

RareJob, Inc.

6096

Tokyo Stock Exchange Prime Market

29-Aug.-2023

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Summary

Changing fee plans for B2C and B2B services, aiming to greatly increase profits

RareJob, Inc. <6096> is one of the largest online English tutoring service providers. The Company's main service is the online English tutorial service "RareJob Eikaiwa." With more than 6,000 Filipino tutors, the Company continues to grow sales by providing high-quality services at low prices. The Company has recently been strengthening business targeting corporations and educational institutions and is expanding its business scope particularly to global leader development, which is highly synergistic with English tutorial services. It aims to become a platform company for developing people who can succeed globally from an online English tutoring provider. The Company advocates "Chances for everyone, everywhere." as the Group vision, and is promoting efforts to expand business with the aim of realizing a world where everyone can unlock their potential to be valued. To build the assessment data platform, which will serve as the foundation for these efforts, in June 2020, the Company launched PROGOS, which is an English speaking exam that utilizes AI technology, and the Company is working to expand introduction of PROGOS to companies and universities. The Company is working to grow by collecting assessment data with the PROGOS test and providing a variety of services created based on the platform.

1. Overview of FY3/23 results

In the FY3/23 consolidated results, the Company posted ¥5,787mn in net sales (up 3.4% YoY), EBITDA of ¥547mn (down 5.7%), operating profit of ¥228mn (down 21.7%), ordinary profit of ¥279mn (up 15.4%), and profit attributable to owners of parent of ¥194mn (up 4.9%). In its initial forecast announced in May 2022, the Company forecast that net sales would increase 7.2% to ¥6,000mn. Within this, it anticipated a 5.3% increase in sales in the B2C business, which accounts for 70% of overall sales. The actual result was a 0.3% decrease, significantly falling short of the target. Even though the Company did not fulfill its initial forecast, it still achieved record high net sales. The main reason for the Company not achieving its net sales target was that limitations on overseas travel caused by the COVID-19 pandemic reduced the number of overseas business trips, overseas assignments, and foreign holidays, slowing the growth of interest in learning foreign languages, particularly among people around the age of 30. On the other hand, EBITDA was ¥547mn and operating profit was ¥228mn, surpassing their respective targets of ¥386mn and ¥50mn. This was due to efforts to make operations more efficient, including the streamlining of SG&A expenses.

2. Outlook for FY3/24

In the FY3/24 consolidated forecast, the Company projects net sales of ¥10,000mn (up 72.8% YoY), EBITDA of ¥1,000mn (up 82.6%), operating profit of ¥600mn (up 162.8%), ordinary profit of ¥530mn (up 89.7%), and ¥400mn (up 106.1%) in profit attributable to owners of parent. Additionally, from FY3/24 the Company's results will be classified and reported under the two segments of Reskilling-related Business and Childcare Support Business. In terms of the breakdown of net sales, the Company expects the Reskilling-related Business to increase 3.5% to ¥5,500mn, and the Childcare Support Business to increase 855.4% to ¥4,500mn. The Reskilling-related Business segment includes the B2C and B2B businesses. Net sales are forecast to increase 2.4% to ¥3,600mn in the B2C business, and 5.6% to ¥1,900mn in the B2B business. Previously, the Company's segments covered a single English language-related business, divided into B2C (individual customers) and B2B & B2School (corporations and educational institutions), but from FY3/24 it is separating its businesses targeting children and schools, which will be reported under the Childcare Support Business together with an ALT (Assistant Language Teacher) business being managed by the newly consolidated BORDERLINK, INC.

Summary

Additionally, the anticipation of large increases in EBITDA and operating profit is due to fee revisions for the Company's RareJob Eikaiwa services and entry into the ALT business. Regarding fee revisions for the RareJob Eikaiwa services, new B2B fee plans were introduced in April 2023. In the B2C business, a revised fee plan for new members was introduced in October 2022 while existing members were switched to the new plan in May 2023. These revisions are expected to contribute to business results. At present, these revisions appear to have had virtually no negative effects, such as a drop in membership numbers, and the Company's view is that concerns regarding a greater-than-expected decrease in net sales are minimal.

3. Mid-term business plan

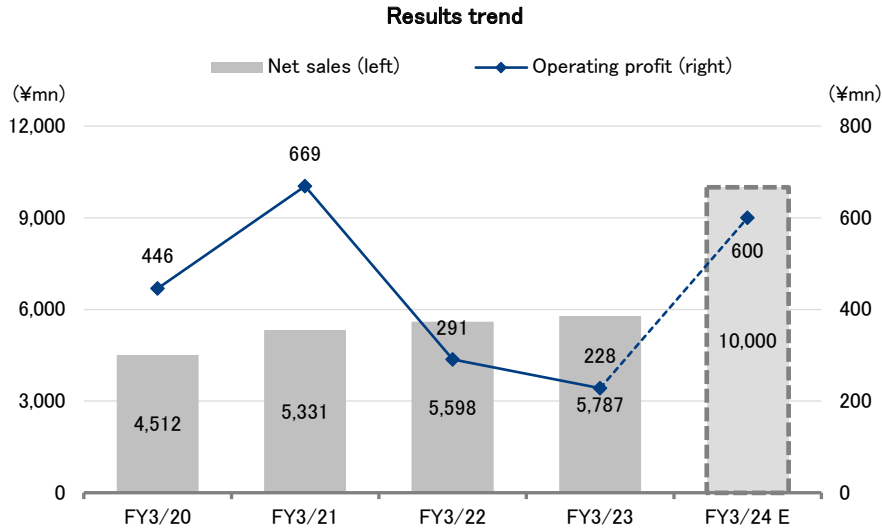
For a mid-term management target, the Company will aim for operating profit of ¥1.0bn in FY3/25. Inorganic growth through fee revisions for existing services and entry into the ALT business will raise the probability of success. The Company is also expected to carry out a variety of initiatives in order to achieve this target, including adding corporate sales personnel and making investments in system development. In the ALT business, it has achieved increasing earnings on a yearly basis while leveraging its strengths such as productive sales and high quality of teachers and plans to expand the business by steadily increasing its number of dispatch ALTs.

PROGOS is the service at the heart of the Company's growth strategy. The Company is positioning the assessment data platform, which consolidates data collected by the PROGOS test in various businesses, as the source of its competitive advantage. The Company will start with accumulating assessment data for English-speaking ability, and then plans to expand the scope of assessments to cover English reading, listening, and writing ability, as well as other skills necessary in global business. In the future, the Company aims to become an AI assessment company from an online English tutorial service company.

Key Points

- In FY3/23, the downturn in interest in foreign language learning continued due to a lingered impact of the pandemic, and although net sales fell far short of the initial target, particularly in the B2C business, the Company recorded record high net sales
- From April 2024, the Company is fully entering the ALT business through the acquisition of a subsidiary. It is expected to realize inorganic growth in net sales of more than ¥4.0bn
- In FY3/24, fee price revisions are being implemented in the B2B business from April and for existing members in the B2C business from May. The aim is to dramatically increase operating profit
- Established a target of ¥1.0bn in operating profit in FY3/25, with PROGOS as the nucleus of the growth strategy

Summary



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

Company profile

The one of the largest players in the online English tutorial service industry in Japan, over 1,100,000 cumulative non-paying members

1. Company profile

(1) Management vision and mission

The Company is the largest company that is mainly involved in online English tutorial services. It provides online English tutorial learning services for individuals, corporations and educational institutions, centered on "RareJob Eikaiwa." The Company is growing out its business with the aim of realizing its Group Vision of "Chances for everyone, everywhere." "Chances for everyone, everywhere." refers to "Building a platform for people to demonstrate their respective abilities and play active roles globally," and this means that the Company will offer chances to learn new things, chances to develop abilities, and chances to encounter something new, to all people in all places through the Internet, and build a society in which people all over the world can succeed beyond national borders and languages.

Company profile

The Company mainly operates the online English tutorial service “RareJob Eikaiwa” with a service mission of “Encouraging 10 million Japanese to speak fluent English.” Demand is growing for English speaking skills as these skills become even more important in individual careers. Also, with the globalization of business activities, developing global talents has become an issue for companies, and companies are increasingly looking to add English tutorial as a part of their training programs. In schools, English has become a compulsory part of curriculums at elementary schools as a part of curriculum revision carried out in 2020 with the “Guidelines for the Course of Study” by the Ministry of Education, Culture, Sports, Science, and Technology. In addition, English speaking skill has become more of a point of emphasis. Demand for English conversation learning services is expected to grow even more going forward.

The Company acquired shikaku square, Inc., which provides online study courses to obtain difficult-to-pass legal-related qualifications as a subsidiary in December 2021, and is expanding its business into a wider range of learning.

(2) Corporate history

The Company was established in 2007, by current President and CEO Gaku Nakamura and the former CEO and Chairman Tomohisa Kato. When the Company was founded, people generally learned English speaking skill by going to a brick-and-mortar English tutorial school or by studying abroad. However, both of these are expensive options and there was no reasonable option to learn how to speak English. In this context, with inroads by the free calling communication tool Skype aided by advances in Internet technology and faster communication networks, the Company started business premised on provision of low-cost English speaking learning service using Skype.

The Company hired English tutors in the Philippines, where English is the official language. At that time, through an acquaintance who was a Filipino college student, they started a pre-service after recruiting classmates who could speak English. Because compensation and working conditions for tutors were competitive, the tutor network has expanded through word-of-mouth, and the Company currently has a large network of more than 6,000 tutors. RareJob Philippines, Inc. was established in 2008 as the subsidiary to recruit, train, and manage them.

RareJob (now, RareJob Eikaiwa) online English speaking learning service for individuals started in November 2007 and realized steady growth in the number of students thanks to provision of service at much cheaper rates than in-person English language schools, a billing model of offering free lesson at first and then switching to monthly contracts as a paid member if the person is satisfied with the service, and reduction of the cost hurdle for entry by eliminating additional costs besides lesson fees, such as lesson materials and sign-up and cancellation fees. In 2009, the Company began offering services to corporations, and in June 2014 the Company went public on the Mothers Market of the Tokyo Stock Exchange.

From 2015 onwards, the Company improved the quality of its service, shifting from a matching service for Japanese learners and Filipino tutors that gave them an opportunity to speak English, to an English education service that provides the outcome of being able to speak English. As an online English tutorial service, the Company expanded its service menu, such as the “Business English Course” and the “Young Learner Course.” The Company also improved the quality of its curriculum and learning materials, and worked to raise the standards for hiring tutors as well as improve training for tutors. Also, the Company began Smart Method course, the intensive English conversation learning service that guarantees results, in October 2018.

Company profile

In July 2015, the Company concluded a capital and business alliance agreement with Mitsui & Co., Ltd. <8031>, and leveraged Mitsui & Co.'s network to strengthen initiatives such as sales of corporate services and overseas expansion. In February 2016, the Company concluded a capital and business alliance agreement with Zoshinkai Publishers, Inc. (currently Zoshinkai Holdings Inc.), and is speeding up its business development by entering into business alliances with large companies. Such moves include joint development of “Z-kai Asteria” and “NEW TREASURE Online Speaking,” English tutorial programs for Z-KAI Group members, and starting a partnership in B2School. In February 2019, through a company split, the Company established Envizion, Inc., the subsidiary that operates the online English tutorial service for schools and the online English tutorial service for kids “Ripple Kids Park.” In April 2019, Zoshinkai Holdings Inc. invested in Envizion, Inc. (33.41% stake), thereby strengthened the collaborative framework in the B2School domain. In April 2023, Envizion Inc. dissolved its merger agreement with Zoshinkai Holdings and became a fully-owned subsidiary. Then, in June 2023, the Company purchased and absorbed BORDERLINK, INC. Envizion, Inc. was absorbed by BORDERLINK, INC, which the Company fully acquired in April, 2023.

Furthermore, in 2019 the Company started the global leader development business in order to help people not only learn English but also obtain the skills needed to play active roles globally. The Company announced a business alliance in November 2019 with Caplan Corporation, which handles in-person training business as part of Pasona Group Inc. <2168>, and is jointly developing a training program that assists global leader development. Additionally, it spun off the B2B business and established PROGOS Inc. in March 2021. The PROGOS test, which is the AI English speaking exam developed in June 2020, collects assessment data, and the Company intends to develop multi-faceted assessment of skills needed by global leaders with the assessment data platform as the starting point. Through the multi-faceted skill assessment, it hopes to expand scope to hiring, development, assessment, and assignment areas and reinforce services that support corporate personnel functions. These efforts seek to accelerate growth in B2B market.

In October 2021, the Company acquired a 49.000% stake of BORDERLINK, INC., which is engaged in the businesses of dispatching ALTs (Assistant Language Teachers) and operating English language schools and BORDERLINK, INC. became our affiliated company accounted for by the equity-method. Then, in December 2021, the Company made shikaku square, Inc. a subsidiary (merged with RareJob Inc. in July 2023) by acquiring its shares after Sight Visit Inc. created shikaku square and spun it off. The Company then took over the shikaku square business which provides online learning programs for professional qualifications. Furthermore, in January 2022, the Company spun off its Technology Department, creating the new company RareJob Technologies, Inc., and this April the company began the AI-related R&D business. In April 2023, BORDERLINK, INC. was made into a fully-owned subsidiary.

Company profile

Corporate history

| Date | Main events |
|----------------|--|
| October 2007 | RareJob, Inc. established |
| November 2007 | Launched online English tutorial service "RareJob" (currently "RareJob Eikaiwa") |
| October 2008 | Established RareJob Philippines, Inc. in Manila, the Philippines |
| August 2009 | Started providing corporate services |
| June 2014 | Listed on Mothers section of Tokyo Stock Exchange |
| April 2015 | Started providing Business English Course Started offering services for educational institutions |
| July 2015 | Capital and business alliance with Mitsui & Co. |
| September 2015 | Started providing Young Learner Course |
| October 2015 | Started Brazil business (exited in November 2017) |
| January 2016 | Started offering "RareJob Honkijuku" |
| February 2016 | Capital and business alliance with Zoshinkai Publishers, Inc. (currently Zoshinkai Holdings Inc.) |
| April 2016 | Established Kansai branch office |
| August 2016 | Started offering the "RareJob Eikaiwa" iOS app |
| August 2016 | Established ENVIZION PHILIPPINES, INC. in Cagayan de Oro, Philippines |
| January 2017 | Brought Ripple Kidspark Co., Ltd., which operates kids online English Tutorial service Ripple Kids Park, into the group |
| April 2017 | Established Chubu branch office |
| March 2018 | Started providing the proprietary lesson-taking system "Lesson Room" |
| April 2018 | Established Kyushu branch office |
| October 2018 | Started providing the performance-guaranteed English tutorial service "Smart Method course" |
| February 2019 | Established Envizion, Inc. and concluded merger agreement with Zoshinkai Holdings Inc. |
| October 2019 | Concluded business alliance on global leader development business with CAPLAN Corporation |
| June 2020 | Developed the PROGOS test: the AI English speaking exam |
| November 2020 | Changed the stock listing to the First Section of Tokyo Stock Exchange |
| March 2021 | Established PROGOS Inc. to conduct corporate business |
| April 2021 | Launched recruitment business specializing in foreign nationals and Japanese tutoring business |
| June 2021 | Established Babel Method, Inc. to develop a Japanese speaking learning program |
| September 2021 | Formed capital and business alliance with BORDERLINK, INC. |
| December 2021 | shikaku square, Inc., which engages in the business to help people attain professional qualifications, joined the Group |
| April 2022 | RareJob Technologies, Inc. established by spinning off the Technology Division, launched the AI-related R&D business |
| April 2022 | Changed stock market listing to the Prime Market of the Tokyo Stock Exchange |
| October 2022 | Updated RareJob Eikaiwa functions and experiences |
| December 2022 | Established K12 Holdings, Inc. |
| April 2023 | Made BORDERLINK, INC. into a fully-owned subsidiary Launched Global Skills Power Training, a B2B program for acquiring global business skills Launched an English education service aimed at the K12 age range (kindergarten to final year of high school) |

Source: Prepared by FISCO from the Company's website

(3) Status of group companies

At the end of May 2023, the Group comprised the Company and nine consolidated subsidiaries (six companies in Japan and three companies in the Philippines), and two equity-method affiliates (one company in Japan and one company in the Philippines).

Of these companies, RareJob Philippines, Inc., a subsidiary in the Philippines, recruits, trains, and manages English tutors in the Philippines (there are currently more than 6,000 tutors on the roster in the Philippines). The domestic subsidiary Envizion, Inc. provides an online English tutorial learning service for schools and Ripple Kids Park, an online English tutorial learning service designed for children. Of the subsidiaries in the Philippines, RIPPLE KIDS EDUCATIONAL SERVICES, INC. primarily provide lessons for Ripple Kids Park from the lesson supply center it operates. RIPPLE KIDS EDUCATIONAL SERVICES, INC. is a subsidiary that is 99.995% owned by Envizion.

Company profile

In October 2021, the Company acquired 49.000% of the issued shares of BORDERLINK, INC., a consolidated subsidiary of WILL GROUP, INC. which engages in the foreign language educational support business. In April 2023, it exercised call options on the remaining 51.000%, making the company into a fully-owned subsidiary.

Status of major group companies (As of the end of May 2023)

| Classification | Company Name | Descriptions of the main businesses | Ownership Ratio |
|-------------------------|--|--|-----------------|
| Consolidated subsidiary | RareJob Philippines, Inc. | Recruitment, training, and management of English tutors | 99.997% |
| | Envizion, Inc. | B2School business | 100.000% |
| | RIPPLE KIDS EDUCATIONAL SERVICES, INC. | Provision of online English tutoring lessons for kids | (99.995%) |
| | RareJob English Assessment, Inc. | Assessment business | (99.999%) |
| | PROGOS, Inc. | B2B business | 100.000% |
| | shikaku square, Inc. | Operation of an online learning service "shikaku square" for professional qualification exam preparation | 70.000% |
| | RareJob Technologies, Inc. | AI (artificial intelligence) related R&D business, etc. | 100.000% |
| | K12 Holdings, Inc. | Provision of management administration and leadership for subsidiaries | 100.000% |
| Equity-method affiliate | BORDERLINK, INC. | Foreign language tutor dispatch business, operation of language schools | 100.000% |
| | Grandline Philippines Corporation | Operation of language schools (Partner for English conversation study abroad business for corporations) | 20.000% |
| | Babel Method, Inc. | Development of Japanese speaking learning programs | (49.180%) |

Note: Figures in parenthesis for ownership ratio indicate indirect ownership ratio included in the total
 Source: Prepared by FISCO from the Company's securities report and others

Filipino tutors living in the Philippines support the business foundation

2. Business description

The Company provides low-cost, high-quality online English tutorial services by connecting Filipino tutors with strong English skills and users via the Internet. Currently, the main service is "RareJob Eikaiwa." The Company has a General English Course and a Business English Course and other courses. About 90% of individuals take the General English Course, while many companies take the Business English Course. For the General English Course, the most popular plan under the former fee plan was the ¥6,380 (including tax)-per-month/25 minutes-per-day plan (however, in May this was revised upward to ¥7,980 per month under a new fee plan). Customers can take one lesson per day, so if they take a lesson every day it ends up being a bargain at ¥206 (¥257 including tax following fee revisions) per lesson. Most of the users are business people, with approximately 70% of users who are between their 20s and 40s, but the service is used by people in a wide range of age groups ranging from 10s to 70s. The ratio of male and female users is about 60:40.

As a profit structure, users pay a fixed monthly fee as discussed above, while tutors are mostly paid according to the number of lessons they provide. Increase in the user lesson attendance rate hence lowers profit margin. Nevertheless, the actual lesson attendance rate, despite exhibiting some seasonality, does not significantly change year-on-year other than in a situation similar to FY3/21 with school closures and a guidance to stay home by a government in the COVID-19 pandemic.

Company profile

Main courses and new fee lists of “RareJob Eikaiwa”

| | |
|--|--|
| General English Course | ¥21,480/month (Can take one 100-minute lesson each day, ¥173 per lesson if one lesson is taken every day) ¥12,980/month (Can take one 50-minute lesson each day, ¥209 per lesson if one lesson is taken every day) ¥7,980/month (Can take one 25-minute lesson each day, ¥257 per lesson if one lesson is taken every day) ¥4,980/month (Can take eight lessons each month, ¥623 per lesson if one lesson is taken every day) |
| Business English Course (Business-focused course with certified tutors who have received special training and use exclusive teaching materials) | ¥12,980/month (Can take one 25-minute lesson each day, ¥419 per lesson if one lesson is taken every day) |
| Young Learner Course (This course strengthens the four skills needed in high school and university entrance exams with instruction by a certified teacher who has received special training and global learning materials specifically for the course.) | ¥12,980/month (Can take one 25-minute lesson each day, ¥419 per lesson if one lesson is taken every day) |

Source: Prepared by FISCO from the Company's website

(1) B2C Services

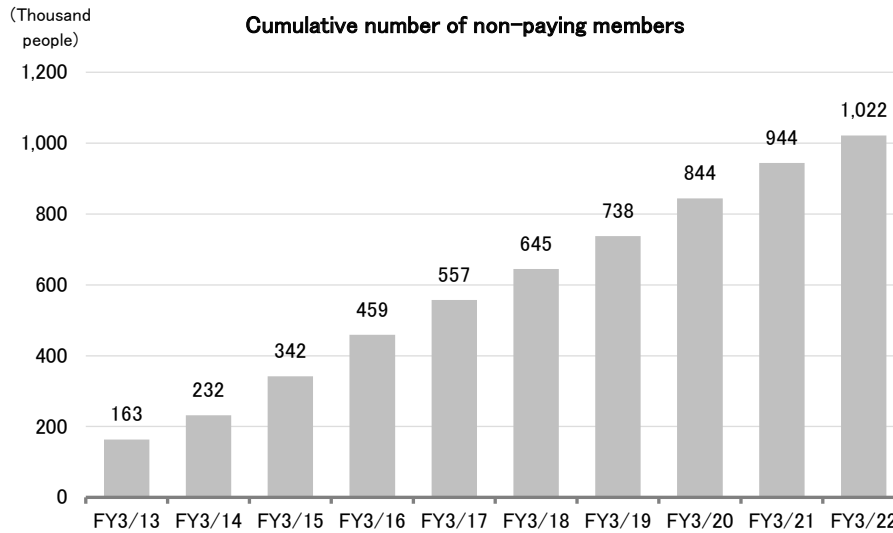
The Company's services for B2C are RareJob Eikaiwa; Ripple Kids Park, the online English speaking and learning service dedicated to children; Smart Method course, the intensive English speaking learning course that guarantees results; and shikaku square, an online leaning service to assist in acquiring difficult professional qualifications. RareJob Eikaiwa generates the majority of sales.

Looking at the flow of business using “RareJob Eikaiwa” as an example, the Company acquires customers through online marketing (listing advertisements, affiliate advertisements, social media, etc.) to attract customers to the “RareJob Eikaiwa” site. First, a user who views the “RareJob Eikaiwa” site registers as a non-paying member (this allows them to take two free lessons), then takes the lessons and decides whether to enroll in the paid service. Therefore, the KPI for revenue growth include the initiatives to attract people to the website, the number of non-paying members, the rate at which non-paying members become paying members (conversion rate), and the paying member retention rate. Improving these KPI will lead to higher net sales. As of the end of FY3/22, the number of cumulative non-paying members had exceeded 1,000,000, and roughly 90,000 people are registering each year. The Company is taking steps to improve the paying member continuation rate through steadfast enhancement of lesson quality, updates of teaching materials.

The Company began to offer the Smart Method course as the B2B service. In October 2020, it started its service for B2C as well and is increasing sales as a product that address demand for guaranteed enhancement of English communication capability in a short period.

Furthermore, in addition to the aforementioned English language-related services, the Company provides “shikaku square,” an online learning service that helps people prepare for difficult-to-pass qualification exams, including a preliminary examination for a Lawyer, patent attorney exam and so on.

Company profile



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

(2) B2B services

The Company is promoting B2B services at PROGOS Inc., which was established in March 2021. In this business, it delivers various programs that meet customer needs, including the PROGOS test, the AI English speaking exam, RareJob Eikaiwa (business English conversation) as a business English training program, Smart Method course, an English conversation learning course that guarantees results, and global leader development training, and has cumulative deployments at 4,000 companies.

The PROGOS test, a new service, gives questions related to business scene (meeting, interview, presentation, etc.) for about 20 minutes and uses AI technology to confirm results in as little as a few minutes and give feedback on studying methods to improve skills along with the test score (there is manual scoring in some cases). The indicator for the test complies with CEFR*1 international standard, and assesses skills by “what can be done” and “the extent to which it can be done” rather than the volume of words and grammar knowledge. The PROGOS test received a silver award in the assessment category of the Reimagine Education Award 2020*2, one of the world’s largest educational contests. The Company was the first Japanese entity to receive this award and indicates that the service is highly rated internationally as well. The Company hopes to roll out the PROGOS test as a way of visualizing the English language skills of an organization and aims to boost earnings through joint provision of a language training program and other services.

*1 Common European Framework of Reference for Languages (CEFR) is a common standard that indicates the extent of language acquisition and linguistic performance of foreign language learners in Europe. It is widely used in academic and business communities, including use by the Ministry of Education, Culture, Sports, Science, and Technology as an English assessment indicator in new learning guidelines.

*2 The Reimagine Education Award is one of the world’s leading awards for initiatives in innovative education and is also known as the “Oscars” of the educational industry. It had more than 1,400 applications from 72 countries worldwide in FY2020 and selected recipient organizations following rigorous evaluation by 260 judges from around the world.

Company profile

The Smart Method course is the service that improves the level of English conversation skill in a short period of time with certified tutors who have received training specifically for this course, special teaching materials, as well as support by a dedicated Japanese consultant. The course lasts approximately 16 weeks (Mon-Fri: 50-minute lesson/day). It costs ¥495,000 (including tax), which is more expensive than the regular “RareJob Eikaiwa” service. However, the Company guarantees that the student will improve by at least one level from the time they begin the course based on the Company’s criteria, which are equivalent to the 10 levels of English-speaking ability based on CEFR-J* (in April, lesson times were shortened to 45 minutes and the price was revised upward to ¥594,000, including tax, under a new fee plan). There has been a lot of positive responses from customers and healthy sales growth since the service launch.

* CEFR-J is an English language ability achievement index designed for use in English education in Japan based on CEFR, an international standard that indicates level of language communication skill.

(3) B2School Services

The Company conducts sales activities targeting educational institutions through its subsidiary, Envizion and its partner Z-kai. Its main services are an ALT dispatch service and an online English tutorial service as an extracurricular program. Due to movement to lower the age range of children receiving English education and strengthen the four main English language skills (listening, speaking, reading, and writing), the ALT dispatch business is continuing to grow rapidly, maintaining an annual growth rate of roughly 3% per year. Going forward, the Company will explore launching specific services for the English education market, including kindergartens, nursery schools, and after-school childcare facilities.

(4) Tutors

Looking at the situation of Filipino tutors, which are the foundation for the Company’s growth, the Company initially hired mainly students and graduates of the University of the Philippines, but now the Company recruits throughout the Philippines based on referrals by existing tutors and via Facebook advertisements. Tutors sign contracts after their English proficiency and aptitude as a tutor are assessed. Tutors are given training and then start serving as tutors on their own after their lesson quality becomes good enough. Most of the Company’s more than 6,000 Filipino tutors have independent contractor agreements, but some are full-time tutors and some are tutors from partner companies. Tutors hired as independent contractors are recruited from all over the Philippines and offer lessons from home in principle. Compensation is paid in local currency (Philippine pesos) based on the number of lessons provided. Some tutors provide lessons from centers equipped with stable communication equipment, including spare lines.

The Company holds a strong competitive advantage over its competitors

3. The Company’s strengths and its competitors

(1) Strong competitive advantage

The Company has four main strengths: being able to provide high-value-added English tutorial services with high-quality curriculum, teaching materials, and tutors, at a low price; operational capabilities that allow the Company to maintain a stable and large number of high-quality tutors and lessons; strong sales capabilities and a robust customer base including collaborations with partners; and expansion into businesses that are highly synergistic, such as the business leader development business and the career-related business.

Company profile

(2) Competitors

The competitors in B2C online English speaking tutorial services are DMM Eikaiwa and Native Camp. The companies that operate these services are privately held, so their respective sizes are unknown. In the case of DMM, the price is almost the same as RareJob, and it has more than 10,000 tutors located not only in the Philippines but in 134 countries around the world and users can take lessons any time of the day.

Competitors in the field of learning services helping people prepare for difficult-to-pass legal-related qualification exams such as the preliminary examination for a lawyer include Itojuku (Hogakukan Co. Ltd.) and AGAROOT ACADEMY, Inc.

In B2B services, the main competitors are Berlitz (a subsidiary of Benesse Holdings, Inc.<9783>) and Gaba with long-standing results in a business model that still primarily utilizes the in-person format. The market for online services began from around 2015, and Bizmates is a competitor in this area.

Competitors in the ALT business include Link Interac Inc., a subsidiary of Link and Motivation Inc. <2170>.

(3) SWOT analysis

The Company's internal environment (strengths, weaknesses) and external environment (opportunities, threats) can be summarized as follows.

a) Internal environment (strengths)

- High-quality curriculum, teaching materials, tutors
- Operational capability to continually offer high-quality tutors and lessons
- Strong sales capabilities and robust corporate client network including business partners
- Business deployment capabilities based on the assessment data platform

b) Internal environment (weaknesses)

- Bringing in casual users
- Dependent on Filipino tutors, so the Company is assuming a country risk (the Philippines)

c) External environment (opportunities)

- Growth of the online English tutorial market
- Business growth by introducing services at companies and educational institutions
- Growing needs for developing talents that can work globally

d) External environment (threats)

- Invention of timeless and accurate simultaneous interpretation machines
- Increasing competition due to an increase in companies entering the online English tutorial market
- Exchange rate risk (costs will increase if the yen depreciates against the Philippine peso)

■ Market environment

Markets for helping people play active roles globally will continue to expand

Japan's population is on a declining trend, and in particular the working-age population is dramatically declining. Specifically, according to "Population Projections for Japan (2023 revision)" published by the National Institute of Population and Social Security Research, Japan's working-age population in 2030 is expected to be approximately 7,000,000 people less than in 2020, falling to 68,750,000 people. In this situation, companies will need to increase operational efficiency and promote automation, but they will also need to create environments such as those for employing non-Japanese people. In addition, it is projected that people with the skills that allow them to work with foreign personnel, which means human resources that are capable of working and/or managing non-Japanese people, will become extremely valuable to society.

Demand for English speaking tutorial service has temporarily slowed due to decline in foreigners visiting Japan and a steep drop in opportunities for overseas travel amid the prolonged COVID-19 pandemic situation. Nevertheless, the B2C market is likely to continue an expansion trend over the longer term on further advances in globalization, recovery in the number of foreigners visiting Japan, and the switch to English education as a requirement at elementary schools.

In the B2B market, despite continuation of a flat level in the past few years, the share of online training is growing. Even though the pandemic has temporarily slowed business, English speaking learning demand should continue to expand with increase in expatriates amid globalization, growing contacts with overseas companies in Japan, and more foreign personnel.

In the B2School market, English classes became a requirement from the fifth year of elementary school in FY3/20 and enhancement of English-speaking ability received more emphasis in updated instruction guidelines, including at junior high school and high school. The adoption of online English-speaking and learning services in the K12 age range is forecast to accelerate.

Results trends

Posted record high net sales in FY3/23 despite the decline in profit due to upfront investments

1. Overview of FY3/23 results

In the FY3/23 consolidated results, the Company posted ¥5,787mn in net sales (up 3.4% YoY), EBITDA of ¥547mn (down 5.7%), operating profit of ¥228mn (down 21.7%), ordinary profit of ¥279mn (up 15.4%), and profit attributable to owners of parent of ¥194mn (up 4.9%). In its initial forecast announced in May 2022, the Company forecast that net sales would increase 7.2% to ¥6,000mn. Within this, it anticipated a 5.3% increase in sales in the B2C business, which accounts for 70% of overall sales. The actual result was a 0.3% decrease, significantly falling short of the target. Even though the Company did not fulfill its initial forecast, it still achieved record high net sales. The main reason for the Company not achieving its net sales target was that limitations on overseas travel caused by the COVID-19 pandemic reduced the number of overseas business trips, overseas assignments, and foreign holidays, slowing the growth of interest in learning foreign languages, particularly among people around the age of 30. On the other hand, EBITDA was ¥547mn and operating profit was ¥228mn, surpassing their respective targets of ¥386mn and ¥50mn. This was due to efforts to make operations more efficient, including the streamlining of SG&A expenses.

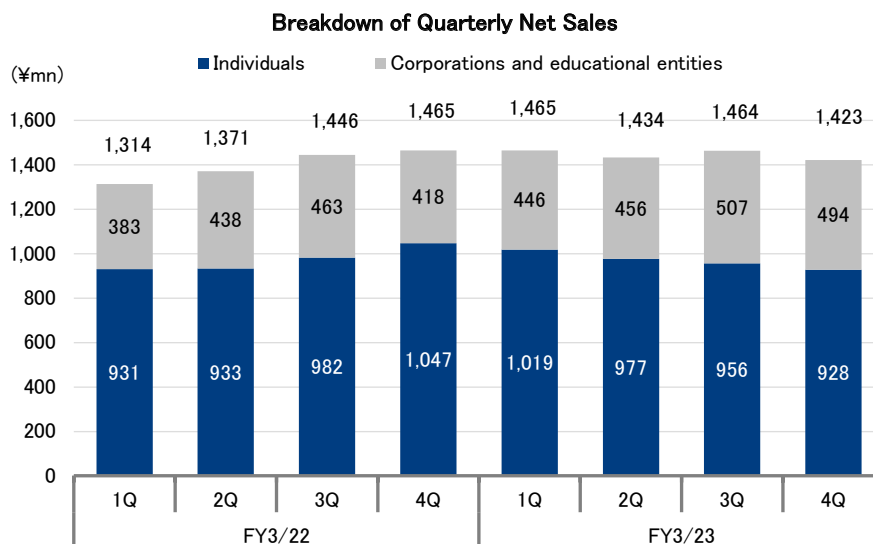
FY3/23 results

| | FY3/22 | | | | FY3/23 | | | (¥mn) |
|---|---------|------------|--------------|--------------|---------|------------|--------|-------|
| | Results | % of sales | Initial plan | Revised plan | Results | % of sales | YoY | |
| Net sales | 5,598 | - | 6,000 | 6,800 | 5,787 | - | 3.4% | |
| B2C | 3,894 | 69.6% | 4,100 | 3,810 | 3,881 | 67.1% | -0.3% | |
| B2B & B2School | 1,704 | 30.4% | 1,900 | 2,990 | 1,905 | 32.9% | 11.8% | |
| Operating profit | 291 | 5.2% | 50 | 230 | 228 | 3.9% | -21.7% | |
| Ordinary profit | 242 | 4.3% | 80 | 410 | 279 | 4.8% | 15.4% | |
| Profit attributable to owners of parent | 184 | 3.3% | 0 | 310 | 194 | 3.4% | 4.9% | |

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

Net sales of B2C services decreased 0.3% YoY to ¥3,881mn, falling short of the initial target of ¥4,100mn. Net sales of B2B & B2School services increased 11.8% YoY to ¥1,905mn, about the same amount as the initial target of ¥1,900mn. Although seasonal factors continue to influence quarterly results, this increase in B2B sales drove overall results upward.

Results trends



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

In terms of cost of sales, despite higher costs due to the increase in the purchase of training services, the cost of sales ratio declined from the previous fiscal year to 40.6%. In terms of SG&A expenses, there was an increase in expenses such as personnel expenses accompanying the move to make shikaku square a subsidiary.

Cost structure

| | FY3/22 | | FY3/23 | | YoY |
|------------------|---------|------------|---------|------------|--------|
| | Results | % of sales | Results | % of sales | |
| Net sales | 5,598 | - | 5,787 | - | 3.4% |
| Cost of sales | 2,307 | 41.2% | 2,348 | 40.6% | 1.8% |
| Tutor fees | 1,711 | 30.6% | 1,603 | 27.7% | -6.3% |
| Other | 596 | 10.7% | 744 | 12.9% | 24.9% |
| SG&A expenses | 2,999 | 53.6% | 3,210 | 55.5% | 7.0% |
| Labor cost | 1,394 | 24.9% | 1,513 | 26.2% | 8.5% |
| Advertising | 419 | 7.5% | 406 | 7.0% | -3.2% |
| Other | 1,185 | 21.2% | 1,290 | 22.3% | 8.9% |
| Operating profit | 291 | 5.2% | 228 | 3.9% | -21.7% |

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

Increasing total assets through active investment

2. Financial situation

(1) Consolidated balance sheets

At the end of FY3/23, total assets were ¥6,835mn, a YoY increase of ¥491mn. Current assets were ¥2,934mn, a decrease of ¥568mn from the end of the previous fiscal year. This was mainly due to a ¥873mn decrease in cash and deposits, among other factors. Non-current assets were ¥3,900mn, an increase of ¥1,060mn from the end of the previous fiscal year. This was mainly the result of a ¥1,145mn increase in investments and other assets primarily due to advance payments.

Results trends

Total liabilities increased ¥346mn from the end of the previous fiscal year to ¥4,210mn. Current liabilities decreased ¥840mn to ¥1,688mn, mainly due to a ¥781mn decrease in the current portion of long-term borrowings, a ¥118mn decrease in advances received, and other factors. Non-current liabilities increased ¥1,187mn YoY to ¥2,521mn. Despite a ¥1,207mn increase in long-term borrowings, lease liabilities declined.

Total net assets were ¥2,624mn, an increase of ¥145mn compared to the end of previous fiscal year. This was mainly due to an increase in capital surplus and retained earnings, among other factors.

Condensed consolidated balance sheets and key business indicators

| | (¥mn) | | | | |
|---|--------|--------|--------|--------|--------|
| | FY3/20 | FY3/21 | FY3/22 | FY3/23 | Change |
| Total current assets | 2,698 | 3,214 | 3,503 | 2,934 | -568 |
| Cash and deposits | 2,153 | 2,860 | 3,116 | 2,243 | -873 |
| Accounts receivable - trade | 456 | 225 | 121 | 93 | -28 |
| Total non-current assets | 859 | 1,254 | 2,840 | 3,900 | 1,060 |
| Property, plant and equipment | 197 | 461 | 191 | 172 | -19 |
| Intangible assets | 489 | 586 | 1,458 | 1,392 | -66 |
| Goodwill | 83 | 70 | 846 | 752 | -93 |
| Investments and other assets | 172 | 206 | 1,190 | 2,335 | 1,145 |
| Total assets | 3,557 | 4,468 | 6,343 | 6,835 | 491 |
| Total current liabilities | 1,174 | 1,037 | 2,529 | 1,688 | -840 |
| Current portion of long-term borrowings | 280 | 30 | 1,142 | 361 | -781 |
| Advances received | 118 | 132 | 717 | 598 | -118 |
| Total non-current liabilities | 781 | 1,314 | 1,334 | 2,521 | 1,187 |
| Long-term borrowings | 690 | 960 | 1,212 | 2,419 | 1,207 |
| Total liabilities | 1,955 | 2,351 | 3,864 | 4,210 | 346 |
| Interest-bearing debt | 970 | 990 | 2,355 | 2,781 | 426 |
| Total net assets | 1,602 | 2,116 | 2,479 | 2,624 | 145 |
| Shareholders' equity | 1,363 | 1,826 | 2,182 | 2,388 | 205 |
| Accumulated other comprehensive income | 1 | 12 | 37 | 38 | 1 |
| Total liabilities and net assets | 3,557 | 4,468 | 6,343 | 6,835 | 491 |
| Capital ratio | 38.4% | 41.2% | 35.0% | 35.5% | - |
| Return on equity (ROE) | 15.2% | 24.4% | 9.1% | 8.4% | - |
| Net profit margin | 4.5% | 7.3% | 3.3% | 3.4% | - |
| Total asset turnover (times) | 1.5 | 1.3 | 1.0 | 0.9 | - |
| Financial leverage (times) | 2.2 | 2.5 | 2.7 | 2.8 | - |

Note: Capital ratio = Capital / Total assets

Total asset turnover = Net sales / Total assets

Financial leverage = Total assets / Capital

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

(2) Consolidated statements of cash flows

In FY3/23, free cash flow temporarily became negative due to an increase in advance payments for the acquisition of subsidiaries and associates. The following is an overview of cash flows.

a) Cash flows from operating activities

Operating activities provided net cash of ¥471mn (compared to ¥292mn of net cash provided in FY3/22). This was mainly due to recording ¥225mn in depreciation and other factors, despite expenditure for income taxes paid.

b) Cash flows from investing activities

Net cash used in investing activities was ¥1,725mn (compared to ¥1,507mn of net cash used in FY3/22). This was primarily due to an expenditure of advance payment for the purchase of shares of subsidiaries and associates.

Results trends

c) Cash flows from financing activities

Net cash provided by financing activities was ¥371mn (compared to ¥1,464mn used in FY3/22). This was mainly due to proceeds from long-term borrowings.

Condensed consolidated statements of cash flows

| | (¥mn) | | | |
|--|--------|--------|--------|--------|
| | FY3/20 | FY3/21 | FY3/22 | FY3/23 |
| Cash flows from operating activities (a) | 577 | 1,089 | 292 | 471 |
| Depreciation | 227 | 238 | 250 | 225 |
| Amortization of goodwill | 12 | 12 | 39 | 93 |
| Cash flows from investing activities (b) | -170 | -335 | -1,507 | -1,725 |
| Free cash flow (a) + (b) | 406 | 754 | -1,214 | -1,254 |
| Cash flows from financing activities | 440 | -54 | 1,464 | 371 |
| Net increase in cash and cash equivalents | 849 | 699 | 255 | -878 |
| Cash and cash equivalents at end of period | 2,166 | 2,866 | 3,121 | 2,243 |

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

Future outlook

Company expects record-high net sales in FY3/24, but will continue to invest in future growth

1. Outlook for FY3/24

In the FY3/24 consolidated forecast, the Company projects net sales of ¥10,000mn (up 72.8% YoY), EBITDA of ¥1,000mn (up 82.6%), operating profit of ¥600mn (up 162.8%), ordinary profit of ¥530mn (up 89.7%), and ¥400mn (up 106.1%) in profit attributable to owners of parent. Additionally, from FY3/24 the Company is disclosing its results under new segments. Results will be classified and reported under the two segments of Reskilling-related Business and Childcare Support Business. In terms of the breakdown of net sales, the Company expects the Reskilling-related Business to increase 3.5% to ¥5,500mn, and the Childcare Support Business to increase 855.4% to ¥4,500mn. The Company's previous segments were B2C (individual customers) and B2B & B2School (corporations and educational institutions), and its businesses targeting children and schools were included within these segments. However, the businesses for children and schools were separated from April 2023, and their sales will be reported under the Childcare Support Business segment, together with sales from the ALT business managed by the newly consolidated BORDERLINK, INC. The Reskilling-related Business segment includes the B2C and B2B businesses. Net sales are forecast to increase 2.4% to ¥3,600mn in the B2C business, and 5.6% to ¥1,900mn in the B2B business. Additionally, the anticipation of large increases in EBITDA and operating profit is due to fee revisions in the Company's RareJob Eikaiwa services and entry into the ALT business. In line with revisions to RareJob Eikaiwa fees and services, new B2B fee plans were introduced in April 2023. In the B2C business, a revised fee plan for new members was introduced in October 2022 while existing members were switched to the new plan in May 2023. These revisions are expected to contribute to business results. At present, these revisions appear to have had virtually no negative effects, such as an increase in churn rate, and the Company's view is that concerns regarding a greater-than-expected decrease in net sales are minimal.

Future outlook

Outlook for FY3/24

| | FY3/23 | | FY3/24 | | YoY |
|---|---------|------------|------------------|------------|--------|
| | Results | % of sales | Initial forecast | % of sales | |
| Net sales | 5,787 | - | 10,000 | - | 72.8% |
| Reskilling-related Business | 5,316 | 91.9% | 5,500 | 55.0% | 3.5% |
| Individuals | 3,517 | 60.8% | 3,600 | 36.0% | 2.4% |
| Corporations and educational entities | 1,799 | 31.1% | 1,900 | 19.0% | 5.6% |
| Childcare Support Business | 471 | 8.1% | 4,500 | 45.0% | 855.4% |
| ALT business | - | - | 4,000 | 40.0% | - |
| English tutoring business | 471 | 8.1% | 500 | 5.0% | 6.2% |
| Operating profit | 228 | 3.9% | 600 | 6.0% | 162.8% |
| Ordinary profit | 279 | 4.8% | 530 | 5.3% | 89.7% |
| Profit attributable to owners of parent | 194 | 3.4% | 400 | 4.0% | 106.1% |

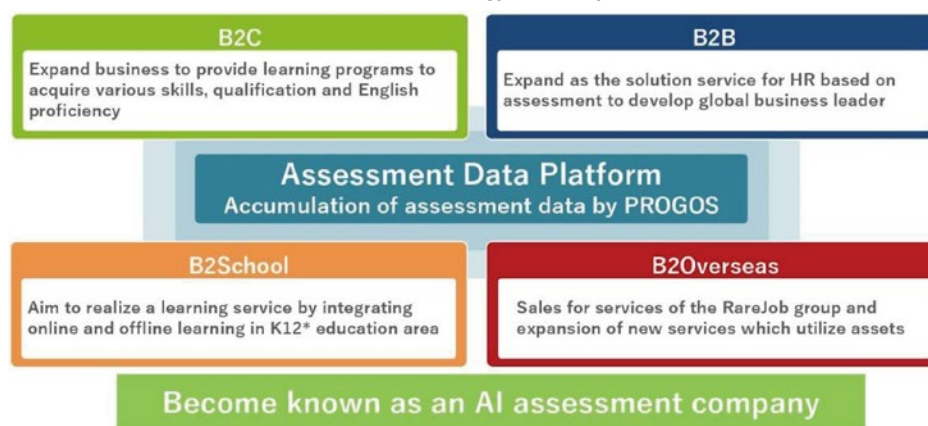
Source: Prepared by FISCO from the Company's financial results and results briefing materials

Established target of ¥1bn in operating profit in FY3/25, with the PROGOS test as the nucleus of the growth strategy

2. Mid-term business plan

PROGOS is the service at the heart of the Company's growth strategy. The Company is positioning the assessment data platform, which consolidates data collected by the PROGOS test in various businesses, as the source of its competitive advantage. The Company will start with assessments of English speaking ability, and then plans to expand the scope of assessments to cover English reading, listening, and writing abilities, as well as other skills necessary in global business. In the future, the Company will aim to become an AI assessment company from an online English tutorial service provider.

Growth Strategy Summary



Source: The Company's results briefing materials

Future outlook

The Company plans to create a PROGOS ecosystem. Currently, in the world of English language ability assessments, TOEIC® has an extremely large market share for adults, while the EIKEN Test in Practical English Proficiency has a very large market share for children. For hiring, most companies use TOEIC® as a means to determine someone's English abilities. The Company estimates that the TOEIC® ecosystem is between ¥50.0bn and ¥100.0bn in size (this includes not only the market for people taking the TOEIC® exam, but also books to prepare for the TOEIC® exam and other services). The Company is first aiming to make the PROGOS test the standard for assessment for English conversational ability. Once it does that, the Company believes it will be able to create a PROGOS ecosystem that is the same size as the TOEIC® ecosystem between ¥50.0bn and ¥100.0bn in scale. The Company then expects to earn about ¥10.0bn to ¥20.0bn of the PROGOS ecosystem (about 10-20% of the ecosystem). In FY3/23, the number of PROGOS tests administered grew by 51.3% YoY to over 200,000.

The Company's growth strategies in each business are discussed below.

(1) B2C services

With respect to B2C services, the Company's strategy is to expand its services, centered on English online tutorial lessons, helping people to learn the wide-ranging skills and gain the qualifications necessary for success in society. However, there are some areas of concern in the current online English tutorial market, including the temporary decline in demand for English tutorial services due to the drop in international travel caused by the COVID-19 pandemic, as well as an expected deterioration in profitability due to the increase in tutor fees caused by the dramatic weakening of the yen. Given the situation, the Company's actions for growth includes revising the prices of its services by roughly 20% on average and offering high-value-added services.

The Company has made improvements to its services for individuals, but it had not changed its prices in approximately eight years. However, it has worked on diversifying fee plans and in May 2023, it effectively raised fees for existing members by around 20%. There are large price differences between the Company and in-person English conversation schools, and the Company feels it still has room to increase its prices. To present, there has been little evidence of negative effects due to raising prices, such as an upturn in the rate of members leaving, and the Company plans to continue improving business results by both increasing member numbers and raising usage rates under the new fee plans.

(2) B2B services

The Company aims to fill an advisory position in corporate training for companies. For starters, the Company will work to make the global business skills of businesspeople visible. After that, the Company plans to expand its assessment-based solutions service for HR divisions, aiming to develop global leaders. Currently, the Company is aiming to introduce its services in companies, especially in large companies, in order to facilitate a dramatic increase in the use of the PROGOS test.

(3) B2School services

The Company's strategy is to expand the scope of its educational service combining online and in-person services to the K12 (the period of education from preschool (kindergarten age) to high school graduation) age range. The PROGOS test is currently just for assessing the English conversational abilities of business people, but the Company is also considering including students from upper-grade elementary school students to high school students. AI assessments are already being utilized to evaluate an English skill in the U.S. and China, and the Company foresees the same type of expansion in Japan as well.

Future outlook

It also plans to expand its business by using BORDERLINK, INC., an ALT dispatch business that was made into a fully-owned subsidiary in April 2023, as the starting point for English education services that cater for children of all ages from pre-school through to high school.

(4) B2Overseas

The Company's strategy is to sell the Group's services and develop services leveraging its business assets. Specific efforts underway include introducing PROGOS to Filipino BPO providers, etc.

(5) Numerical goals

As a mid-term management target, the Company is aiming to achieve operating profit of ¥1.0bn in FY3/25. The Company is expected to carry out a variety of initiatives in order to achieve this target, including expanding the ALT business, adding corporate sales personnel, and making investments in system development.

■ Shareholder return policy

The Company will stably and continuously increase the dividend

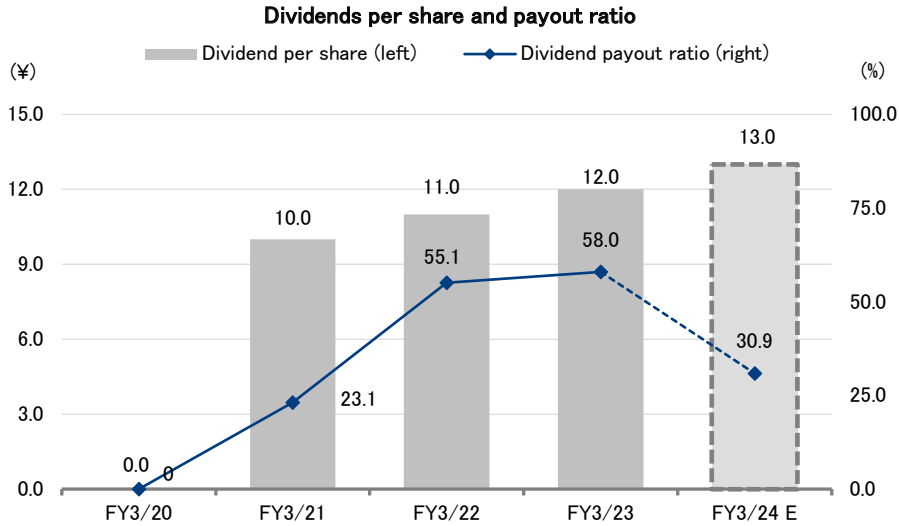
The Company announced revisions to the dividend policy in May 2021. For the purpose of strengthening financial structure to facilitate long-term stability in the management foundation and continuously expanding businesses, the Company had previously put priority on bolstering retained earnings and comprehensively decided dividends in the context of earnings, finances, and future business investment plans. With its listing on the First Section of the Tokyo Stock Exchange in 2020, it adopted a policy of paying dividends with stable and continuous hikes. Furthermore, it intends to prioritize strategic investments that lift enterprise value in cases of investment opportunities with return above capital cost. In share buybacks, it plans to dynamically review actions as part of earnings compensation from a comprehensive perspective that looks at business initiatives, investment plans, retained earnings level, and earnings trends.

The Company paid a dividend of ¥12 per share for FY3/23. It expects to pay a dividend of ¥13 per share for FY3/24. Also, on June 9, 2023, it carried out a share buyback with an upper limit of 306,400 shares, equivalent to 3.23% of all issued shares.

The Company has introduced a shareholder gift. It provides a shareholder gift coupon for RareJob Eikaiwa valued at ¥10,000* among other things to shareholders who own 100 shares or more at the end of March each year, and an additional shareholder benefit coupon for the Smart Method course valued at ¥100,000 to shareholders who own 300 shares or more.

* The maximum amount that the shareholder gift coupon can be used equates to one month of the RareJob Eikaiwa service fee. There is no refund of the difference for a contract plan that costs less than ¥10,000.

Shareholder return policy



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

Initiatives for ESG/SDGs

A sustainable society which is the aim of the vision of “Chances for everyone, everywhere.”

RareJob works to achieve a sustainable society based on each goal of SDGs and the concerns of ESG through business activities to realize its Group Vision of “Chances for everyone, everywhere.”

(1) The classification for ESG: Environmental

Reducing energy consumption by having less travel

In the Company's services, all members and tutors at RareJob Eikaiwa are free from having to take transport somewhere physically to take or conduct lessons as long as they have internet access. By reducing energy consumption, the Company contributes to reducing environmental impacts.

Promoting paperless environment

In the Company's services, RareJob Eikaiwa provides most of its teaching materials via online instead of paper. It also makes efforts to reduce paper consumption in its offices by digitizing internal documents for meetings, proposals and so on.

(2) The classification for ESG: Social

Providing reasonable and high-quality educations

Providing reasonable and high-quality educations to students everywhere is the Company's top priority. It contributes to eliminating inequalities in English education opportunities caused by regional and economic disparities, such as the concentration of brick-and-mortar English tutoring schools in urban areas and expensive costs of studying abroad.

We encourage readers to review our complete legal statement on “Disclaimer” page.

Initiatives for ESG/SDGs

More jobs for women

Roughly 80% of the Company's tutors are women. Due to flexible working hours and the benefits of working from home at any time, women who do housework, raise children, or care for family members are able to work easily with their capacities.

Creating jobs in the developing country

The Company creates a lot of jobs in the Philippines, which is one of the developing countries. As its platform allows tutors to work anywhere and anytime, it helps to increase the number of job options, especially for people living in the rural areas of the country, where stable jobs are hard to find.

Realization of the society where people can make full use of their abilities regardless of nationality.

The Company aims to help people play active roles globally and create venues where they can utilize their skills. It will achieve this through online English tutorial service for students and tutors and through foreign human resources services for foreigners seeking to build a career.

(3) The classification for ESG: Governance**Corporate governance**

The Company is aware of the importance of strengthening proper organizational structures and systems to ensure compliance with such matters as laws and regulations, social norms and corporate ethics. To boost corporate value in a sustainable way, it will strive to strengthen corporate governance while working on business expansion simultaneously.



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