

9.6x upside potential based on GCC Management™ analysis

High growth through DX support combined with physical security measures and digital risk countermeasures will be in full swing.

This report analyzes corporate value from the perspective of GCC Management™, a framework developed by J. Phoenix Research Corporation ("JPR") that emphasizes three elements: Growth (sales growth), Connection (improved human and business connections = higher return on capital), and Corporate value analysis from the perspective of GCC Management™, which emphasizes the three

High growth is in full swing as a leader in the fight against digital risks

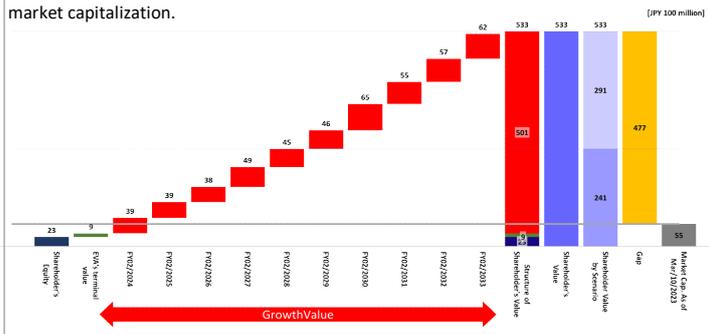
Eltes Co., Ltd. (hereinafter "Eltes") was founded in 2004 and has been developing a business to protect society from new "digital risks" arising from the development of technology, such as internet flame wars and harmful rumors caused by the development of social networking services. Eltes offers DX integrated with digital risk response to corporations and local governments. It has also entered the security business through M&A in order to integrate it with physical risk response. JPR expects high growth to continue with its unique expertise in providing integrated support for the development of technology and response to digital risks that arise at the same time. JPR has assumed that Eltes will achieve an internal growth rate of 15% and that Eltes will acquire a company with sales of 10-20% of the previous year's sales every year from FY02/2024 to FY02/2029.

To pursue high growth and high profitability in a market area totaling JPY 4-5 trillion

The emphasis as the basis for the premise is the contents of the mid-term plan "The Road To 2024". In this plan, Eltes aims to position itself as a leader in the three business areas of digital risk detection, AI security, and DX promotion, and to achieve high growth in the combined JPY 4-5 trillion market, leveraging M&A as well. Eltes' business model is to provide risk monitoring and consulting services to corporations and local governments, promote DX in the security and safety industry using AI and IoT, and promote a wide range of initiatives in the digital government domain. Eltes is expected to address digital risks by leveraging cutting-edge technologies and creating innovations to achieve high growth and profitability in the digital risk business in earnest. As a result, Eltes is expected to ensure financial sustainability and contribute significantly to the sustainability of society.

Potential for 9.6x market capitalization upside with scenario realization

Shareholder value was estimated using the "excess profit method" (see "Reference 2") according to the GCC Management™ framework. As a result, assuming that the concept of the value creation process is implemented and realized, if 10 years of growth value is factored in, shareholder value is JPY 53.3 billion. This is approximately 9.6 times the current market capitalization.



For more information on the "Conceptual Design" and "Implementation Design" and the evaluation system, please refer to Reference 1. For those new to JPR reports at the end of this document.

Performance Trends	Sales (JPY 1 mil.)	YoY %	Operating income (JPY 1 mil.)	YoY %	Ordinary income (JPY 1 mil.)	YoY %	net income (JPY 1 mil.)	YoY %	EPS (JPY)	Stock price	
										High price (JPY)	Low price (JPY)
Results for FY 2 2020	1,963	18.6%	186	378.7%	174	431.5%	86	nm	16.80	2,517	1,415
Results for FY 2 2021	1,989	1.3%	-333	nm	-357	nm	-529	nm	-102.00	1,987	1,024
Results for FY 2 2022	2,682	34.8%	80	nm	94	nm	127	nm	24.46	1,444	717
Results for FY 2 2022 3Q	1,899	43.7%	-37	nm	-17	nm	52	nm	10.07	1,410	756
Results for FY 2 2023 3Q	3,230	70.0%	94	nm	35	nm	-1	nm	-0.20	1,141	753
Plans for FY 2 2023	4,500	67.8%	200	150.0%	180	91.5%	80	nm	15.31	-	-

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1. Investment Summary

Shareholder value analysis

Maximum upside to market capitalization estimated at 9.6x

Estimation using the excess profit method

Maximum upside of 9.6x depending on realization of growth scenario

Looking ahead to the next 10 years for Eltes, high growth will be in full swing as a leader in the fight against digital risks. JPR estimated shareholder value using the "excess profit method" (see "Appendix 2") based on the GCC Management™ framework, taking into account the future prospects regarding Eltes's business development. The following chart visualizes the framework of the qualitative and quantitative story and the results of the estimation. The assumptions are explained on the next page and beyond.

Shareholder Value Analysis (Unit: JPY 100 million)

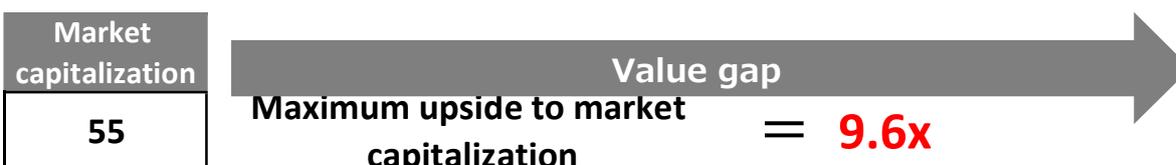
Qualitative Story Outline

Growth: Expansion of high-growth opportunities gains momentum as digital risks are battled

Connection: Security-integrated DX is now getting into full swing in enterprises and municipalities

Confidence: Financial stability and social sustainability contributions are in full swing

Quantitative Story Outline



Shareholder value reflecting a 10-year growth scenario to the maximum extent possible¹

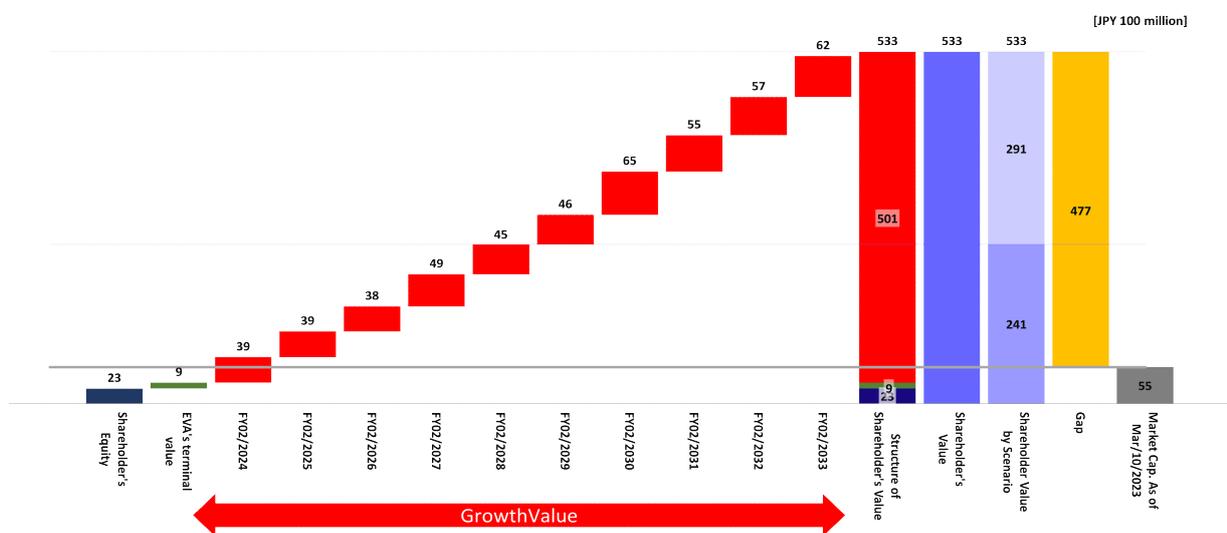
Shareholders' Equity 23 + Excess profit 9 + Growth value 501 = **533**

Shareholders' Equity	Excess profit	Growth value
23	9	501

Source: JPR

1: Fractions do not match due to rounding.

Shareholder Value Structure and Value Gap Analysis Using the Excess Profit Method



Source: JPR

Shareholder Value Structure and Value Gap Analysis Using the Excess Profit Method (details)

[¥100mn]	Current Year 2023.02	1 year later 2024.02	2 years later 2025.02	3 years later 2026.02	4 years later 2027.02	5 years later 2028.02	6 years later 2029.02	7 years later 2030.02	8 years later 2031.02	9 years later 2032.02	10 years later 2033.02
Sales	45	70	97	133	184	233	294	372	428	492	566
Operating income	2	7	12	17	24	32	40	52	62	73	87
Operating margin	4.4%	9.4%	12.0%	12.7%	13.2%	13.6%	13.5%	13.8%	14.4%	14.9%	15.3%
Sales growth rate	67.7%	55.6%	38.0%	38.0%	38.0%	26.5%	26.5%	26.5%	15.0%	15.0%	15.0%
NOPAT margin	3.1%	6.5%	8.3%	8.8%	9.1%	9.4%	9.3%	9.6%	10.0%	10.3%	10.6%
Invested capital turnover ratio	26.2%	26.2%	26.2%	26.2%	26.2%	26.2%	26.2%	26.2%	26.2%	26.2%	26.2%
WACC	6.6734%	6.6734%	6.6734%	6.6734%	6.6734%	6.6734%	6.6734%	6.6734%	6.6734%	6.6734%	6.6734%
ROIC = NOPAT margin ÷ invested capital net sales ratio	11.7%	24.9%	31.6%	33.5%	34.9%	35.8%	35.6%	36.5%	38.1%	39.3%	40.3%
ROIC / WACC (value created with the original hand of 1)	¥1.8	¥3.7	¥4.7	¥5.0	¥5.2	¥5.4	¥5.3	¥5.5	¥5.7	¥5.9	¥6.0
NOPAT	1.38	4.57	8.00	11.71	16.82	21.83	27.43	35.65	42.74	50.71	59.85
Invested capital × WACC	0.79	1.22	1.69	2.33	3.22	4.07	5.15	6.51	7.49	8.61	9.90
EVA	0.60	3.35	6.3109	9.38	13.60	17.77	22.29	29.14	35.25	42.10	49.95
EVA = NOPAT - invested capital × WACC	0.60	3.35	6.31	9.38	13.60	17.77	22.29	29.14	35.25	42.10	49.95
Value created in each year	9	41	44	46	63	62	68	103	92	103	118
Discount Rate	100%	94%	88%	82%	77%	72%	68%	64%	60%	56%	52%
Present value of EVA	8.933	39	39	38	49	45	46	65	55	57	62
Invested capital ① Origin	12										
Over profit value (Permanent value of EVA of this term) ②	9										
Growth value (Present value of increase in EVA) ③											
Non-business asset value ④	10										
Corporate value = ① + ② + ③ + ④	531										
Interest-bearing debt, etc.	1										
Shareholder value	533										

Source: JPR

*For NOPAT, since it is difficult to estimate the corporate tax rate, a conservative effective corporate tax rate of 30.9% is applied.

Three qualitative and quantitative information assumptions set for estimating shareholder value*1 (Unit: JPY 100 million)

Growth: Expansion of high-growth opportunities gains momentum as digital risks are battled

Values and Worldviews	Value provided and Growth Potential	Sales				
Continue to fight against digital risks*2	JPY 4-5 trillion market for high growth	CAGR 28.8% expected				
They recognize that dealing with digital risks created by the backlash of technological development is an important social issue. To solve the issues, they will "continue to fight against digital risks" and contribute to the realization of a healthy digital society. They will leverage their strengths as pioneers in digital risk countermeasures to become (1) the No. 1 company in the digital risk domain, (2) a company that transforms the security industry through AI security, and (3) a leading company in government and corporate DX promotion.	Targeting a market of JPY 4-5 trillion in total, as a company with (1) to (3), they provide (1) digital risk detection, (2) digital policing, and (3) support for building a smart city/digital company as the value they offer to address digital risks. Eltes aim to achieve an accelerated growth cycle with their mid-term plan, "The Road To 2024," as the first phase, and a 3-year x 3-year mid-term plan for the next 9 years.	<table border="1"> <tr> <td>2023.2</td> <td>2033.2</td> </tr> <tr> <td>45</td> <td>566</td> </tr> </table> <p>Assumes 15% internal growth rate; acquires a company with 10-20% of its sales each year between FY02/2024 and FY02/2029.</p>	2023.2	2033.2	45	566
2023.2	2033.2					
45	566					
		Growth value				
		501				

Connection: Security-integrated DX is in full swing in enterprises and municipalities

Strategy	Business Model	ROIC				
Expand into areas with high growth potential	Providing diverse services to corporations and municipalities	Expected to improve by 29 points				
Eltes will transform its business structure and establish a pioneering position by moving into the DX promotion area, where they have an advantage in the fight against digital risks. In the digital risk business, Eltes will evolve and diversify their services to establish their No. 1 company positioning, and in the AI security business, they will lead the transformation of the security industry, both digitally and physically. In the DX Promotion Project, Eltes will set up a project to promote DX promotion in government/companies from their unique perspective.	(1) provides 24/7 risk monitoring, consulting, and insider threat detection on a monthly basis. (2) will promote DX in the security and guard industry using AI and IoT, and also operate a real security business. (3) will promote a wide range of initiatives in the digital government domain and promote DX for local governments and companies through the digital PFI concept.	<table border="1"> <tr> <td>2023.2</td> <td>2033.2</td> </tr> <tr> <td>11.7 %</td> <td>40.3 %</td> </tr> </table> <p>Significant expansion due to scale effects. Assumes acquisitions can be acquired at EBITDA multiples of recent acquisitions.</p>	2023.2	2033.2	11.7 %	40.3 %
2023.2	2033.2					
11.7 %	40.3 %					
		Excess profit				
		9				

Confidence: Financial stability and social sustainability contributions are in full swing

Financial Sustainability	Contribution to Social Sustainability	WACC		
Establishing a Stable Foundation in the Digital Risk Area	Significant contribution in mitigating digital risks	Maintenance of the status quo		
Despite the uncertainties caused by the COVID-19 pandemic and the situation in Ukraine, society as a whole is becoming increasingly digitalized, and the Digital Risk business, Eltes' main business, is showing high growth and profitability with an increase in the number of KPI clients and insider threat detection IDs. If the Growth/Connection story is realized, Eltes could become an established leader with a high-profile brand in the digital risk space.	Eltes believes that the only way to continue to fight digital risks is to use cutting-edge technology and continue to generate innovation, and contributes to the sustainable development of society by mitigating digital risks.	<table border="1"> <tr> <td>7</td> <td>%</td> </tr> </table> <p>Conservatively maintain current estimates</p>	7	%
7	%			
		Shareholders' Equity		
		23		

*1Compiled by JPR based on its own projections of post-company plan estimates based on company hearings. *2Defined by Eltes as "a new risk that is created one after another by the repercussions of technological development."

2. Overview

Company overview

Company Name	Eltes.Co.,Ltd
Establishment	April 28, 2004
Representative	Takahiro Sugawara
Head Office Location	Kasumigaseki Bld. 6F, 3-2-5, Kasumigaseki, Chiyoda-ku, Tokyo
Capital	JPY 1,217 million
Number of Employees	273 (As of February 28, 2023)
Fiscal Year End	February
Business	Provide solutions based on big data analysis specializing in risk detection
Date of Listing	November 29, 2016
Stock Exchange Listing	Tokyo Stock Change Growth Market [Securities code: 3967]

Source: Compiled by JPR based on company data

Major Consolidated Subsidiaries and Group Companies (Unit: JPY million)

Business system	Company name	Business overview	Capital stock	Investment ratio
Digital Risk Business	FAI INC.	Comprehensive Internet consulting	3	100%
Digital Risk Business	Actor Inc.	DX Promotion Business	5	100%
Digital Risk Business	Eltes Capital Co., Ltd.	Venture capital business targeting digital risk fields such as security and intelligence	10	100%
AI Security Business	AIK Co.,Ltd.	Development and provision of solutions related to security DX, security services	114	94.6%
AI Security Business	And Security Co.,Ltd.	Provision of security services	10	100%(AIK Co.,Ltd.)
AI Security Business	ISA Co.,Ltd.	Provision of security services	10	100%(AIK Co.,Ltd.)
AI Security Business	SSS Co.,Ltd.	Provision of security services	0.5	100%(AIK Co.,Ltd.)
DX Promotion Business	JAPANDX Inc.	Development and provision of DX-enabled solutions and e-Government related solutions	20	100%
DX Promotion Business	GloLing Co.,Ltd.	System development support and provision of total IT solutions	5	100%
DX Promotion Business	Metown Co., Ltd.	Provision of property management services for residential real estate	1	100%(JAPANDX Inc.)

Source: Compiled by JPR based on company data

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Major M&A

Year	Month	Company	Purpose
2019	9	FAI INC.	By combining FAI's expertise in providing services in the market for small and midsize companies with the risk data and AI-based system infrastructure owned by the Eltes Group, they aim to increase its presence in the digital risk market.
2020	11	Asahi Safety Services, Inc. (currently And Security Co.,Ltd.)	Eltes has established a mutually complementary relationship with traditional security companies sympathetic to the creation of the security industry, and is promoting full-scale entry into the security DX domain.
2022	3	ISA Co.,Ltd and its affiliated company SSS Co.,Ltd	To enhance the quality and quantity of digital security services for the new era
2022	3	GloLing Co.,Ltd.	Aiming for synergy effects by expanding the number of engineers in the group and bringing various solution development in-house.
2022	4	Actor Inc.	Eltes aims to accelerate its entry into the digital marketing domain and actively expand into regional banks by acquiring Actor's know-how in services for financial institutions, as well as to contribute to the revitalization of regional finance and economies in the Smart City project that the group is planning to build.
2022	7	Bunds Guarantee Co.(currently METAWN Co.,Ltd), Property Management Business of Bunds City, Inc.	By incorporating companies with expertise in housing and real estate, they will streamline the activities related to housing and real estate, which are people's living spaces, through DX, and provide comprehensive services, including management of peripheral risks.

Source: Compiled by JPR based on company data.

Major Business and Capital Alliances

Year	Month	Company	Purpose
2020	12	Strobo Co.,Ltd.	Jointly develop and deploy a platform for security companies to support the launch of low-cost home security businesses utilizing IoT, and promote DX in the home security and security industry.
2021	10	Cacco Inc.	Aim to provide a wide range of security services for online transactions by leveraging the strengths of the SaaS-type algorithm provision business that Kakko has developed.
2022	4	LAC Co., Ltd.	Aim to increase the value it provides to companies by combining LAC's internal fraud monitoring service with Eltes' security monitoring service. In addition, expand the scope of response by combining Eltes' social risk countermeasures with incident response services provided by LAC.
2022	12	NCXX GROUP INC.	Promote the implementation of security services related to the token economy by utilizing NCXX Group's expertise in blockchain technology and token trading.

Source: Compiled by JPR based on company data.

3. Growth Story and Assessment through the GCC Management™ Framework

Growth

Concept ~ Expectations for future of results based on implementation design**Conceptual design: Become a shield against digital risks****Conceptual Design****Progress: 70%.**

Eltes aims to realize an affluent society free of digital risks with the philosophy of "continuing to fight against digital risks" in order to respond to the diverse new risks arising from the accelerated digitalization of society. At the core of this is (1) a vast amount of digital risk data. As a pioneer in digital risk countermeasures, Eltes has been collecting and accumulating data on digital risks for many years. (2) Strong analysis and solution capabilities for digital risks. Eltes is able to generate innovations to digital risk countermeasures on the strength of its expertise in risk analysis. The market for digital risk services, which is the target of Eltes' core business, has seen an increase in the number of companies and individuals who routinely disseminate information via the Web. In FY02/2021, the digital risk services market size was JPY 7.74 billion, expanding 15.0% from the previous year. Against the backdrop of rising risks and the diversification of services to respond to them, the market is expected to grow to JPY 13.92 billion in FY02/2024.

Innovations in response to social change**Maintenance progress: 50%****Implementation design: Innovations in response to social change**

The core business will be (1) the digital risk business, which will be the core business, and (2) the AI security business and (3) the DX promotion business, both of which will grow into new earnings platforms. Under "The Road To 2024," Eltes' medium-term management plan for FY02/2022-FY02/2024, Eltes is working to further expand its business structure and take on the challenge of entering new fields, utilizing corporate alliances and other methods based on the three business segments that have been redefined. In this way, along with innovations in its business structure, Eltes is constantly evolving along with new technologies toward a prosperous society without digital risks, as it continues to realize its corporate LOGO, "to be a shield that protects against digital risks."

Implementation Design**Progress: 30%.****Results: Mainstay Businesses Revealed. Expect to expand DX promotion business in the future.**

In its core business, (1) Digital Risk Business, Eltes is continuously developing new products by leveraging its expertise in existing products in order to establish its positioning as the No. 1 company. Currently, Eltes has a track record of more than 1,000 installations at companies ranging from small and medium enterprises to major corporations, regardless of industry. (2) In the AI security business, the number of registered users of its main service, "AIK Order," has surpassed 20,000. In addition, the number of cases in which projects are concluded through matching with clients in the construction and retail industries is also increasing. (iii) The DX Promotion Business provides support for the digitization of government services for residents and dispatch services for engineers and other DX personnel, and is expected to expand in the future.

Connection

Significant progress in conceptual design

Progress: 80%.

Expectations for materialization of (2) in particular

Progress: 50%.

Reflection of results

Progress: 30%.

Expectations for system reforms to achieve pure straight

Conceptual Design: The number one company in the digital risk space

In order to become the number one company in the digital risk domain, it is important to (1) develop new products, strengthen alliances, and conduct M&A, and (2) aggressively enter new areas and build a solid position in the industry.

As the influence of digital information increases and the influence of digital reputation expands and diversifies, it is necessary to collaborate with various companies and continuously develop new products to meet the diverse needs of companies considering IPOs and risk countermeasures for existing content. In addition, Eltes is expected to advance into new areas where it can leverage cybersecurity and assume a dominant position in the industry.

Eltes aims to improve profitability by bringing the digital risk business in-house and expanding sales of high unit-price products, and in the medium to long term, aims to achieve 3.5 times sales and JPY 1 billion in EBITDA compared to FY02/2021.

Implementation design:Building a foundation through M&A and partnerships

(1) So far, Eltes has established a pioneering position in the niche market of SNS flame countermeasures. In the first half of FY02/2023, Eltes made a total of four strategic M&As, including GloLing Co.,Ltd., which became a wholly owned subsidiary of Eltes, thereby strengthening its system development and security consulting capabilities. Furthermore, by forming a capital and business alliance with LAC in April 2022, Eltes is building a foundation for "achieving an accelerated growth cycle.

Results: Gap in customer base is being filled and system reforms are expected.

In the area of "social risk countermeasures," Web risk monitoring, including initial response consulting at the time of risk detection, has been driving growth as the main service. From now on, Eltes will focus on insider threat detection services for early detection of trade secrets being taken out. This is expected to grow significantly in the future as needs for this service increase widely from large domestic companies to small and medium-sized enterprises against the backdrop of "work style reform" and the spread of teleworking. While operating a physical security business, Eltes is promoting DX in the security industry by combining AI and IoT to solve its issues. The number of registered corporate security guards for the main service "AIK order" continues to grow, and the PMI Promotion Division is taking the lead in strengthening the sales structure of And Security Co.,Ltd., ISA Co.,Ltd., and SSS Co.,Ltd., which provide security services, and this has resulted in orders for high-margin projects. The DX Promotion Business provides support for the digitization of government resident services and dispatch services for engineers and other DX personnel. Eltes is making steady progress in this business, as evidenced by the selection of Shiwa Town, Iwate Prefecture, as a contractor for website renewal in September 2022, and the conclusion of a comprehensive collaboration agreement with Tawaramoto Town, Nara Prefecture, in November.

Confidence

Demonstrate high growth and profitability

**Business expansion initiatives
Realizing the digital society**

Resolving the diverse digital risks associated with the acceleration of social digital

Realize a society where technology develops in a healthy way

High contribution to society and expected to stabilize finances

Financial Stability: Stability Assurance Phase

Profitability is further enhanced through the realization of the Growth/Connection story.

While the future outlook is uncertain due to the COVID-19 pandemic and the situation in Ukraine, society as a whole is accelerating the shift to digitalization in all aspects of business and daily life. Against this backdrop, Eltes' consolidated net sales and operating income have continuously increased, and the number of KPI clients and insider threat detection IDs in its core digital risk business continues to grow, demonstrating high growth and profitability.

If the aforementioned Growth and Connection story is realized, Eltes is expected to further strengthen its profitability and achieve the number one company in the digital risk domain.

Initiatives for business expansion

Toward the realization of a healthy digital society, Eltes has grown its three business segments, which are structured to cover a variety of digital risks through M&A. Mainly, (1) the digital risk business, which realizes the safety of the digital society from all angles. (2) AI Security Business, which realizes safety in the real world and facility DX, along with nationwide expansion of the security business. (3) DX Promotion Business, which realizes and improves the online (digital) society and realizes the offline (real) society.

Social Contribution: Contributing to diverse risk countermeasures centered on digital risk response capabilities

In addition to digital devices and IT tools, social networking services are increasingly being used in business, creating many advantages, but also posing serious risks to corporate credibility. In addition, the promotion of DX has made Eltes an easy target for cyber attacks and increased the possibility of information leaks. It can be said that the digital risks brought about by the acceleration of the digital society are also significant. Against this backdrop, Eltes, which specializes in responding to digital risks, can be said to be contributing to resolving potential corporate risks and solving social issues. Furthermore, if the Growth and the Connection Story is realized, it will be possible to analyze diversifying risk factors, provide services tailored to the needs of customers in various industries, and realize a prosperous digital society in which technology develops in a healthy manner. The only way to continue to fight against digital risks is not merely to respond to digital risks, but to always look ahead, utilize cutting-edge technologies, and continue to create innovations. With this philosophy, Eltes is at the forefront of the fight against digital risk.

4. Summary of Business Results for 3Q FY2/2023

Profit and Loss Summary

Record sales and a significant increase in operating profit

Highest sales ever recorded

Significant growth in both sales and operating income

Aiming to Achieve More Diverse and Accurate Risk Analysis

Profit and Loss Summary

Corporate Results

Sales

Despite a one-time impact from M&A expenses (JPY 72,250 thousand), the growth of existing businesses and the promotion of PMI among group companies resulted in a record-high JPY 3,230,017 thousand (+70.0% YoY) in the cumulative Q3. Operating profit also increased significantly by JPY 132,462 thousand YoY.

Profit and Loss

Sales were JPY 3,230,017 thousand (+70.0% YoY), EBITDA was JPY 226,311 thousand (+34.2% YoY), operating profit was JPY 94,887 thousand (vs. an operating loss of JPY 37,574 thousand in the same period of the previous year), ordinary profit was JPY 35,698 thousand (vs. an ordinary loss of JPY 17,282 thousand in the same period of the previous year), and net loss attributable to owners of the parent was JPY 1,167 thousand (vs. JPY 52,771 thousand of net profit attributable to owners of the parent in the same period of the previous year).

Digital Risk Business

Sales and profit/loss

The efforts of the Target Sales Team, which has been strengthened since 1H, were successful, and the team received a number of large PoC projects. In addition, the development of applications for social risk products led to an increase in orders for reputation measures for companies considering IPOs and support for risk monitoring due to the stricter Regulation of Unjustifiable Premiums and Misleading Representations Law. With regard to insider threat detection services, Eltes began operating a partner sales system involving eight companies, including INTEC, CTC System Management (a subsidiary of ITOCHU Techno-Solutions), TechVan, and MARUBENI INFORMATION SYSTEMS. As a result of the above, sales in the digital risk business for the period under review totaled JPY 1,704,675 thousand (+ 25.1% YoY), with segment profit of JPY 624,524 thousand (+ 38.2% YoY).

Future Initiatives.

- Formal introduction of PoC projects (contribution to sales in the next fiscal year)
- Addition of natural language processing functionality to the insider threat detection service, which will lead to detection of the risk of trade secrets being brought into the company
- Surely capture the demand for countermeasures against the risk of frequent pranks by a part-time worker.

Significant Increase in Sales and Operating Profit, Successful Turnaround of Segment Profit

- Strengthening the sales structure of security services
- Further development of "AIK order"

M&A led to sales growth, but operating profit declined

Initiatives in line with government policies

AI Security Business

Sales and Profit/Loss

AIK Co.,Ltd.'s main service, "AIK order," has expanded in terms of the number of registrations from security companies by area, growing to a service in which about 3% of all security guards in Japan are registered. In addition, an increase in the number of cases of project signings through matching with clients in the construction and retail sectors and orders for high-margin projects by strengthening the sales structure of And Security Co.,Ltd., ISA Co.,Ltd., and SSS Co.,Ltd., which provide security services, resulted in a significant increase in net sales and operating income, and the segment operating income turned profitable during the third quarter of the current fiscal year.

Future Initiatives

- Promote a strong and reproducible sales structure to increase sales of security services.
- Strengthen the customer success system of "AIK order" and promote registration of security companies in all 47 prefectures.
- Expand the "AIK order" system horizontally to other industries.

DX Promotion Business

Sales and Profit/Loss

Eltes promoted DX support for administrative services, including the selection of Shiwa-cho, Iwate, as a contractor for website renewal and the conclusion of a comprehensive collaboration agreement with Tawaramoto Town, Nara. In addition, Metown Co., Ltd. was made a consolidated subsidiary, and Eltes recorded sales and operating income as planned. GloLing Co.,Ltd.'s efforts to strengthen its training system for engineers and to enhance its recruitment efforts were successful, resulting in the acquisition of high-unit-price upstream projects. As a result of the above, sales in the DX Promotion Business increased significantly to JPY 577,590 thousand (+7978.2% YoY), but the segment loss was JPY 100,803 thousand (JPY 57,085 thousand segment loss in the same period of the previous year) due to various expenses including M&A of Metown Co., Ltd .

Future Initiatives

- Acceleration of concrete efforts toward the Metacity concept and implementation of PMI for Metown
- Further enhancement of super-application functionality to link with the My Number
- Plans to release super apps in Nobeoka City, Miyazaki Prefecture, and one municipality in Shikoku in the fourth quarter.

Appendix: Details of the financial model

Detailed financial model of actual results, company plan/JPR projection, and 10-year projection

FY	Company (Unit: JPY million)	Company Plans JPR Forecast										
		JPR Forecast	JPR Forecast	JPR Forecast	JPR Forecast	JPR Forecast	JPR Forecast	JPR Forecast	JPR Forecast	JPR Forecast	JPR Forecast	
		2023.02	2024.02	2025.02	2026.02	2027.02	2028.02	2029.02	2030.02	2031.02	2032.02	2033.02
PL	Sales	4,500	7,000	9,660	13,331	18,397	23,272	29,439	37,240	42,826	49,250	56,637
	COGS	2,563	3,987	5,501	7,592	10,477	13,253	16,766	21,208	24,390	28,048	32,255
	SGA	1,737	2,353	3,001	4,045	5,487	6,860	8,705	10,875	12,255	13,866	15,725
	EBITDA	350	1,000	1,594	2,266	3,127	3,956	5,005	6,331	7,280	8,372	9,628
	Total depreciation and amortization	150	339	437	572	695	798	1,037	1,175	1,099	1,037	971
	OP	200	661	1,157	1,694	2,433	3,158	3,968	5,156	6,181	7,335	8,657
	Interest rate	27	39	35	35	35	37	61	74	59	57	57
	Other non-OP	7	0	0	0	0	0	0	0	0	0	0
	CP	180	622	1,122	1,660	2,398	3,121	3,906	5,082	6,123	7,278	8,600
	Extraordinary Profit/loss	24	0	0	0	0	0	0	0	0	0	0
	NP before taxes and minority interests	204	622	1,122	1,660	2,398	3,121	3,906	5,082	6,123	7,278	8,600
	Tax	124	192	347	513	741	964	1,207	1,570	1,892	2,249	2,657
	NP	80	430	776	1,147	1,657	2,157	2,699	3,511	4,231	5,029	5,943
	Number of shares issued and outstanding at the beginning of the period (thousand shares)	5,226	6,051	7,006	7,006	7,006	7,006	7,006	7,006	7,006	7,006	7,006
	Number of shares issued (thousand shares)	825	955	0	0	0	0	0	0	0	0	0
	Number of shares issued and outstanding at the end of the period (thousand shares)	6,051	7,006	7,006	7,006	7,006	7,006	7,006	7,006	7,006	7,006	7,006
	EPS(JPY)	13.2	61.3	110.7	163.7	236.5	307.8	385.3	501.2	603.9	717.8	848.2
Dividend	0	0	0	0	0	647	1,080	2,107	2,962	5,029	5,943	
Retained Earning	80	430	776	1,147	1,657	1,510	1,620	1,405	1,269	0	0	
BS	Operating cash	875	1,208	1,666	2,300	2,909	3,680	4,655	5,353	6,156	7,080	7,080
	Excess cash	965	2,405	1,513	328	353	0	0	0	0	0	0
	Working Capital	849	1,109	1,530	2,112	2,671	3,379	4,275	4,916	5,653	6,501	6,501
	Short-term investment securities	0	0	0	0	0	0	0	0	0	0	0
	Tangible Fixed Assets	39	73	101	140	177	224	283	326	375	431	431
	Goodwill	2,591	3,233	4,152	5,452	6,091	6,979	10,068	9,061	8,155	7,340	6,606
	Software	32	44	61	84	106	134	169	194	224	257	257
	Investment securities	281	281	281	281	281	281	281	281	281	281	281
	Other assets	315	261	360	497	629	796	1,006	1,157	1,331	1,531	1,531
	Total Assets	5,947	8,614	9,666	11,193	13,217	15,472	20,738	21,289	22,175	23,420	22,687
	NIBCLs	569	726	1,002	1,383	1,750	2,214	2,800	3,220	3,703	4,259	4,259
	ST debt	614	0	0	0	0	282	3,341	2,068	1,202	1,892	1,158
	LT debt	2,303	2,303	2,303	2,303	2,303	2,303	2,303	2,303	2,303	2,303	2,303
	Other long-term liabilities	180	180	180	180	180	180	180	180	180	180	180
	Paid Capital	2,408	5,101	5,101	5,101	5,101	5,101	5,101	5,101	5,101	5,101	5,101
	Retained Earnings	▲ 126	303	1,079	2,226	3,883	5,393	7,012	8,417	9,686	9,686	9,686
	Debt&Equity	5,947	8,614	9,666	11,193	13,217	15,472	20,738	21,289	22,175	23,420	22,687
CF	Operating cash	▲ 313	▲ 333	▲ 459	▲ 633	▲ 609	▲ 771	▲ 975	▲ 698	▲ 803	▲ 923	0
	Working Capital	▲ 333	▲ 260	▲ 421	▲ 581	▲ 560	▲ 708	▲ 895	▲ 641	▲ 737	▲ 848	0
	NIBCLs	230	158	276	381	367	464	587	420	483	555	0
	Gross Investment	▲ 16	▲ 52	▲ 55	▲ 76	▲ 87	▲ 109	▲ 139	▲ 138	▲ 158	▲ 182	▲ 134
	Depr	11	18	27	38	49	63	79	95	109	126	134
	Software Investment	4	▲ 27	▲ 38	▲ 52	▲ 60	▲ 76	▲ 96	▲ 98	▲ 113	▲ 130	▲ 103
	Software amortization	17	15	21	29	38	48	61	73	84	96	103
	Goodwill investment	▲ 2,483	▲ 948	▲ 1,308	▲ 1,805	▲ 1,246	▲ 1,576	▲ 3,987	0	0	0	0
	Amortization of goodwill	122	307	389	506	608	688	897	1,007	906	816	734
	Short-term marketable securities	0	0	0	0	0	0	0	0	0	0	0
	Investment securities	▲ 32	0	0	0	0	0	0	0	0	0	0
	Other assets	▲ 193	54	▲ 99	▲ 137	▲ 132	▲ 167	▲ 211	▲ 151	▲ 174	▲ 200	0
	Retained Earnings	80	430	776	1,147	1,657	1,510	1,620	1,405	1,269	0	0
	CF from operation	▲ 2,906	▲ 639	▲ 892	▲ 1,185	25	▲ 635	▲ 3,060	1,273	866	▲ 690	734
	ST debt	520	▲ 614	0	0	0	282	3,060	▲ 1,273	▲ 866	690	▲ 734
	LT debt	1,665	0	0	0	0	0	0	0	0	0	0
	Other long-term liabilities	180	0	0	0	0	0	0	0	0	0	0
Equity financing	801	2,693	0	0	0	0	0	0	0	0	0	
CF from finance	3,166	2,080	0	0	0	282	3,060	▲ 1,273	▲ 866	690	▲ 734	
Increase in Excess Cash	261	1,440	▲ 892	▲ 1,185	25	▲ 353	0	▲ 0	▲ 0	0	▲ 0	
Increase in Excess CashBS	261	1,440	▲ 892	▲ 1,185	25	▲ 353	0	0	0	0	0	

Source: JPR

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Tokyo Stock Exchange Growth Market Eltes Co.,Ltd. [3967]Issued date:March 30, 2023

FY	(Unit: JPY million)	Company Plans										
		JPR Forecast	JPR Forecast	JPR Forecast	JPR Forecast	JPR Forecast	JPR Forecast	JPR Forecast	JPR Forecast	JPR Forecast	JPR Forecast	JPR Forecast
		2023.02	2024.02	2025.02	2026.02	2027.02	2028.02	2029.02	2030.02	2031.02	2032.02	2033.02
KPI	Ratio to net sales of invested capital at the beginning of the period	26.2%	59.0%	53.8%	51.5%	50.0%	46.5%	44.1%	47.4%	41.5%	36.9%	33.3%
	Invested capital at the beginning of the period	1,179	4,132	5,201	6,869	9,201	10,833	12,977	17,657	17,788	18,191	18,881
	Sales growth	67.8%	55.6%	38.0%	38.0%	38.0%	26.5%	26.5%	26.5%	15.0%	15.0%	15.0%
	NOPAT	138	457	800	1,171	1,681	2,182	2,742	3,563	4,271	5,069	5,982
	ROIC	11.7%	11.0%	15.4%	17.0%	18.3%	20.1%	21.1%	20.2%	24.0%	27.9%	31.7%
	Working Capital DOH	42	42	42	42	42	42	42	42	42	42	42
	COGS/Sales	57%	57%	57%	57%	57%	57%	57%	57%	57%	57%	57%
	NIBCLs DOH	27	30	27	27	27	27	27	27	27	27	27
	CASH required	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
	ST interest rate	1.48%	1.48%	1.48%	1.48%	1.48%	1.48%	1.48%	1.48%	1.48%	1.48%	1.48%
	DT interest rate	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
	Tax rate	30.9%	30.9%	30.9%	30.9%	30.9%	30.9%	30.9%	30.9%	30.9%	30.9%	30.9%
	Pay out ratio	0.0%	0.0%	0.0%	0.0%	0.0%	30.0%	40.0%	60.0%	70.0%	100.0%	100.0%
	Gross DE Ratio	127.9%	42.6%	37.3%	31.4%	25.6%	24.6%	46.6%	32.3%	23.7%	28.4%	23.4%
	Net DE Ratio	47.2%	-24.2%	-14.2%	-4.4%	-10.7%	-10.4%	8.2%	-7.3%	-17.9%	-19.5%	-24.5%
	Depreciation rate of property, plant and Amortization rate of goodwill	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%
	Depreciation ratio of software	33.3%	33.3%	33.3%	33.3%	33.3%	33.3%	33.3%	33.3%	33.3%	33.3%	33.3%
	WACC	6.7%	6.7%	6.7%	6.7%	6.7%	6.7%	6.7%	6.7%	6.7%	6.7%	6.7%
	ROIC-WACC	5.0%	4.4%	8.7%	10.4%	11.6%	13.5%	14.4%	13.5%	17.3%	21.2%	25.0%
	Excess profit = (ROIC - WACC) x beginning invested capital	59	180	452	711	1,066	1,458	1,874	2,382	3,082	3,852	4,720
	Permanent value of excess profit	888	2,697	6,756	10,641	15,939	21,803	28,028	35,631	46,095	57,615	70,587
	Estimated value of growth value at the end of each year		1,809	4,059	3,884	5,298	5,864	6,224	7,604	10,463	11,521	12,972
	Present Value Factor	94%	88%	82%	77%	72%	68%	64%	60%	56%	52%	49%
Estimated market capitalization of the incorporated growth value by year = Excess profit value + Present value of the growth value at the time of estimation												
	2024.02	4,865	11,668	16,136	22,058	29,166	36,518	44,975	55,384	67,316	79,193	85,375
	2025.02	8,432	14,867	20,225	26,301	33,387	41,352	51,209	61,818	74,107	72,402	85,375
	2026.02	11,631	18,957	24,468	30,522	38,221	47,586	57,643	68,609	60,882	72,402	85,375
	2027.02	15,720	23,200	28,689	35,356	44,455	54,021	64,434	49,149	60,882	72,402	85,375
	2028.02	19,963	27,421	33,523	41,590	50,890	60,812	40,141	49,149	60,882	72,402	85,375
	2029.02	24,185	32,255	39,758	48,024	57,681	32,297	40,141	49,149	60,882	72,402	85,375
	2030.02	29,018	38,489	46,192	54,815	24,923	32,297	40,141	49,149	60,882	72,402	85,375
	2031.02	35,253	44,923	52,983	17,968	24,923	32,297	40,141	49,149	60,882	72,402	85,375
	2032.02	41,687	51,714	12,937	17,968	24,923	32,297	40,141	49,149	60,882	72,402	85,375
	2033.02	48,478	8,101	12,937	17,968	24,923	32,297	40,141	49,149	60,882	72,402	85,375
	Years of growth value factored into stock price	3	3	3	3	3	3	3	3	3	2	1
	Estimated market capitalization	11,631	18,957	24,468	30,522	38,221	47,586	57,643	68,609	60,882	72,402	85,375
	Financing	15.8%	15.8%									
	Pre-financing share price		3,133									
	Financing Stock Price		10.0%									
	Discount											
	Issue price		2,820									
	Number of shares issued (thousands)		955,241									
	Financing amount		2,693									

Source: JPR

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Reference 1. For those new to JPR reports

GCC Management™ Analysis

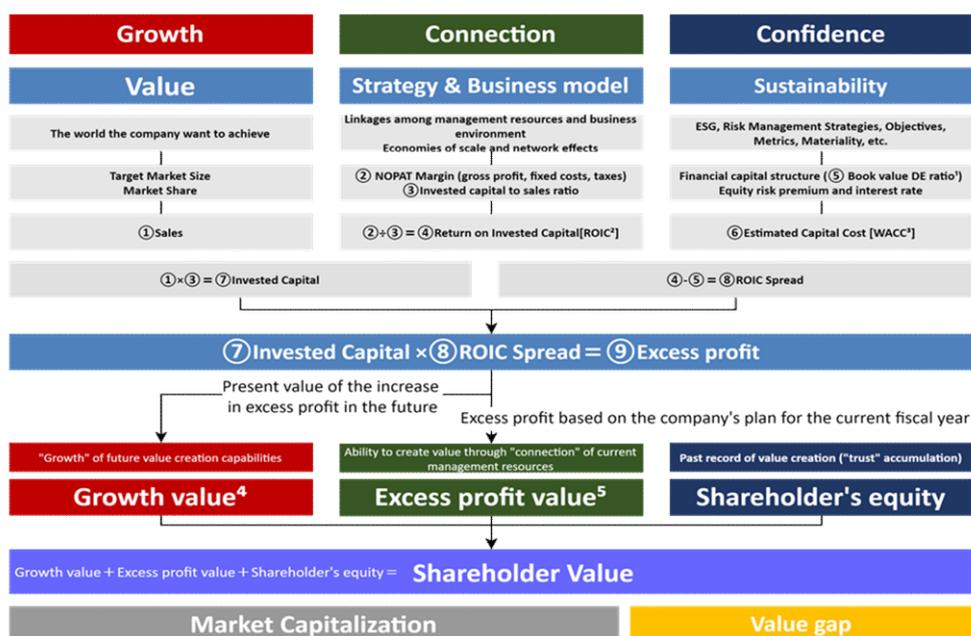
Visualize the value gap between theoretical shareholder value and market capitalization

Analyze by the three elements of Growth, Connection, and Confidence.

A framework for directly linking qualitative stories to shareholder value

This report analyzes corporate value from the perspective of GCC Management™, a framework developed by J-Phoenix Research Corporation ("JPR"), emphasizing three elements: Growth (sales growth), Connection (improved human and business connections = higher return on capital), and Confidence (improved trust = lower business risk). The following chart shows the overall picture of the GCC Management™ framework. The following diagram shows the overall picture. The qualitative future story is linked to financial indicators, which are finally integrated to estimate shareholder value. Using the excess profit method (see "Appendix 3. Basis of Calculation" at the end of this report), JPR estimates the final theoretical shareholder value and visualize the value gap by comparing it with the market capitalization.

GCC Management™ Analysis Framework



[Source: JPR] [Notes] 1. Book value DE ratio: Ratio of interest-bearing debt to shareholders' equity.
 2. ROIC: Return on Invested Capital, See "Appendix 3." at the end of this document. 3. WACC: Weighted Cost of Capital, see "Appendix 3." at the end of this document. 4. growth value = cumulative present value of the perpetuity value of the excess profit increment through year X. The perpetuity value is calculated as the excess profit increment divided by WACC. The present value of that amount is discounted by the WACC. Cumulative future value up to year X as assumed by the growth scenario. 5. Excess profit value = the perpetual value of excess profit based on the current year's company plan. The excess profit value is estimated by dividing the excess profit calculated from the current year's company plan and the invested capital at the beginning of the period by the WACC.

Source: JPR

GCC Management ™ Evaluation System

Evaluate the feasibility of the Growth and Connection story of the value creation process from three perspectives

Evaluation of Growth and Connection

Evaluate the feasibility of qualitative stories from three perspectives

JPR evaluates the feasibility of the value creation process based on GCC analysis from three perspectives: conceptual design, implementation design, and actual performance. "Conceptual design" is defined as "conceptualizing the concept of the value creation process" and "implementation design" is defined as "creating and operating a system to systematize and implement the management resources necessary to realize the concept of the value creation process. Value creation becomes an "achievement" only when "conceptual design" becomes "implementation design. JPR conducts subjective evaluations of "conceptual design," "implementation design," and "performance," which are then rated in an easy-to-understand manner at 90%, 70%, 50%, 30%, and 10%. Specifics are described below.

Conceptual Design," "Implementation Design," and "Performance" Evaluation Framework

% indication	90%	70%	50%	30%	10%
"Conceptual design"	Conceptual design is very logically organized	Conceptual design is approximately logically organized	Conceptual design is about halfway organized	Conceptual design is organized to a certain degree	Conceptual design is organized to a certain degree
"Implementation design"	Conceptual design is almost implemented	Conceptual design is almost implemented	Conceptual design is about half implemented	Conceptual design is implemented to a certain degree	Conceptual design has been implemented, albeit marginally.
"Performance"	Targeted outcomes are observed as actual results almost exactly as intended by the conceptual design	Targeted outcomes are observed as actual results almost exactly as intended by the conceptual design	Targeted outcomes are observed as actual results as intended by the conceptual design about half way through	Targeted outcomes are observed as actual results to a certain degree, as intended by the design	Targeted outcomes are observed as achievements, albeit slight, as intended by the conceptual design

Source: JPR

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Evaluation of Confidence

Evaluation of financial stability and social contribution

Credibility of the value creation process

JPR evaluates the feasibility of the value creation process based on GCC analysis from three perspectives: "Conceptual Design", "Implementation Design", and "Actual Performance." "Conceptual Design" is defined as "conceptualizing the concept of the value creation process" and "Implementation Design" is defined as "creating and operating a system to systematize and implement the management resources necessary to realize the concept of the value creation process." Value creation becomes an "Actual Performance" only when "Conceptual Design" becomes "Implementation Design." JPR conducts subjective evaluations of "Conceptual Design," "Implementation Design," and "Actual Performance," which are then rated in an easy-to-understand manner at 90%, 70%, 50%, 30%, and 10%. Specifics are described below.

"Conceptual Design," "Implementation Design," and "Actual performance" Evaluation Framework

% indication	90%	70%	50%	30%	10%
Financial Stability The evaluation is based on a five-point scale from the viewpoint of sufficient experience in the value creation process, differentiated value creation capabilities that are difficult to imitate, low risk of fluctuations such as economic and seasonal fluctuations due to stockholding, and an optimized capital-liability structure.	Very Highly commendable	Highly commendable	Can be evaluated as a listed company on average	Can be commendable to a certain degree	Partially commendable
Social Contribution The social issues addressed are generally of great importance to society, the path to their solution is not yet clear, and they are tackling a challenging task that requires both the creation of a new concept and the systematic creation of the optimal governance structure for its implementation.	Very Highly commendable	Highly commendable	Can be evaluated as a listed company on average	Can be commendable to a certain degree	Partially commendable

Source: JPR

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Visualization of value gap through 10-year growth scenario analysis

Comparison of increase in shareholder value and market capitalization by year

Visualize how many years of future stories are reflected in the market capitalization

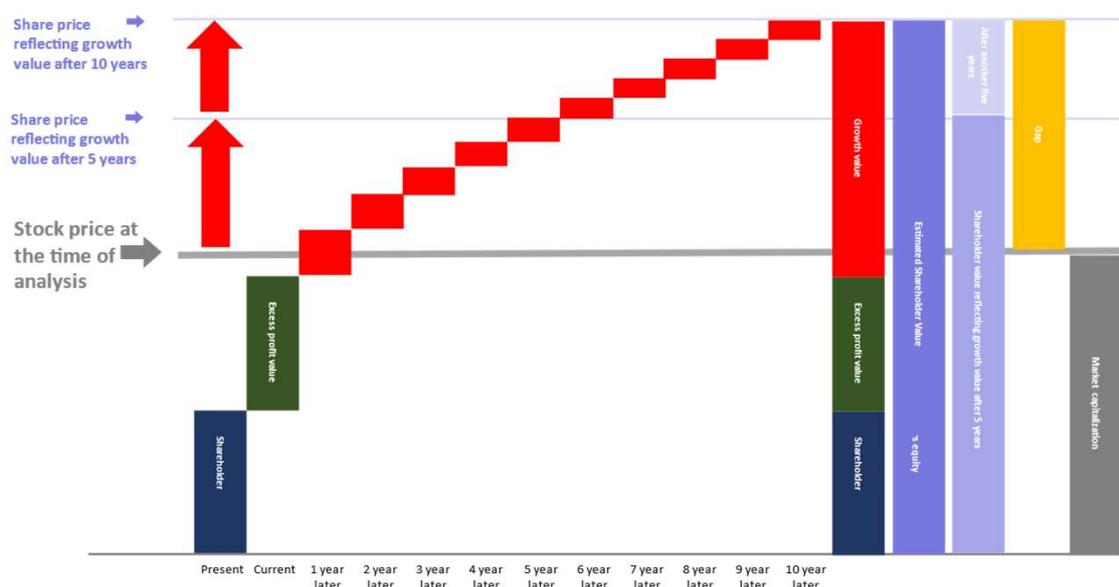
The potential increase in shareholder value generated by a 10-year growth scenario based on the future story is visualized for each year and compared to the market capitalization. This allows us to visualize how many years of the future story are reflected in the market capitalization. 10 years of shareholder value is expected to be reflected in the market capitalization as the expectations for the achievability of the 10-year future story increase. The difference between the market capitalization and the estimated shareholder value reflecting up to 10 years of future story is the estimated upside potential. As investors' expectations of the feasibility of the future story are raised by the specific current performance, the likelihood of the realization of that value gap increases.

Conservative Growth Scenarios and Scenarios Reflecting Change in Future Stories

Visualization of various scenario analysis

This analysis is useful when the firm's strategy undergoes significant change. As shown in the figure below, it is also possible to visualize separately the growth potential under the conservative scenario and the growth potential under the change. Shareholder value without incorporating change represents a conservative amount.

Visualizing the Value Gap



Source: JPR

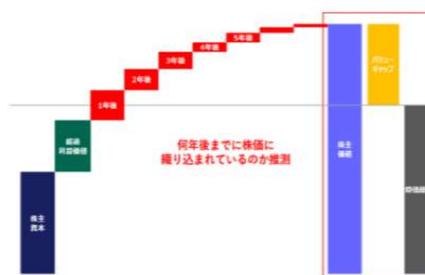
Reference 1. Basis of Calculation

Corporate value estimated by use of ROIC and excess return

Excess return analysis framework

Excess profit or economic value added is globally used as an indicator to estimate corporate value, evidenced by its adoption by Kao Corporation, a Grand Prix winner of the Tokyo Stock Exchange Fifth Corporate Value Improvement Award (FY2016). In the calculation of excess return, corporate value can be broken down into four elements: invested capital, excess return value, growth value, and non-business assets. This facilitates a better understanding of the structure that creates corporate value. A company might be overvalued or undervalued when its market cap is higher or is lower than its theoretical corporate value, respectively. The contribution of each year's corporate value can be visualized in the following figure, wherein shareholders' equity is simply represented as a sum of invested capital and non-business asset, subtracting interest-bearing debts. The figure below allows us to estimate how many years of growth might be incorporated into the stock price.

Breakdown of corporate value using excess return



[source] JPR

Estimated excess return is profit that exceeds investors' return expectations against invested capital. Its present value is "excess return value," while a potentially growing portion of excess return is "growth value." Moreover, assets not used in business are added as non-business asset value in estimating a theoretical corporate value. Theoretically, the estimated corporate value using excess return should be the same as the value estimated using the discount cash flow (DCF) model. This report calculates excess return by using the following figures in a simplified manner.

☑Excess return = NOPAT – Invested capital X WACC

☑Net Operating Profit After Tax (NOPAT) = Operating profit X (1 - Effective tax rate)

☑Invested capital = Total assets – Non-business assets – Current liabilities excluding interest-bearing debt

☑Non-business assets = Cash and deposits exceeding 10% of sales + Short-term investment securities + Investment securities + Deferred gains or losses on hedges + Land revaluation difference + Foreign currency translation adjustments

☑Weighted average cost of capital (WACC) = After-tax interest rate of interest-bearing debt X (D/ (E+D))+Cost of shareholders' equity X (E/D+E)

☑Cost of shareholders' equity=0.5%+5% X β

☑β = Slope of a linear regression line of five-year daily returns of TOPIX and the stock price of the target company

☑E = Market cap at the time of calculation

☑D = Short-term interest-bearing debt + Long-term liabilities + Minority interests in the latest financial statements at the time of calculation

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