

Earnings are mainly medical care fees

3. Earnings model

The Company's earnings are mainly medical care fees collected from pet owners. There are no referral fees with the primary clinics. Veterinary medical care fees are liberalized medical care, so these fees are set individually by each animal hospital. For this reason, there are discrepancies in medical care fees depending on the animal hospital. In the case of the Company, it sets medical care fees based on the consideration of its depreciation of capital investment and personnel expenses. The content of the medical care is determined in accordance with the pet owner's wishes. The decision of whether or not to perform surgery is left up to the owner. In the percentages of consolidated sales, the Company's secondary medical care services (the Kawasaki Main Hospital, the Tokyo Hospital, and the Nagoya Hospital) accounted for just over 80% of sales, while consolidated subsidiary CAMIC's diagnostic imaging services accounted for over 10% of sales. In FY3/23, newly consolidated terucom's net sales will be added to the Company's results.

The number of collaborating clinics, number of first hospital visits, and the total number of medical care services provided are increasing

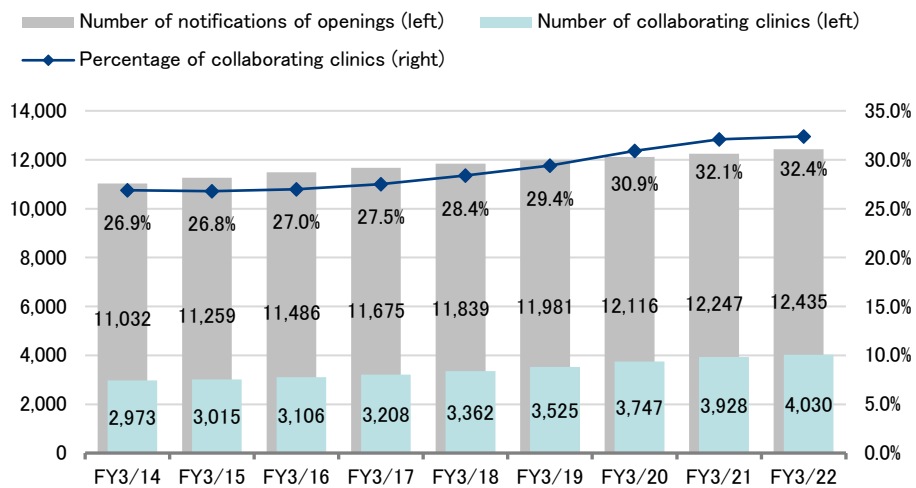
4. The number of collaborating clinics, number of first hospital visits, and the total number of medical care services provided are increasing

As the number of medical-care services the Company provides depends on the number of referrals from primary clinics, it positions the number of first hospital visits (the number of cases newly received) as the most important management indicator. Therefore, increasing the number of collaborating clinics based on registration application will lead to increases in the number of first hospital visits and the total number of medical care services provided (the total number of first and subsequent hospital visits), or in other words, it will lead to a growth in earnings.

Business overview

It is continuously promoting academic activities, such as presenting at academic conferences and holding seminars, with an aim of increasing the number of collaborating clinics. The number of collaborating clinics is trending upward, increasing from 2,973 clinics at the end of March 2014 to 4,030 clinics at the end of March 2022. The referrals acceptance system is strengthened when a new hospital opens for business, so the number of collaborating clinics has also tended to increase significantly when new hospitals opened for business (the Nagoya Hospital in December 2011 and the Tokyo Hospital in January 2018). Also, alongside the increase in the number of collaborating clinics, the percentage of collaborating clinics out of the number of small animal medical care facilities nationwide is rising, increasing from 26.9% at the end of March 2014 to 32.4% at the end of March 2022. Also, by area, this percentage has increased to 49.6% with 2,522 clinics in the Kanto region, where the Kawasaki Main Hospital and the Tokyo Hospital are located, and to 43.9% with 622 clinics in the Tokai region where the Nagoya Hospital is located.

Trends in the number of notifications of openings of small animal care facilities* and the percentage of collaborating clinics

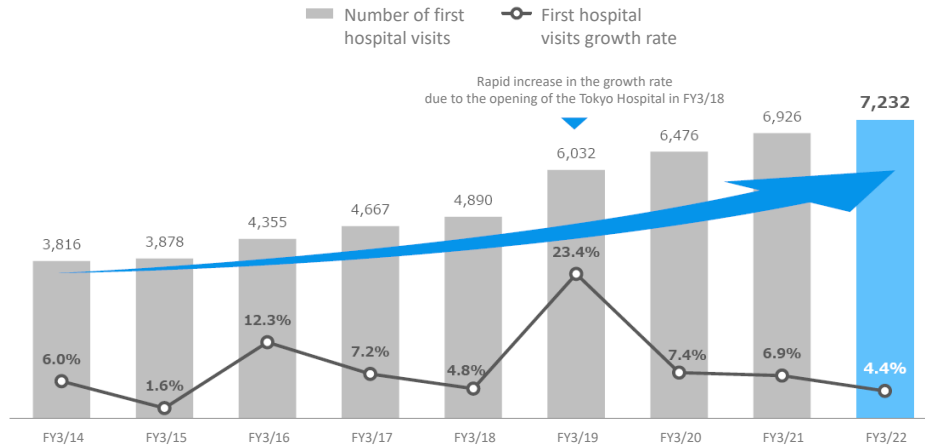


* The number of notifications of openings is taken from the status of notification of openings of veterinary clinics published by the Ministry of Agriculture, Forestry and Fisheries (data as of December 31 of the previous year)
Source: Prepared by FISCO from the Company's financial briefing materials

The number of first hospital visits (referrals) and the total number of medical care services provided are trending upward, linked to the increase in the number of collaborating clinics. In FY3/22, the number of first hospital visits increased 4.4% YoY to 7,232, total medical care services provided rose 3.8% to 28,296, and the number of surgeries declined 2.1% to 2,063. Decisions on whether to do surgery or not are ultimately made by the pet owners, and veterinarians only offer advice. Therefore, the number of surgeries does not necessarily track the number of first hospital visits or the number of total medical care services provided.

Business overview

Trend in the number of first hospital visits (referrals)



Source: Reprinted from the Company's financial briefing materials

The barriers to entry in the general hospitals business specializing in advanced medical care are high, so competition risk is low

5. Risk factors

The Company's risk factors include its reliance on referrals from primary clinic; changes in its business environment, such as the decrease in the number of pets reared and increasing competition; errors when providing medical care services and epidemics among animals receiving medical care; the strengthening of regulations through amendments to laws and regulations, such as to the Veterinarians Act and the Veterinary Practice Act; and training and securing human resources. With regards to competition, the number of primary animal hospitals is trending upward. However, the Company's business model is that it does not compete directly with these primary clinics, but rather it collaborates with them and divides labor. Also, the barriers to entry in the general hospitals business specializing in advanced medical care that are able to rapidly provide optimal testing, diagnoses, and treatment for animal patients are high, so the risk of competition is considered to be small.

Utilizing nurses under the Pet Veterinary Nurses Bill

6. Training and securing human resources (utilizing nurses under the Pet Veterinary Nurses Bill)

At the end of FY3/22, the Company had 171 employees on a standalone basis. With respect to developing and retaining personnel, the Company is strengthening recruitment through building relationships and forming networks of contacts with universities, vocational colleges, and various organizations, while it is also training veterinarians through a postgraduate clinical training system (launched in April 2008).

Business overview

The Pet Veterinary Nurses Bill was established and promulgated in June 2019. The law makes veterinary nursing a national qualification and allows the nurses to perform the same medical actions as nurses perform for people, such as collecting blood and administering medication. The Council for the Certification of Registered Veterinary Nurses is the designated examining agency, and the 1st Pet Veterinary Nurse National Examination is expected to be held in mid-February of 2023. As the Company's veterinary nurses have already acquired private-sector qualifications, through this law, they will be able to transition smoothly to having a national qualification, and the utilization of veterinary nurses is expected to lead to a reduction in veterinarians' workload and to improved work efficiency.

Results trends

Posted higher sales and profits in FY3/22

1. Summary of FY3/22 consolidated results

In the FY3/22 consolidated results, net sales increased 4.6% YoY to ¥2,979mn, operating profit increased 8.3% to ¥439mn, ordinary profit rose 6.7% to ¥438mn, and profit attributable to owners of parent increased 0.6% to ¥286mn. There was no impact on results due to the application of the Accounting Standard for Revenue Recognition.

Consolidated results for FY3/22

Item	FY3/22		
	FY3/21	FY3/22	Change %
Net sales	2,847	2,979	4.6%
Gross profit	994	1,105	11.1%
SG&A expenses	589	666	13.1%
Operating profit	405	439	8.3%
Ordinary profit	410	438	6.7%
Profit attributable to owners of parent	285	286	0.6%
Number of collaborating clinics	3,928	4,030	2.6%
Number of first hospital visits (number of referrals)	6,926	7,232	4.4%
Total number of medical care services provided	27,269	28,296	3.8%
Number of surgeries	2,108	2,063	-2.1%

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

Sales and profits increased, and net sales and operating profit were both new record highs. In conjunction with the increase in the number of collaborating clinics, there was a steady increase in both the number of first hospital visits (number of referrals) and the total number of medical care services provided, and this absorbed the increase personnel expenses and other expenses targeting business expansion. The gross margin increased 2.2 percentage points YoY to 37.1%, while the SG&A expense ratio rose 1.7 percentage points to 22.4%. The number of collaborating clinics increased 2.6% YoY to 4,030 clinics, the number of first hospital visits (number of referrals) increased 4.4% to 7,232 visits, and the total number of medical care services provided increased 3.8% to 28,296. The number of surgeries declined 2.1%, but decisions on whether to do surgery or not are ultimately made by the pet owners. Therefore, the number of surgeries does not necessarily track the number of first hospital visits or the number of total medical care services provided. Even if a pet owner elects not to do surgery, many pet owners continue to come to clinics for radiation therapy or for examinations. Therefore, there was not a large impact on results despite the decline in the number of surgeries.

Results trends

Maintained a sound financial condition despite the decline in the equity ratio

2. Financial conditions

Looking at the financial condition, at the end of FY3/22 total assets were ¥6,966mn, up ¥1,122mn compared to the end of the previous fiscal year. The main factors were the acquisition of terucom and the acquisition of non-current assets accompanying the construction of the Osaka Hospital, as well as the transfer of CAMIC resulting in a ¥508mn increase in property, plant and equipment and a ¥502mn increase in intangible assets, while on the liabilities side interest-bearing debt increased ¥847mn. As a result, the equity ratio declined 4.0 percentage points to 36.0%, but this is not a level to be especially concerned about, and at FISCO we believe that the Company has maintained financial soundness.

Simplified consolidated balance sheet

	(¥mn)		
	End of FY3/20	End of FY3/21	End of FY3/22
Total assets	5,928	5,844	6,966
(Current assets)	1,464	1,457	1,539
(Non-current assets)	4,464	4,386	5,427
Total liabilities	3,794	3,507	4,456
(Current liabilities)	840	914	965
(Non-current liabilities)	2,953	2,593	3,491
Total net assets	2,133	2,336	2,509
Total liabilities and net assets	5,928	5,844	6,966
[Reference]			
Interest-bearing debt	3,404	3,074	3,921
Equity ratio (%)	36.0	40.0	36.0

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

Summary of the consolidated statement of cash flows

	(¥mn)		
	FY3/20	FY3/21	FY3/22
Cash flows from operating activities	537	504	557
Cash flows from investing activities	-93	-69	-1,425
Cash flows from financing activities	-445	-469	722
Cash and cash equivalents at end of period	1,149	1,114	968
(Reference) Free cash flow	444	434	-868

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

■ Outlook

Expecting large increases in sales and profits in FY3/23, partly due to contributions from M&A

● Consolidated results forecast for FY3/23

For the FY3/23 consolidated results, the Company is forecasting a significant increase in both sales and profits, with net sales increasing 29.6% YoY to ¥3,860mn, operating profit rising 21.8% to ¥535mn, ordinary profit increasing 22.9% to ¥540mn, and profit attributable to owners of parent increasing 27.2% to ¥365mn. On the expenses side, expenses such as those for the opening of the Osaka Hospital (scheduled to open around March 2023) will arise, but the number of first hospital visits (referrals) will steadily increase (expecting approximately 4.0% increase), and terucom being newly consolidated will also contribute (net sales of ¥699mn and operating profit of ¥158mn in FY7/21). This forecast seems quite conservative on the whole, and at FISCO we think there is room for the results to exceed the Company's forecasts.

Consolidated results forecast for FY3/23

	(¥mn)		
	FY3/22	FY3/23 forecast	Change %
Net sales	2,979	3,860	29.6%
Operating profit	439	535	21.8%
Ordinary profit	438	540	22.9%
Profit attributable to owners of parent	286	365	27.2%
EPS (¥)	120.95	156.88	-

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

■ Growth strategy

The market environment for advanced medical care for animals is excellent

1. The market environment

The market environment for advanced medical care for animals is excellent. Over the past two years, the COVID-19 pandemic has sparked an increase in demand for cats as pets, while the number of new dog and cat owners has increased significantly. Also, alongside pets becoming members of the family, spending on animal hospitals per household is trending upward, and the scale of the pet insurance market continues to grow by double-digits. This is because while in general, pet medical care (primary medical care) is provided by "family animal hospitals" located close to the homes of the pet owners, needs for advanced medical care (secondary medical care) have further risen among owners from "wanting pets to have the same advanced medical care as people."

Aiming to be a comprehensive company in the animal medical care industry

2. Aiming to be a comprehensive company in the animal medical care industry

With this favorable business environment as the backdrop, the Company's growth strategy is to increase the number of bases and collaborating clinics, to secure and train human resources, and to expand the scope of business by utilizing M&A, and it is aiming to be a comprehensive company in the animal medical care industry. In terms of expanding bases, with the opening of the Osaka Hospital (scheduled for around March 2023), the Company is raising the percentage of collaborating clinics, especially in the Kansai area. In terms of securing and training personnel, the Company will work to increase work efficiency through the national qualification for Pet Veterinary Nurses (the 1st Pet Veterinary Nurse National Examination is expected to be held in mid-February 2023). In terms of expanding the scope of business by utilizing M&A, the Company will promote the generation of synergies with recently consolidated terucom. For "PLUS CYCLE," a pet activity measurement tool released in February 2019, the Company is partnering with NEC Corporation's <6701> pet communication platform service "waneco" to promote its widespread use.

3. Advancing to a new growth stage

The market environment for the pet market and advanced medical care for animals is favorable, and there is significant room for further market growth. At FISCO, we think there is a high possibility for the Company to enter a new growth stage, due to the favorable market environment, the Company's strength as a general animal hospital that can provide advanced medical care services, the opening of the Osaka Hospital, and synergies with recently consolidated terucom.

Shareholder return policy

Continues to not to pay a dividend at the present time, as it is prioritizing supplementing internal reserves

The Company positions returning profits to shareholders as one of its most important management issues. However, as it is currently in the process of expanding its businesses, it intends to supplement its internal reserves to strengthen its management foundation and to actively develop its businesses, and to enhance investment in order to strengthen its financial structure and for business expansion. It considers that aiming to further expand the scope of its business in this way will lead to the greatest return of profits to shareholders in the future. Therefore, since its establishment up to FY3/22, the Company has not paid a dividend. Going forward also, for the time being it intends to supplement internal reserves as the funds necessary to recruit excellent human resources and for the capital investment that will contribute to improving services. The opening of the Osaka Hospital will basically complete the Company's large-scale capital investment. Therefore, looking to the future, it is contemplating returning profits to shareholders while considering business results and the financial condition. However, at the current time, it has not decided on the possibility or the timing of dividend payments.



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■ For inquiry, please contact: ■

FISCO Ltd.

5-13-3 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062

Phone: 03-5774-2443 (IR Consulting Business Division)

Email: support@fisco.co.jp