

Nippon Computer Dynamics Co., Ltd.

4783

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■ Summary

A total solutions provider

1. With total solutions as a strength, is building a strong customer base

Nippon Computer Dynamics Co., Ltd. <4783> (hereafter, also “the Company”), as a total solutions provider, has three business pillars: the System Development Business (systems integration) and the Support and Service Business (service integration), which are IT-related businesses, and the Parking System Business (parking solutions), which is an unattended bicycle parking lot-related business that it launched through utilizing its expertise in IT solutions. Its strengths include providing total solutions as a one-stop service through utilizing the latest information technologies and its abundant applications knowledge. It builds a strong customer base, including major life insurance and non-life insurance companies, major energy companies, and major manufacturers through advanced technology and high-quality services it has accumulated through its plentiful track record of more than 50 years as an independent company.

2. Conducts thorough project management and stock-type income is growing

Toward improving profitability, the Company is progressing thorough project management and quality management and company-wide improvements to work processes. Looking at the composition of net sales provided by flow-type and stock-type sales, in the IT-related businesses (System Development Business and Support and Service Business), Stock-type sales (maintenance, operation, etc.) constitute more than 70% of total sales, while likewise in the Parking System Business, stock-type sales (bicycle parking lot usage fee income, bicycle parking lot management and operations, etc.) have also reached more than 70%. The steady growth of stock-type income in each business has become a stable source of earnings and is leading to an improvement in profitability.

3. In the FY3/21 1H consolidated results, sales decreased and a loss was recorded due to the coronavirus

In the FY3/21 1H (April to September) consolidated results, net sales decreased 4.3% year on year (YoY) to ¥8,376mn, operating loss was ¥102mn (compared to profit of ¥325mn in the same period in the previous fiscal year), ordinary loss was ¥1mn (profit of ¥343mn), and loss attributable to owners of the parent was ¥12mn (profit of ¥230mn). Although results grew more than expected in the IT-related businesses, the Parking System Business was impacted by the novel coronavirus pandemic (hereafter, the coronavirus) due to a decline in bicycle parking lot usage fee income because of the self-restraint on going out, and postponements of construction projects and sales discussions. However, although the Parking System Business recorded a loss in 1Q, it achieved a profit in 2Q. The operating rate gradually recovered, while the rate of decline in bicycle parking lot usage fee income shrank more than expected.

Summary

4. Has not changed the FY3/21 full-year forecasts for sales and profits to decline

The Company has not changed the initial FY3/21 full-year consolidated results forecasts, which call for net sales to decrease 3.2% YoY to ¥17,800mn, operating income to decline 78.6% to ¥200mn, ordinary income to fall 75.9% to ¥230mn, and net income attributable to owners of the parent to decrease 76.9% to ¥150mn. On a full-year basis, the IT-related businesses will steadily grow, but the Parking System Business will be impacted by the coronavirus, overall the forecasts are for sales and profits to decline. Toward growth in the medium term, the Company's policy is to continue to invest in developing human resources and in-house systems. For 2H, the Company set the estimate for the rate of decline in bicycle parking lot usage fee income in the Parking System Business more conservatively than the initial estimate after considering factors such as that the coronavirus will become prolonged and the "new normal," including working from home, will become entrenched.

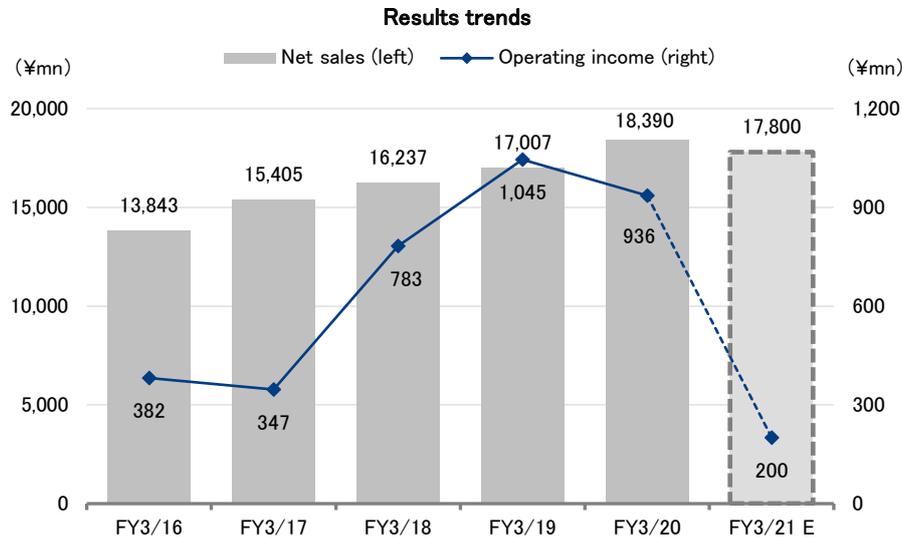
5. Expects to achieve high earnings in the medium term

In medium-term management plan "Vision 2023" (FY3/21 to FY3/23), the Company has set target indicators for FY3/23 of net sales of ¥20bn (¥8bn in the System Development Business, ¥5bn in the Support and Service Business, and ¥7bn in the Parking System Business), operating income of ¥1.2bn, an operating income margin of 6.0%, and ROE of at least 15%. As its basic policy, it is aiming to further improve added value by strengthening coordination between stock (operation) and flow (development). President and Representative Director Osamu Shimojo has stated that "The first year of the new medium-term management plan started in severe conditions, as the Parking System Business, which is a stable source of earnings, was impacted by the coronavirus. But there has been no change to our basic policy, and in order to take on this test positively and to respond to DX (Digital Transformation) and the "new normal," I want us to boldly advance reforms and take on the challenge of entering new fields. Continuing on, toward achieving the targets in the medium-term management plan, we are aiming to further improve added value by strengthening coordination between stock and flow, and we intend to work to improve profitability and enhance returns to shareholders." High earnings can be expected in the medium term.

Key Points

- Is building a strong customer base for the three business pillars of the System Development Business, Support and Service Business, and Parking System Business
- Conducts thorough project management and quality management. Stock-type income is growing and contributing to improving and leveling-out profitability
- Is boldly progressing reforms and taking on the challenge of entering new fields in response to DX and the "new normal"

Summary



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

Company profile

A total solutions provider

1. Company profile

The Company, as a total solutions provider, is developing and managing three business pillars: the System Development Business (systems integration) and the Support and Service Business (service integration), which are IT-related businesses, and the Parking System Business (parking solutions), which is an unattended bicycle parking lot-related business that it launched through utilizing its expertise in IT solutions.

As of the end of FY3/21 1H, the Company's business bases were its Head Office (Shinagawa Ward, Tokyo), Koto Service Center (Koto Ward, Tokyo), Odaiba Office (Koto Ward, Tokyo), Fukuoka Sales Office (Fukuoka City, Fukuoka Prefecture), Fukuoka Delivery Center (Fukuoka City, Fukuoka Prefecture), Nagasaki Sales Office (Nagasaki City, Nagasaki Prefecture; including the second MSC (Managed Service Center)), and Nagasaki Sales Office Goto Office (Goto City, Nagasaki Prefecture; opened in April 2020).

The Group is comprised of the Company and its subsidiaries, which include NCD Technology CO., Ltd. ZEXIS CORPORATION, NCD CHINA Co., Ltd. (NCD China), East Ambition Co., Ltd., YANOSANGYO., Ltd. (Fukuoka City, Fukuoka Prefecture; made a subsidiary in April 2019), and NCD PROS., Ltd. (ownership ratio: 67%). NCD Technology conducts system development and support and service IT-related business; ZEXIS conducts system development and support and service IT-related business, mainly for the Panasonic <6752> group; NCD CHINA conducts a system development business in China; East Ambition conducts fee-based mediation for excellent IT-related human resources in Asian countries (mainly South Korea) for Japanese companies; YANOSANGYO conducts a parking system business in Kyushu; and NCD PROS conducts a bicycle parking lot management and operations business.

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Company profile

At the end of FY3/21 1H, total assets were ¥11,065mn, capital stock was ¥438mn, the equity ratio was 35.8%, and the number of issued shares (including treasury shares) was 8,800,000 shares.



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

2. History

The Company was established in March 1967 when it launched the System Development Business. It then launched the Support and Service Business in October 1995 and the Parking System Business in October 1997. Also, in September 2000, it registered for over-the-counter trading with the Japan Securities Dealers Association (it is currently listed on the Tokyo Stock Exchange (TSE) JASDAQ market following the merger of the exchanges). In March 2017, it celebrated the 50th anniversary of its establishment as an independent systems integrator pioneer.

Company profile

History

Date	Event
March 1967	The Company was established in Ebisu, Shibuya Ward, Tokyo, as a software development company
January 1970	In the Middle and Near East, it succeeded in developing and installing comprehensive systems, becoming the first company in Japan to develop software overseas
September 1976	Introduced "PRIDE", a systems development methodology developed by US-based company MBA, and became its first user in Japan
April 1979	As a base for the Kyushu region, opened the Fukuoka Sales Office in Hakata Ward, Fukuoka City
February 1990	Received the "Systems Integrator" Certification from the Ministry of International Trade and Industry
October 1995	Launched the Support and Service Business
October 1997	Merger of Finetech Systems Co.,Ltd.,C.A.P Co., Ltd.,and Holon Co., Ltd.
October 1997	Launched the Parking System Business
April 1999	Relocated the Head Office to Nishi-Gotanda, Shinagawa Ward, Tokyo
September 2000	Registered for over-the-counter trading with the Japan Securities Dealers Association (it is currently listed on the TSE JASDAQ market following the merger of the exchanges)
November 2000	Established Nihon System Reserch Co.,Ltd. (currently NCD Technology Co., Ltd.), a wholly owned subsidiary
May 2001	Acquired ISO 9001 certification (system development business division, except for the Fukuoka Sales Office)
March 2004	As a base for the Chinese market, established the Japan NCD Tianjin Representative Office in Tianjin City
April 2005	Established NCD CHINA Co., Ltd. (NCD China), a wholly owned subsidiary in the Huayuan Industry Area, Tianjin, China
July 2005	Acquired certification in ISMS Ver2.0, an information security management system conformity assessment system
June 2006	Acquired the Privacy Mark certification
May 2007	Acquired ISO 9001 certification (certification of the Fukuoka Sales Office as a related business office)
July 2007	Acquired certification in ISO/IEC 27001, an information security management system conformity assessment system
December 2007	Made a subsidiary of ZEXIS CORPORATION (made it a wholly owned subsidiary in August 2008)
April 2008	Acquired certification in ISO/IEC 20000-1, an IT services management system conformity assessment system
May 2011	As the second base for the Kyushu region, opened the Nagasaki Sales Office in Nagasaki City, Nagasaki Prefecture
March 2013	The number of bicycle management units in "EcoStation21" surpassed 300,000 units
November 2015	Opened the Koto Service Center in Koto Ward, Tokyo
February 2017	Established East Ambition Co., Ltd., a wholly owned subsidiary
March 2017	50th anniversary of the Company's establishment
March 2018	Established NCD PROS., Ltd.
April 2018	Established the Managed Services Center in the Nagasaki Sales Office
April 2019	Made a wholly owned subsidiary of YANOSANGYO., Ltd., which conducts a parking system business in Kyushu
October 2019	Opened the Odaiba Office (Koto Ward, Tokyo)
April 2020	Opened the Nagasaki Sales Office Goto Office (Goto City, Nagasaki Prefecture)
April 2020	The number of bicycle parking lot management units in the Parking System Business surpassed 500,000 units

Source: Prepared by FISCO from the Company's homepage and materials

■ Business overview

Has three business pillars, the IT-related System Development Business and Support and Service Business and the Parking System Business

The Company, as a total solutions provider, is developing and managing three business pillars: the System Development Business (systems integration) and the Support and Service Business (service integration), which are IT-related businesses, and the Parking System Business (parking solutions), which is an unattended bicycle parking lot-related business that it launched through utilizing its expertise in IT solutions. Its strengths include providing total solutions as a one-stop service through utilizing the latest information technologies and its abundant applications knowledge. It builds a strong customer base, including major life insurance and non-life insurance companies, major energy companies, and major manufacturers through advanced technology and high-quality services it has accumulated through its plentiful track record of more than 50 years as an independent company.

1. System Development Business

The System Development Business conducts outsourced system integration, which involves undertaking the planning, design, construction, and installation mainly of mission-critical systems. Its services include systems construction solutions, infrastructure construction solutions, and package solutions, primarily for medium-sized companies and major corporate groups.

Based on the expertise it has accumulated from an abundant track record of over 50 years, from constructing large-scale systems to constructing small-scale systems, the Company constructs its own proprietary systems development standard “NS-SD” (NCD Standard System Development) and project management standard “NS-PM” (NCD Standard Project Management) to realize system development that ensures stable quality.

Package solutions are solutions for companies, such as medium-sized companies, that want to install systems in a short period of time at low cost. The Company provides various solutions, including installations, customization, and management support for the package software of its strategic partner companies.

In particular, one of its strengths is systems construction to install the applications of Oracle <ORCL> and the “Bugyo Series”, which is the mission-critical system of OBIC BUSINESS CONSULTANTS CO., LTD. <4733> (hereafter, OBC). For OBC’s “Bugyo Series”, among all of OBC’s partners, the Company has the largest team specializing in installing the “Bugyo Series”, and its total number of corporate installations has reached more than 400 (as of October 2020). In July 2020, the Company was awarded the “OBC Partner Award 2020” for its sales activities for the “Bugyo Series” in fiscal 2019.

In the cloud field, the Company’s bicycle parking business mission-critical system infrastructure has been adopted for the AWS (Amazon Web Service) of Amazon (Amazon.com <AMZN>), the largest public cloud vendor, and it provides it as an AWS utilization solution while accumulating expertise in construction and operation. It is also a certified partner of Japanese corporation Salesforce.com <CRM>, and it has a track record of many installations of “Salesforce”, which is the world’s No. 1 cloud CRM platform.

Business overview

Moreover, the Company also provides linked-package tools developed in-house on a fee basis to “Salesforce” (including task management tool “SMAGAN”, form creation tool “Smart Report Meister”, and screen creation and data visualization tool “Smappi”), and it offers inventory management tool “Kuramaru”, which was also developed in-house.

Another of the Company’s strengths is that it supports the global development of Japanese companies. It provides support for installation of ERP packages such as “mcframe GA”, which is the global-compliant ERP of Business Engineering Corporation <4828>, and “Yonyou U8” of UFIDA Software in China, which has the No.1 share for ERP in China.

2. Support and Service Business

The Support and Service Business conducts outsourced service integration in the form of services to undertake the maintenance and operation of customers’ systems and applications. These services include providing application maintenance and operation solutions, infrastructure maintenance and operation solutions, and business support solutions.

When providing outsourced maintenance and operation services, a specialized group of engineers who can handle multiple system failure, such as network systems construction and maintenance and management, provide comprehensive support to replace the customer’s own systems management division. The Head Office and the two Nagasaki MSCs (Managed Services Centers) coordinate to realize one-stop technical support for the maintenance and operation of systems and applications through remote monitoring 24 hours a day, 365 days a year, and a service desk to respond to inquiries. The Company also provides support for introducing cloud services, including Amazon’s AWS and Microsoft’s Azure.

The Company constructed its own operation standard “ND-OS” (NCD Standard Operation Service), which conforms to ITIL (Information Technology Infrastructure Library) in order to reduce customers’ IT infrastructure operation and management costs. As it conducts remote monitoring through lines connected to customers, a strength is that it is advantageous in terms of costs. In support-service projects for major life insurance companies, it provides a help desk support service and an infrastructure support service, as well as an on-site support service at the customer’s office in which it provides support tailored to each customer.

Through utilizing its strengths, which include expertise accumulated through its abundant track record, its ability to respond quickly, provide services flexibly, and its comprehensive support, the Company’s outsourced systems construction does not stop at maintenance and operation for customers, as a feature of the Company is that it can undertake the maintenance and operation of systems and applications constructed by other companies. In October 2019, it opened the Odaiba Office (Koto Ward, Tokyo) as a new base for the Support and Service Business. In a high security environment, it is strengthening its responses to business continuity plans (BCP), such as at the time of a disaster.

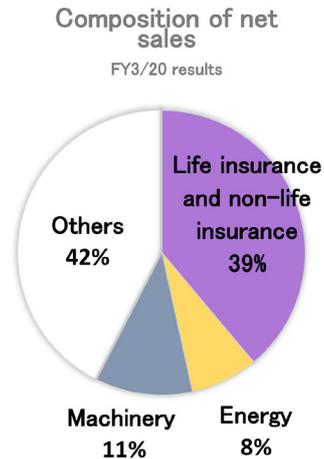
3. Stock-type sales make up more than 70% of total sales, mainly comprised of long-term, ongoing transactions with major blue-chip companies

The main customers of the IT-related businesses (System Development Business and Support and Service Business) form a strong customer base of large blue-chip companies such as major life insurance and non-life insurance companies, major energy companies, and major manufacturers, and are notable for having many long-term, ongoing transactions.

Business overview

Customers of the IT-related businesses and percentages of net sales in the IT-related businesses by industry

Customers of the IT-related businesses	
Transactions for more than 50 years	Takasago Thermal Engineering Co., Ltd., Tokyo Gas Group, Panasonic Group
Transactions for more than 30 years	SRL, Inc., SAIBUGAS Group, Nippon Life Group , FUJIFILM Group, MetLife Insurance K.K.
Transactions for more than 20 years	KADOKAWA CORPORATION, DENTSU Group, Fukuoka Prefectural Government, Mitsui Sumitomo Insurance Company, Limited
Transactions for more than 10 years	JA OSAKA DENSAN Ltd., Kyudenko Corporation, Mitsui O.S.K. Lines, Ltd., Tokyo Tekko Co., Ltd., Nippon Suisan Kaisha, Ltd., Manulife Life Insurance Company
Recent Customers	Aflac Life Insurance Japan Ltd. , ORIX Life Insurance Corporation , JTB Asset Management Corp., Sony Group, Takumi Otsuka Co., Ltd., Tokio Marine & Nichido Fire Insurance Co., Ltd. , FWD Fuji Life Insurance Company, Limited , Marubeni Nisshin Feed Co., Ltd., Mitsubishi Corporation Life Sciences Limited, Yakult Honsha Co., Ltd., LIXIL Group, etc.



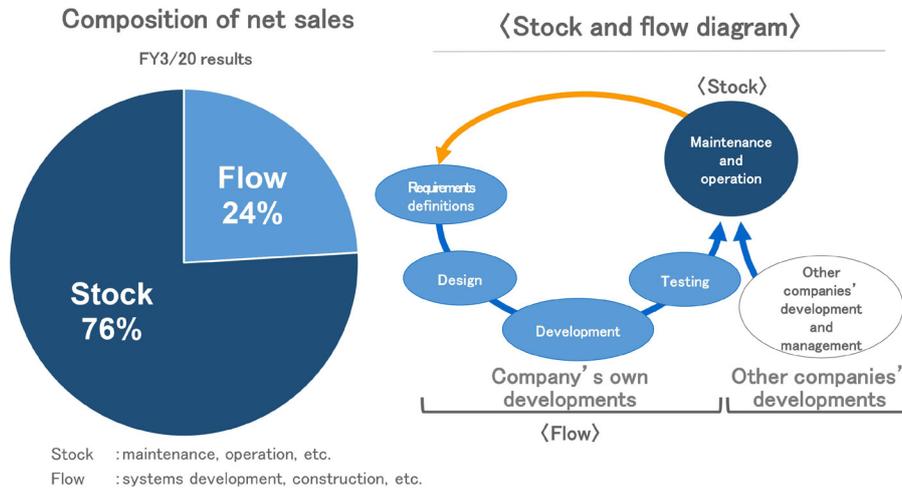
[Purple indicates companies in the life insurance and non-life insurance industries](#) (As of April 1, 2020)
 Source: Prepared by FISCO from the Company's briefing materials

The structure of the systems development industry is largely made up of medium-sized companies as second- or third-level subcontractors of the major SI (systems integrator) companies, which are first-level subcontractors. But in the case of the Company, more than 80% of its transactions are directly with the end user (first-level subcontracting). This percentage seems to indicate the Company's high levels of technological capabilities and quality.

Also, as it has many long-term, ongoing transactions with major blue-chip companies, it has an earnings structure in which stock-type accumulate, such as for the maintenance and operation of the systems it has developed and constructed. Stock-type sales in IT-related business have reached more than 70% of total sales (FY3/20), including for the maintenance and operation outsourced to it for the development projects of other companies.

Business overview

Composition of net sales based on stock and flow of IT-related businesses and stock and flow diagram



4. Parking System Business

The Parking System Business provides comprehensive consulting for bicycle parking lots, mainly the management and operations of electromagnetic lock-type unattended bicycle parking lots, while it also sells systems and devices for bicycle parking lot management and operations. By utilizing IT, this business not only saves labor and improves efficiency for bicycle parking lot management and operations, but also eliminates bicycle parking problems such as bicycles left on streets throughout the country, and helps improve the global environment through measures to ease traffic congestion, effective utilization of land, land and town planning, and reductions in CO2 (carbon dioxide) emissions, etc.

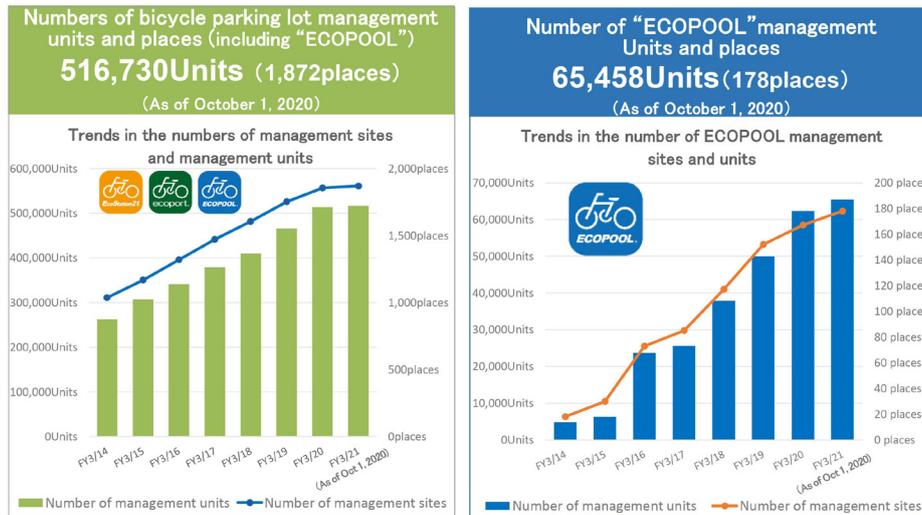
From the idea of “wanting to change towns and the future through IT and bicycles,” in 1992, the Company proposed a monthly bicycle parking lot management method using a two-dimensional code, which was a new technology at that time. From this start, it launched the parking system business in 1997, and began establishing NCD bicycle parking lots in 1999. Initially, its sales were mainly of electromagnetic lock-type bicycle parking devices and payment machines, but it then realized unattended bicycle parking lots through remote controls that utilized the IT technologies it had previously developed. Monthly fees are the mainstream in the bicycle parking lot industry, but the Company pioneered coin-operated bicycle parking lots (unattended bicycle parking lots with spaces rented by the hour), and its business is expanding.

Specifically, it provides three types of bicycle parking services: the main service of “EcoStation21”, which are unattended bicycle parking lots with hourly rentals (1999 to present); “ecoport”, which offers community bicycles (a bicycle sharing service; 2009 to present); and “ECOPOOL”, which are bicycle parking lots with monthly rentals (2013 to present). Focusing on areas around stations in metropolitan areas, it provides services in Kansai, Chubu, Kyushu, and other regions (outsourced to partner companies in Kansai and Chubu), and it covers the areas around stations, at commercial facilities and bicycle parking lots managed by local governments.

Business overview

For its contribution to reducing the number of bicycles left on streets, the Company is widely supported by organizations like local governments, railway companies, and commercial facilities throughout the country, and within Japan, it has established the largest number of electromagnetic lock-type bicycle parking lots. As of October 1, 2020, it had 1,872 bicycle parking lot management sites and 516,730 management units (including “ECOPOOL”), achieving the target of 500,000 units it set in “Vision2020”, the previous medium-term management plan. Recently, “ECOPOOL” has also been growing significantly.

Numbers of bicycle parking lot management units and places and numbers of “ECOPOOL” management units and places



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

Customers for Parking System Business

Customers for Parking System Businesses		
Local governments	Arakawa Ward, Itabashi Ward, Edogawa Ward, Ota Ward, Katsushika Ward, Kita Ward, Koto Ward, Shinagawa Ward, Shibuya Ward, Shinjuku Ward, Suginami Ward, Setagaya Ward, Taito Ward, Chuo Ward, Toshima Ward, Nakano Ward, Nerima Ward, Bunkyo Ward, Minato Ward, Meguro Ward, Asaka City, Ichikawa City, Kashiwa City, Kawaguchi City, Kawasaki City, Komae City, Saitama City, Sagami-hara City, Tachikawa City, Tama City, Toda City, Narashino City, Fujimino City, Fuchu City, Yokohama City, Wako City, Nagoya City*, Kyoto City*, Fukuoka City, etc.	<ul style="list-style-type: none"> Tend to be evaluated by financial soundness and quality of management and operations Provide services in Kansai, Chubu, Kyushu, etc.
Commercial facilities, etc.	atré, AEON RETAIL, Ito Yokado, Daimaru Matsuzakaya, Comodi-jida, XYMAX Corporation, SUMISHO URBAN DEVELOPMENT Co., Ltd., Sumitomo Realty & Development Co., Ltd., SEIYU, daiei, TIMES24 Co., Ltd., Takashimaya, Tokyu Store, TOKYU LAND CORPORATION, Tokyo Tatemono Co., Ltd., PARCO, BicCamera, Marui Co., Ltd., MITSUKOSHI ISETAN, Yodobashi Camera, etc.	<ul style="list-style-type: none"> Acquired urban redevelopment projects Continue to provide proposals that add IT technologies, such as cashless payments
Railway operators	Odakyu Electric Railway Co., Ltd., Keio Corporation, Keisei Electric Railway Co., Ltd., Keikyuu Corporation, SAGAMI RAILWAY Co., Ltd., SEIBU RAILWAY Co., Ltd., TOKYU CORPORATION, TOBU RAILWAY CO., LTD., East Japan Railway Company, Hanshin Electric Railway Co., Ltd.*, Hankyu Corporation*, Keihan Electric Railway Co., Ltd.*, etc. (including some subsidiaries)	<ul style="list-style-type: none"> Covers the main railway operators

* indicates collaborations with partner companies / green indicates it is the designated manager

(As of April 1, 2020)

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

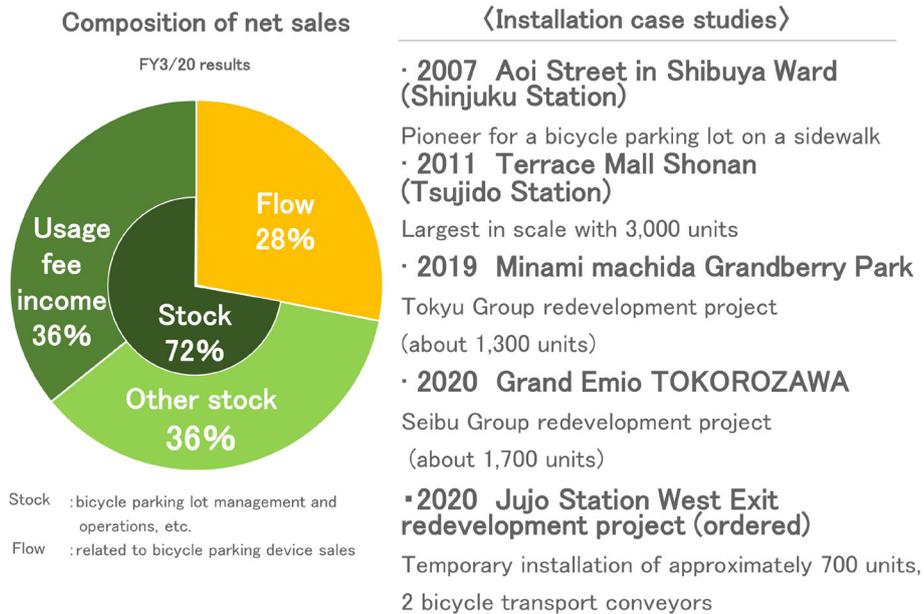
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Business overview

Some typical installation case studies include Aoi Street in Shibuya Ward (Shinjuku Station), which became the first bicycle parking lot on a sidewalk, in 2007; Terrace Mall Shonan at Tsujido Station, which is the largest site in the country with 3,000 units, in 2011; Shibuya Stream, a redevelopment project in the Shibuya district in 2018; Akabane Station East Exit in 2019 (Akabane Station was ranked worst for the problem of bicycles left around stations in Tokyo in 2018); Minami machida Grandberry Park in the Tokyu Group redevelopment project in 2019; and Grand Emio TOKOROZAWA in the Seibu Group redevelopment project in 2020. Also in 2020, the Company received an order for the Jujo Station West Exit redevelopment project.

In the Parking System Business, due to the accumulation of projects, stock-type income, which includes usage fee income and bicycle parking lot management and operations, has reached 70% of total sales (FY3/20). This business has a stable earnings structure that does not rely on flow-type sales, such as device sales that fluctuate depending on orders.

Composition of net sales in the Parking System Business



〈Installation case studies〉

- **2007 Aoi Street in Shibuya Ward (Shinjuku Station)**
Pioneer for a bicycle parking lot on a sidewalk
- **2011 Terrace Mall Shonan (Tsujido Station)**
Largest in scale with 3,000 units
- **2019 Minami machida Grandberry Park**
Tokyu Group redevelopment project (about 1,300 units)
- **2020 Grand Emio TOKOROZAWA**
Seibu Group redevelopment project (about 1,700 units)
- **2020 Jujo Station West Exit redevelopment project (ordered)**
Temporary installation of approximately 700 units, 2 bicycle transport conveyors

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

In transactions with local governments, the local government selects the Company to be its designated manager and facilities are installed and managed through a collaboration of the public and private sectors, and the Company supports urban development together with the local government. In August 2017, while it began managing the bicycle parking lots in Tachikawa City, Tokyo as a designated administrator, it started bicycle rentals as part of an independent business. Also, in September 2017, it was highly evaluated for its efforts to address the problem of bicycles left in front of stations and received a letter of thanks from the Governor of Tokyo.

To further improve user convenience and reduce operations and management costs, the Company launched a cashless bicycle parking lot payment service (compliant with the main QR code payment services, no payment machine is required) in November 2019 at some facilities. In terms of costs, it can reduce management costs by decreasing the number of times payment collection and maintenance work are required. This service has also been highly evaluated as a measure to prevent the spread of the coronavirus through touchless payments, and the Company intends to introduce it sequentially in the future.

Business overview

Furthermore, as a measure to capture nesting (stay-at-home) demand due to the coronavirus, as the successor machine to “NOZA”, which is a smart turbo trainer for bicycles, the Company launched “NOZA S” in May 2020 to meet the demand for inexpensive and quiet training equipment that feels like you are actually riding a bicycle. Sales are increasing by capturing nesting demand.

5. Features of earnings and risk factors related to earnings and seasonal fluctuations

In terms of the main features of earnings and risk factors related to earnings fluctuations, in the IT-related businesses (System Development Business and Support and Service Business), sales and profits may fluctuate depending on orders, such as for large projects, and the profitability of individual projects. In the Parking System Business, sales and profits may fluctuate due to factors including the results of project tenders and acquisition of large projects.

On the other hand, each of the businesses become businesses with stock-type income: the System Development Business due to the increase in the outsourcing services of maintenance and operation after the outsourced system development, the Support and Service Business due to the accumulation of ongoing outsourced projects, and the Parking System Business due to increases in the numbers of management sites and management units.

For risk factors related to seasonal fluctuations, the timing of companies implementing their IT investment budgets influences increases in the percentage of projects in 2Q (July to September) and 4Q (January to March) in the system development business. Therefore, when factoring out the influence of temporary factors such as large-scale projects and unprofitable projects, a high percentage of sales fall in 2Q and 4Q on an overall quarterly basis, while this percentage tends to be high in 2H (October to March) on a fiscal half-year basis.

In the Parking System Business, bicycle parking lot usage fee income is a stock-type income business, but due to the impact of the self-restraint on going out because of the coronavirus, this income is decreasing. Therefore, this is a temporary risk factor at the present time.

Conducts thorough project management and quality management. Stock-type income is growing, which is contributing to improving and leveling-out profitability

6. Measures

As measures in response to the features of earnings and risk factors, for the profitability of each individual project in the IT-related businesses (System Development Business and Support and Service Business), while on the one hand the Company accepts some low-profit orders for policy or strategic reasons, on the other hand, normally the orders committee checks a project's profitability at the estimate stage. After an order as well, the deliberation council, which is held monthly, carefully checks the progress of the project and quality management conditions. In such ways, the Company conducts thorough project management and quality management to prevent unprofitable projects and maintain the profitability of projects. As measures conducted on a company-wide basis, it is working to increase efficiency by improving work processes.

Moreover, the steady growth of businesses with stock-type income has become a stable source of earnings that is contributing to improving profitability overall. They are also contributing to leveling-out quarterly differences in profitability and minimizing the effects of seasonal fluctuations.

Business overview

7. Profitability ratio of the IT-related businesses is improving

Looking at the composition of net sales by segment over the last five fiscal years (FY3/16 to FY3/20) and in FY3/21 1H, we see that net sales have been trending upward overall, and that for the composition of net sales, roughly speaking, the IT-related businesses (System Development Business and Support and Service Business) have provided more than 60% and the Parking System Business more than 30%.

As explained later, since FY3/20 4Q, the Parking System Business has been impacted by the coronavirus (a decrease in bicycle parking lot usage fee income due to the self-restraint on going out and postponements of construction projects and sales discussions). Therefore, in FY3/21 1H, sales decreased significantly and the Company recorded an operating loss.

Net sales and composition of total net sales by segment

	(¥mn, %)					
Item	FY3/16	FY3/17	FY3/18	FY3/19	FY3/20	FY3/21 1H
Net sales						
System Development Business	5,515	5,672	5,738	6,329	7,073	3,495
Support and Service Business	3,480	4,308	4,524	4,611	4,568	2,379
Parking System Business	4,818	5,392	5,948	6,027	6,693	2,497
Consolidated net sales (including others)	13,843	15,405	16,237	17,007	18,390	8,376
Composition of net sales						
System Development Business	39.8	36.8	35.3	37.2	38.4	41.7
Support and Service Business	25.2	28.0	27.9	27.1	24.8	28.4
Parking System Business	34.8	35.0	36.6	35.4	36.4	29.8

Source: Prepared by FISCO from the Company's financial results and quarterly securities report

Looking at the operating income and operating income distribution (before consolidation adjustments) by segment over the last five fiscal periods (FY3/16 to FY3/20) and in FY3/21 1H, we see that the percentage of the IT-related businesses (System Development Business and Support and Service Business) has been trending upward.

Operating income and composition of operating income by segment (before consolidation adjustments)

	(¥mn, %)					
Item	FY3/16	FY3/17	FY3/18	FY3/19	FY3/20	FY3/21 1H
Operating income						
System Development Business	403	389	549	726	799	384
Support and Service Business	120	127	267	374	224	165
Parking System Business	653	744	925	883	944	-30
Total before consolidation adjustments (including others)	1,138	1,246	1,655	1,921	1,953	518
Composition of operating income						
System Development Business	35.4	31.2	33.2	37.8	40.9	74.1
Support and Service Business	10.6	10.2	16.1	19.5	11.5	31.9
Parking System Business	57.4	59.8	55.9	46.0	48.4	-

Source: Prepared by FISCO from the Company's financial results and quarterly securities report

Looking at the operating income margin by segment over the last five fiscal periods (FY3/16 to FY3/20) and in FY3/21 1H, the profit margin in the System Development Business has been trending upward as the result of measures, including conducting thorough project management and quality management. In the Support and Service Business, the profit margin tends to decrease in the event that temporary costs are incurred for a new, large outsourcing project (including outsourcing switched from another company's project).

Business overview

Operating income margin by segment

Item	FY3/16	FY3/17	FY3/18	FY3/19	FY3/20	FY3/21 1H	(%)
Operating income margin							
System Development Business	7.3	6.9	9.6	11.5	11.3	11.0	
Support and Service Business	3.5	3.0	5.9	8.1	4.9	6.9	
Parking System Business	13.6	13.8	15.6	14.7	14.1	-	

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

Results trends

In FY3/21 1H, sales decreased and recorded a loss due to the coronavirus

1. Summary of the FY3/21 1H consolidated results

In the FY3/21 1H (April to September) consolidated results, net sales decreased 4.3% year on year (YoY) to ¥8,376mn, operating loss was ¥102mn (compared to profit of ¥325mn in the same period in the previous fiscal year), ordinary loss was ¥1mn (profit of ¥343mn), and loss attributable to owners of the parent was ¥12mn (profit of ¥230mn).

Results grew more than expected in the IT-related businesses (System Development Business and Support and Service Business), because the impact of the coronavirus was negligible as the Company had previously prepared a remote working environment. However, the Parking System Business was greatly impacted by the coronavirus. Also, toward growth in the medium term, the Company invested in developing human resources and in-house systems, which increased SG&A expenses, and as a result, a loss was recorded overall. SG&A expenses were ¥1,177mn, an increase of 4.4% YoY. In non-operating income, ¥94mn was recorded as subsidy income, including subsidies for employment adjustment.

Summary of the FY3/21 1H consolidated results

	FY3/20 1H	FY3/21 1H	Change	(¥mn)
Net sales	8,752	8,376	-4.3%	
Operating income	325	-102	-	
Ordinary income	343	-1	-	
Net income attributable to owners of the parent	230	-12	-	
Net sales by segment				
System Development Business	3,275	3,495	6.7%	
Support and Service Business	2,179	2,379	9.2%	
Parking System Business	3,221	2,497	-22.5%	
Operating income by segment				
System Development Business	321	384	19.6%	
Support and Service Business	57	165	188.6%	
Parking System Business	461	-30	-	

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

Results trends

2. Trends by segment

The results trends by segment are as follows.

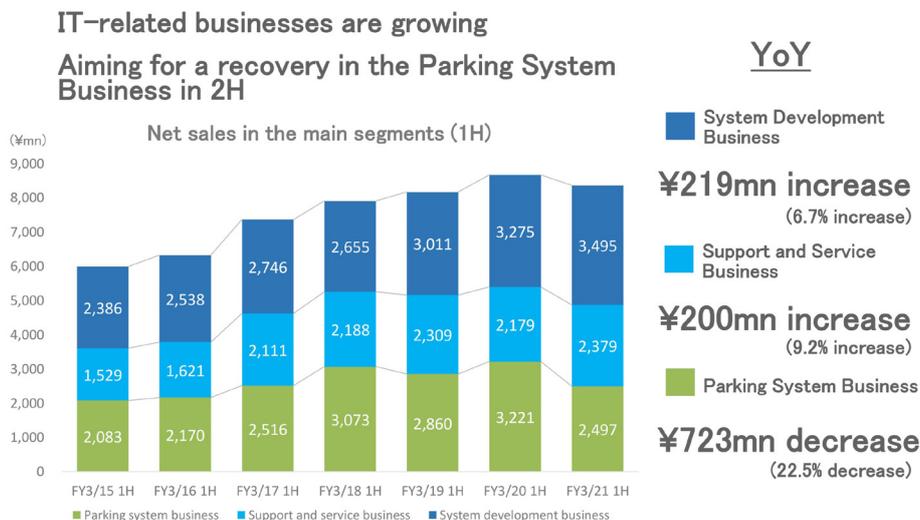
In the System Development Business, net sales increased 6.7% YoY to ¥3,495mn and operating income rose 19.6% to ¥384mn. New projects, including the restart of IT investment by a major customer, trended steadily, while the realization of the effects of measures, including the continuous investment in human resources and improvements to work processes, also contributed.

In the Support and Service Business, net sales increased 9.2% YoY to ¥2,379mn and operating income grew 188.6% to ¥165mn. Sales increased due in part to ongoing orders of large-scale projects, while profitability from the transfer of orders for the projects of other companies, which had fallen in the previous period due to temporary increases in outsourcing costs and labor costs, recovered and contributed to the major increase in profits.

In the Parking System Business, net sales decreased 22.5% YoY to ¥2,497mn and operating loss was ¥30mn (compared to profit of ¥461mn in the same period in the previous fiscal year). This business was greatly impacted by the coronavirus. Due to the self-restraint on going out, bicycle parking lot usage fee income declined significantly. Also, in device sales, bicycle parking lot projects incidental to urban redevelopment projects were steadily acquired, but cancellations and postponements of some openings of bicycle parking lots at stations and commercial facilities occurred. In costs, the Company worked to optimize fee collection and the number of times that maintenance work is conducted, and it progressed measures to reduce fixed costs, including bringing in-house work that had previously been outsourced. But these efforts could not completely cover for the decrease in gross profit due to the decline in sales, so an operating loss was recorded.

Looking at the Parking System Business by fiscal quarter, in 1Q, net sales were ¥1,234mn and operating loss was ¥93mn, and in 2Q, net sales were ¥1,263mn and operating income was ¥63mn. Bicycle parking lot income declined by approximately 50% in 1Q and 22% in 2Q. However, since the lifting of the state of emergency in June, the operating rate has been recovering, while rate of decline in 1Q shrank less than expected as of May 22 (a 63% decrease) and the rate of decline in 2Q also shrank less than expected as of August 3 (a 25% decrease). In 2Q, the reduction in fixed costs, including bringing manufacturing in-house, also contributed, and operating income was recorded.

Net sales by segment



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

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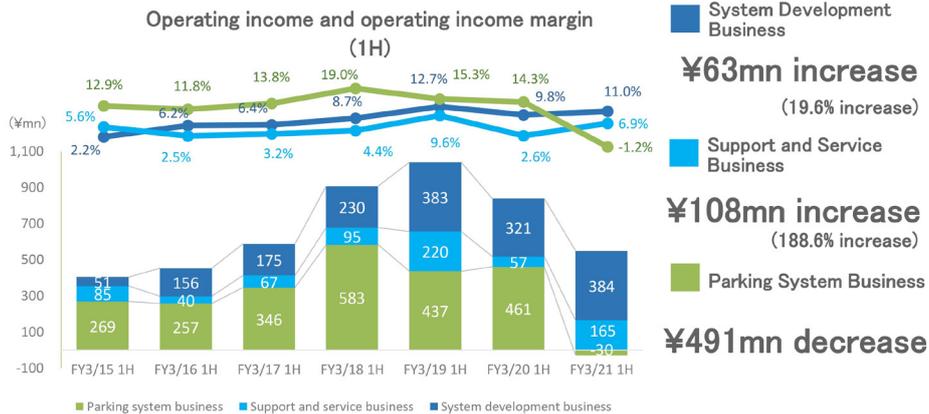
Results trends

Operating income by segment

Profitability of the Support and Service Business improved

Conversely, the Parking System Business recorded a loss

YoY



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

Equity ratio rose and the financial condition improved

3. Financial condition

Looking at the financial condition, at the end of FY3/21 1H, total assets decreased ¥552mn compared to the end of the previous fiscal year to ¥11,065mn, and net assets increased ¥67mn to ¥3,981mn. There were no particular major changes. The equity ratio rose 2.3 percentage points to 35.8%. Total net assets steadily increased and the equity ratio rose, so the financial condition improved.

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Results trends

Main financial indicators

Item	FY3/16	FY3/17	FY3/18	FY3/19	FY3/20	FY3/21 1H
Net sales	13,843	15,405	16,237	17,007	18,390	8,376
Cost of sales	11,766	13,277	13,552	13,926	15,246	7,302
Gross profit	2,076	2,127	2,684	3,081	3,143	1,074
Gross profit margin (%)	15.0	13.8	16.5	18.1	17.1	12.8
SG&A expenses	1,694	1,780	1,901	2,036	2,206	1,177
SG&A expenses rate (%)	12.2	11.6	11.7	12.0	12.0	14.1
Operating income	382	347	783	1,045	936	-102
Operating income margin (%)	2.8	2.3	4.8	6.1	5.1	-
Non-operating income	36	26	46	66	51	114
Non-operating expenses	28	40	22	22	34	13
Ordinary income	389	333	807	1,089	953	-1
Ordinary income margin (%)	2.8	2.2	5.0	6.4	5.2	-
Extraordinary income	-	-	-	-	92	12
Extraordinary loss	43	4	23	131	43	12
Income before income taxes	346	329	784	958	1,002	-1
Total income taxes	140	79	258	340	349	9
Net income attributable to owners of the parent	205	249	526	615	648	-12
Rate of net income attributable to owners of the parent (%)	1.5	1.6	3.2	3.6	3.5	-
Comprehensive income	28	417	631	483	571	24
Total assets	10,232	10,851	11,070	11,048	11,617	11,065
(Current assets)	5,883	6,541	6,343	6,455	6,644	6,590
(Non-current assets)	4,348	4,310	4,727	4,593	4,972	4,475
Total liabilities	7,717	8,300	7,981	7,595	7,704	7,083
Current liabilities	3,661	3,951	4,043	4,291	4,311	4,113
Non-current liabilities	4,055	4,349	3,937	3,304	3,392	2,970
Total net assets	2,514	2,550	3,089	3,453	3,913	3,981
(Shareholders' equity)	2,600	2,468	2,891	3,387	3,924	3,956
(Capital stock)	438	438	438	438	438	438
Total number of issued shares at the end of period, excluding treasury shares	8,721,484	7,941,416	7,941,368	7,941,368	7,941,368	8,071,068
Earnings per share (¥)	23.59	30.00	66.31	77.45	81.62	-
Book-value assets per share (¥)	288.33	321.20	387.80	433.34	490.66	-
Dividend per share (¥)	10.00	12.00	14.00	14.00	14.00	7.00
Equity ratio (%)	24.6	23.5	27.8	31.1	33.5	35.8
Return on equity (%)	8.1	9.8	18.7	18.9	17.7	-
Cash flows from operating activities	480	782	791	416	376	-
Cash flows from investing activities	-207	-72	-554	-219	-164	-
Cash flows from financing activities	-201	-227	-271	-312	-370	-
Cash and cash equivalents at end of period	2,252	2,734	2,700	2,579	2,420	-

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

■ Outlook for the future

Has not changed the FY3/21 full-year forecasts for sales and profits to decline due to the coronavirus

1. Summary of the FY3/21 full-year consolidated results forecast

The Company has not changed its initial FY3/21 full-year consolidated results forecasts, which are for net sales to decrease 3.2% YoY to ¥17,800mn, operating income to decline 78.6% to ¥200mn, ordinary income to fall 75.9% to ¥230mn, and net income attributable to owners of the parent to decrease 76.9% to ¥150mn.

On a full-year basis, the IT-related businesses (System Development Business and Support and Service Business) will steadily grow because the impact of the coronavirus was negligible, but the Parking System Business will be impacted by the coronavirus significantly, so overall the forecasts are for sales and profits to decline. Toward growth in the medium term, the Company's policy is to continue to invest in developing human resources and in-house systems.

Summary of the FY3/21 full-year consolidated results forecasts

	FY3/20	FY3/21 forecasts	% change
Net sales	18,390	17,800	-3.2%
Operating income	936	200	-78.6%
Ordinary income	953	230	-75.9%
Net income attributable to owner of the parent	648	150	-76.9%

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

2. Outlook and initiatives by segment

The outlook for the IT-related businesses (System Development Business and Support and Service Business) is for sales and profits to increase due to the contribution of acquisitions of new projects. As the Company has already prepared a remote working environment, the impact of the coronavirus will be negligible. To strengthen sales, it is progressing various initiatives, including starting online sales, building models for maintenance and operation services, further deepening sales in the life insurance area by utilizing its business expertise, acquiring projects in new areas by implementing account plans targeting existing customers, acquiring maintenance and operation outsourcing projects for major companies, and further expanding the functions of the Managed Services Centers.

The Parking System Business is being greatly impacted by the coronavirus. Due to the self-restraint on going out and the decline in using bicycles to commute to work or school, bicycle parking lot usage fee income will fall greatly. Also, in device sales, some projects are expected to be postponed or cancelled. The rate of decline in bicycle parking lot usage fee income shrank more than expected in 1H. For 2H, considering that the coronavirus will become prolonged and the "new normal," including working from home, will become entrenched, the Company estimated a more conservative rate of decline (approximately 20%) compared to its initial estimate (approximately 10%).

Outlook for the future

To respond to these conditions, the Company is progressing measures, including reducing fixed costs by reviewing the earnings structure (optimizing fee collection and the frequency of patrols), reducing outsourcing costs by bringing development in-house (expanding the business of subsidiary NCD PROS), increasing orders for urban redevelopment projects and local government projects, expanding “ECOPOOL” bicycle parking lots with monthly rentals for local governments and railway operators, and progressing the introduction of the QR code payment function. Moreover, its policy is to progress the development of bicycle parking lots while considering changes to the lines of traffic in the “new normal”. Orders for several large-scale projects for local governments are expected, and they are likely to contribute to earnings from FY3/22.

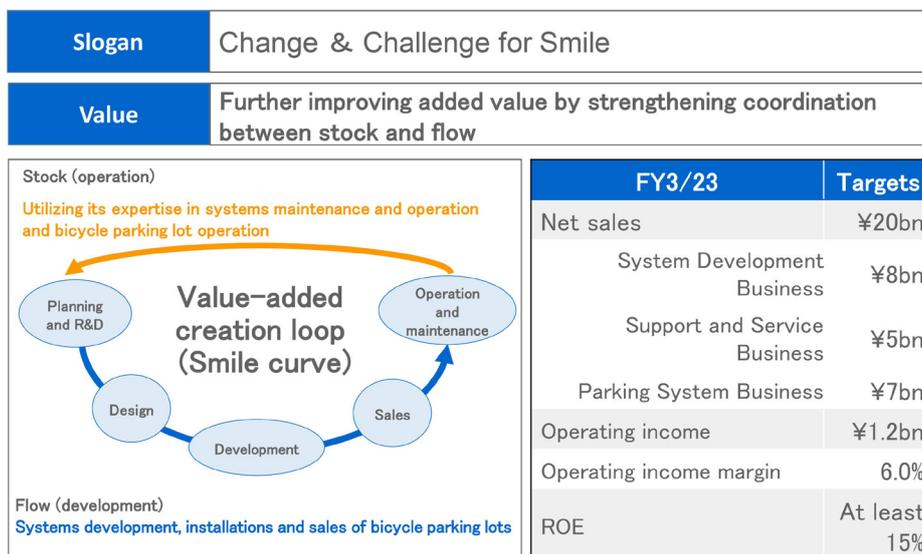
■ Medium- to long-term growth strategy

Aiming to further improve added value

1. Summary of the medium-term management plan

In “Vision 2023” (FY3/21 to FY3/23), the medium-term management plan formulated in May 2020, the targets for FY3/23 are net sales of ¥20bn (¥8bn in the System Development Business, ¥5bn in the Support and Service Business, and ¥7bn in the Parking System Business), operating income of ¥1.2bn, an operating income margin of 6.0%, and ROE of at least 15%.

Medium-term management plan “Vision 2023”

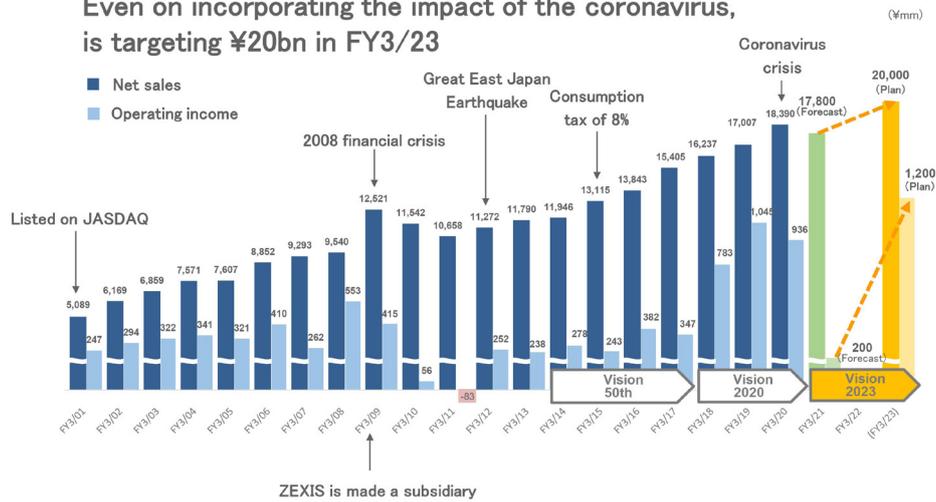


Source: Prepared by FISCO from the Company's briefing materials

Medium- to long-term growth strategy

Trend in consolidated results

Since its listing, sales have grown stably
 Even on incorporating the impact of the coronavirus,
 is targeting ¥20bn in FY3/23



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

As its basic policy, the Company is aiming to further improve added value by strengthening coordination between stock (operation) and flow (development). In both areas of applications and infrastructure, it will construct standard service models for operation and development and strengthen the two-way, value-added creation loop between stock and flow. Moreover, by strengthening coordination between the IT-related businesses and Parking System Business, it will create and expand new business domains, while advancing the establishment of the optimal Group formation by strengthening planning and management functions and governance on a company-wide level that goes beyond business divisions and reevaluating division of functions.

The Company is progressing initiatives toward enhancing productivity, including improving workplace environments and providing mental health training, based on the idea of the importance of creating a workplace environment in which employees can demonstrate their individuality and potential.

Medium- to long-term growth strategy

Building workplace environments in which employees can demonstrate their individuality and potential



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

2. High earnings are expected in the medium term

Against the backdrop of the spread of DX, corporate IT investment is strong and a movement is strengthening among major companies to outsource their systems' maintenance and operation to external vendors, and moreover, a movement is also strengthening among major corporate groups to consolidate these vendors. It is likely that these developments will increase business opportunities for the Company in the future.

President and Representative Director Osamu Shimojo has stated that "The first year of the new medium-term management plan started in severe conditions, as the Parking System Business, which is a stable source of earnings, was impacted by the coronavirus. But there has been no change to our basic policy, and in order to take on this test positively and to respond to DX and the "new normal," I want us to boldly advance reforms and take on the challenge of entering new fields. Continuing on, toward achieving the targets in the medium-term management plan, we are aiming to further improve added value by strengthening coordination between stock and flow, and we intend to work to improve profitability and enhance returns to shareholders." High earnings can be expected in the medium term.

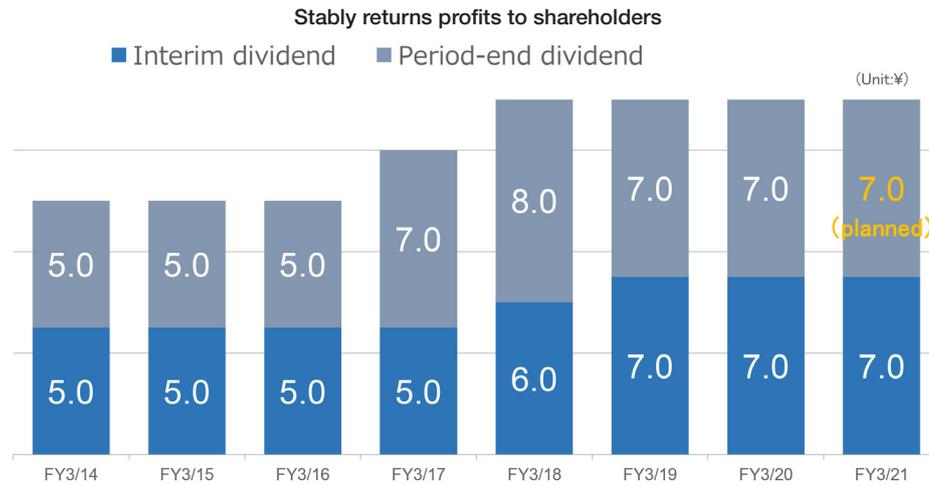
Shareholder return policy

FY3/21 annual dividend forecast is ¥14, the same level as the previous fiscal year

1. Returns profits to shareholders appropriately, based on a stable dividend

The Company's basic policy for returning profits to shareholders is to work to retain earnings in order to strengthen its corporate structure and actively develop its businesses, but at the same time, to maintain a stable dividend comprehensively considering factors such as the dividend payout ratio and dividend yield. It does not set a target for the dividend payout ratio, but going forward, it intends to return profits to shareholders appropriately while continuing to further strengthen its management foundation and to actively develop its businesses.

Based on this basic policy, even though profits are forecast to decrease in FY3/21, the Company forecasts an annual dividend of ¥14 (an interim dividend of ¥7 already paid at the end of 1H, and a period-end dividend of ¥7), which is the same as in FY3/20. The forecast dividend payout ratio is 75.0%.



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

2. A shareholder benefits program is applied for shareholders (who are shareholders) as of the end of September each year

The Company also implements a shareholder benefits program as part of its measures to return profits to shareholders. Shareholders holding at least 1,000 shares (10 units) on September 30 of each year are eligible for the program. They receive a gift (QUO card) depending on the number of shares they hold and the continuous period of time they have held them.

Shareholder return policy

Shareholder benefits program

Gift: QUO card

Number of shares held	Continuous period of time held	
	Less than 3 years	3 years or more
1,000 to 2,999 shares	Worth ¥2,000	Worth ¥3,000
3,000 to 4,999 shares	Worth ¥3,000	Worth ¥5,000
5,000 shares or more	Worth ¥5,000	Worth ¥7,000

<Conditions for the continuous holding>

*With the last day in September in each year as the record date, shareholders who are confirmed as being registered in the registry of shareholders on this date are eligible for the program.

*As for the determination of continuous holdings, shareholders holding shares for “three years or more” are the ones who are registered consecutively seven times “with the same shareholder number” in the registry of shareholders in each fiscal half (the end of March and the end of September in each year).

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

ESG-related measures

1. The Parking System Business is contributing to improving the global environment

The Parking System Business eliminates bicycle parking problems such as bicycles left on streets throughout the country, and helps improve the global environment through measures to ease traffic congestion, effective utilization of land, land and town planning, and reductions in CO2 (carbon dioxide) emissions, etc.

It is possible that even after the end of the coronavirus, users of bicycles to commute to work or school will decrease due to the “new normal”. However, based on the Act on Promotion of Use of Bicycles (enforced in May 2017 in order to promote the use of bicycles in a comprehensive and planned manner), plans to promote the use of bicycles are being progressed in every region.

2. Contributing to regions and regional creation

The Company is also progressing initiatives to contribute to regions and regional creation. In March 2020, it donated “DenDen” bone conduction wireless headphones equipped with sound collectors to Iwaki General Health and Welfare Center. In April 2020, it established the Nagasaki Sales Office Goto Office in Goto City, Nagasaki Prefecture, with the aim of creating employment in the region. Then in September 2020, it received a letter of thanks for its contribution to the Kashiwa City Silver Human Resources Center, for which it has conducted a bicycle parking business for many years.



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