

ITbook Holdings Co., Ltd.

Tokyo Stock Exchange Growth Market code:1447 April 7, 2023

4.6x upside potential based on GCC Management™ analysis

Become a reliable partner in regional development through consulting, human resources, DX, and infrastructure development, taking advantage of IT and disaster prevention/mitigation technologies

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 elements of Confidence (improved trust = lower business risk).*

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|---|---|-------------------------|----------------|----------------|---------------|-----------------------|-----------------|-----------------|-------------------|-----------------|-----------------|-----|-----------------------------|------------------|--------------|-------------|---------|--------------|---------|-------------|---------|------------------------------|-------------------|--------------|------------|-----------------------|-------------------|----------------------------|-------|----------------------|-----------|--------------|-------------|---------------------------|-----------|------------|-----------|
| Contribute to regional development by synthesizing our business portfolio | Basic Report | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Transforming into a business portfolio that contributes to local development | Company Profile | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Potential for mainstay stocks related to 10-year growth scenario with a maximum upside of 4.6x | Key Indicators As of April 6, 2023 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <p>ITbook Holdings Co., Ltd. ("ITbookHD") was established in 2018 through the business merger of ITbook Co., Ltd., an IT solutions provider, and Something Holdings Co.,Ltd., a ground improvement company. ITbookHD has been expanding its business by providing construction and IT human resources, related software, and DX-related business through M&A, etc. Based on the strong relationship of trust with local governments built over many years through IT and disaster prevention/mitigation, it is transforming into a reliable partner for local governments in regional development by providing consulting, human resources, DX, and infrastructure improvement. ITbookHD is now transforming itself into a reliable partner for local governments in the area of regional development.</p> <p>ITbookHD has been profitable since its establishment, but has struggled with an operating profit margin of less than 1%. However, ITbookHD has gained a good feel for its one-stop solution, which starts with consulting to local governments and other entities and links this to its own business. ITbookHD aimed to transform its business portfolio from consulting to one that responds to more detailed needs, with IT and disaster prevention/mitigation at its core, which are its forte.</p> <p>With regional development as its main target, ITbookHD has been consolidating and closing loss-making companies, while using M&A to rapidly add businesses such as drones, English conversation, and gyms, which are small as stand-alone businesses but deemed important in the one-stop solution structure.</p> <p>While business synergies have yet to produce results in terms of sales and profit, ITbookHD has steadily built up a track record of cooperation with local governments through various solutions utilizing its business portfolio, and is accumulating the trust of local governments. This accumulation of trust will be a driving factor in ITbookHD's leap forward.</p> <p>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 43.2 billion. This is approximately 4.6 times the current market capitalization.</p> | <p>Written and Edited by J-Phoenix Research Inc. Yosuke Kasiwao</p> <table border="1"> <tr><td>Location of Head Office</td><td>Koto-ku, Tokyo</td></tr> <tr><td>Representative</td><td>Toshimori Mae</td></tr> <tr><td>Date of Establishment</td><td>October 1, 2018</td></tr> <tr><td>Paid-in Capital</td><td>JPY 1,800 million</td></tr> <tr><td>Date of Listing</td><td>October 1, 2018</td></tr> <tr><td>URL</td><td>https://www.itbook-hd.co.jp</td></tr> <tr><td>Type of Business</td><td>Construction</td></tr> </table> <table border="1"> <tr><td>Stock Price</td><td>JPY 381</td></tr> <tr><td>52-week high</td><td>JPY 661</td></tr> <tr><td>52-Week Low</td><td>JPY 336</td></tr> <tr><td>Number of Shares Outstanding</td><td>24,152,701 stocks</td></tr> <tr><td>Trading Unit</td><td>100 stocks</td></tr> <tr><td>Market Capitalization</td><td>JPY 9,202 million</td></tr> <tr><td>Company Projected Dividend</td><td>JPY -</td></tr> <tr><td>Estimated Net Income</td><td>JPY 15.94</td></tr> <tr><td>Forecast PER</td><td>23.90 times</td></tr> <tr><td>Actual BPS (Mar 31, 2022)</td><td>JPY 90.79</td></tr> <tr><td>Actual PBR</td><td>4.2 times</td></tr> </table> | Location of Head Office | Koto-ku, Tokyo | Representative | Toshimori Mae | Date of Establishment | October 1, 2018 | Paid-in Capital | JPY 1,800 million | Date of Listing | October 1, 2018 | URL | https://www.itbook-hd.co.jp | Type of Business | Construction | Stock Price | JPY 381 | 52-week high | JPY 661 | 52-Week Low | JPY 336 | Number of Shares Outstanding | 24,152,701 stocks | Trading Unit | 100 stocks | Market Capitalization | JPY 9,202 million | Company Projected Dividend | JPY - | Estimated Net Income | JPY 15.94 | Forecast PER | 23.90 times | Actual BPS (Mar 31, 2022) | JPY 90.79 | Actual PBR | 4.2 times |
| Location of Head Office | Koto-ku, Tokyo | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Representative | Toshimori Mae | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
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| URL | https://www.itbook-hd.co.jp | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Type of Business | Construction | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
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| 52-Week Low | JPY 336 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Number of Shares Outstanding | 24,152,701 stocks | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Trading Unit | 100 stocks | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Market Capitalization | JPY 9,202 million | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Company Projected Dividend | JPY - | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Estimated Net Income | JPY 15.94 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Forecast PER | 23.90 times | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Actual BPS (Mar 31, 2022) | JPY 90.79 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Actual PBR | 4.2 times | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <p>Max. Upside Potential → ¥1,790 / ¥393 = 4.6x (JPY 100 million)</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

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 3 2020 | 21,225 | 88.3% | 156 | 139.3% | 141 | 133.8% | 83 | returning to profit | 4.20 | 596 | 266 |
| Results for FY 3 2021 | 22,830 | 7.6% | 152 | -2.2% | 196 | 39.9% | -358 | nm | -17.78 | 1,006 | 316 |
| Results for FY 3 2022 | 26,286 | 15.1% | 97 | -36.3% | 15 | -92.1% | -935 | nm | -43.48 | 639 | 349 |
| Results for FY 3 2022 3Q | 18,498 | 14.4% | -365 | nm | -376 | nm | -654 | nm | 0.00 | 543 | 367 |
| Results for FY 3 2023 3Q | 21,809 | 17.9% | -144 | nm | -134 | nm | -535 | nm | 0.00 | 580 | 363 |
| Plans for FY 3 2023 | 28,500 | 8.4% | 650 | 569.9% | 590 | 3687.1% | 370 | returning to profit | 17.19 | - | - |

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1. Investment Summary

Shareholder value analysis

Maximum Upside 4.6x in Market Capitalization Estimated

Estimation using the excess profit method

Maximum upside 4.6x depending on realization of growth scenario

Established through the business merger of ITbook Co., Ltd., an IT solutions provider, and Something Holdings Co., Ltd., a ground improvement company, ITbookHD aims to become a reliable partner in regional development through consulting, human resources, DX, and infrastructure development, taking advantage of IT and disaster prevention/mitigation technologies.

JPR estimated shareholder value using the "excess profit method" (see "Reference 2") based on the GCC Management™ framework, taking into account the future prospects regarding ITbookHD's business development. The following chart visualizes the framework of the qualitative and quantitative stories and the results of the estimation. Assumptions are explained on the following pages.

Shareholder Value Analysis (Unit: JPY 100 million)

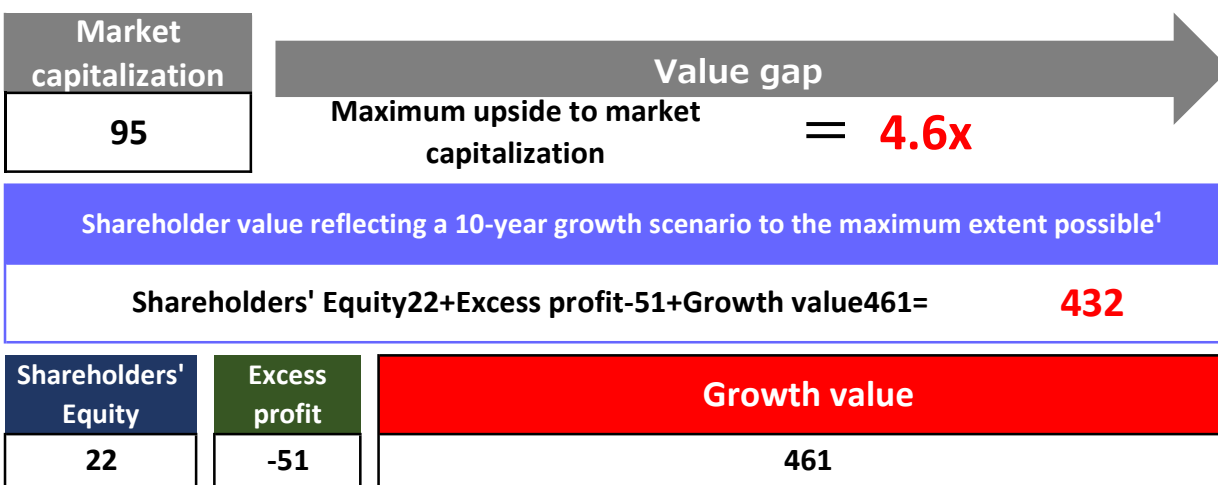
Qualitative Story Outline

Growth: Contribute to regional development by synthesizing its business portfolio

Connection : Toward realizing group synergies to solve social issues

Confidence : Contribution to local development also leads to business stability

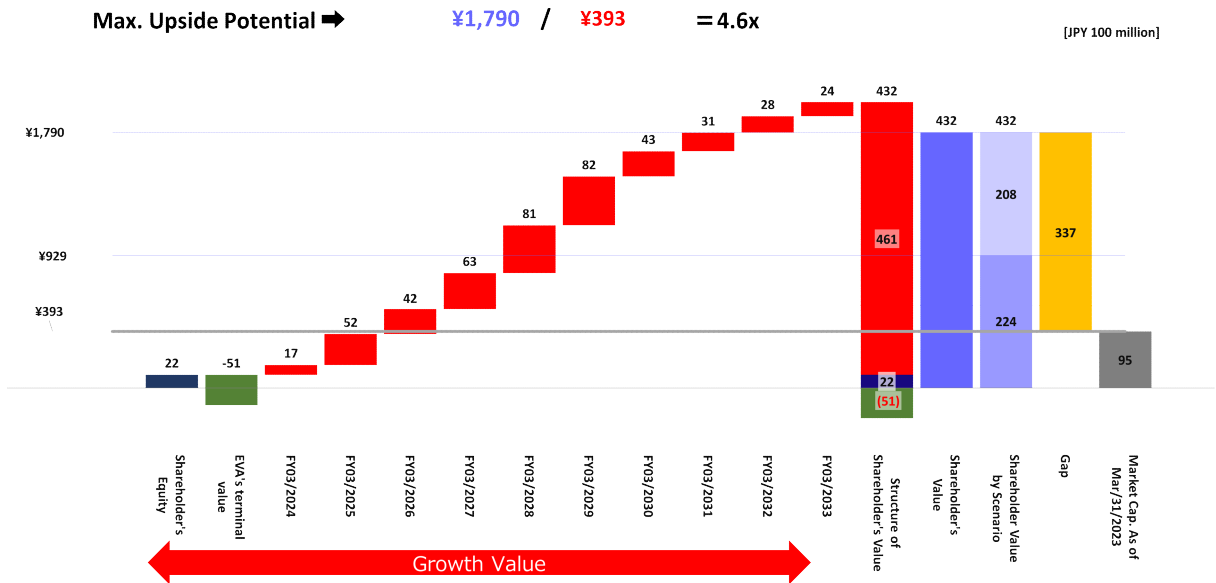
Quantitative Story Outline



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)

| [JPY 100 million] | Current Year | 1 year later | 2 years later | 3 years later | 4 years later | 5 years later | 6 years later | 7 years later | 8 years later | 9 years later | 10 years later |
|---|--------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|
| | 2023.03 | 2024.03 | 2025.03 | 2026.03 | 2027.03 | 2028.03 | 2029.03 | 2030.03 | 2031.03 | 2032.03 | 2033.03 |
| Sales | 285 | 398 | 420 | 510 | 619 | 751 | 864 | 976 | 1,084 | 1,187 | 1,288 |
| Operating income | 6.5 | 10.0 | 17.5 | 25.5 | 37.1 | 52.6 | 69.1 | 78.1 | 86.7 | 94.9 | 103.0 |
| Operating margin | 2.3% | 2.5% | 4.2% | 5.0% | 6.0% | 7.0% | 8.0% | 8.0% | 8.0% | 8.0% | 8.0% |
| Sales growth rate | 8.4% | 39.5% | 5.6% | 21.4% | 21.4% | 21.4% | 15.0% | 13.0% | 11.0% | 9.5% | 8.5% |
| NOPAT margin | 1.6% | 1.7% | 2.9% | 3.5% | 4.1% | 4.8% | 5.5% | 5.5% | 5.5% | 5.5% | 5.5% |
| Invested capital turnover ratio | 41.0% | 33.9% | 36.2% | 35.7% | 35.4% | 35.1% | 35.8% | 34.1% | 33.9% | 33.8% | 33.9% |
| WACC | 6.8% | 6.8% | 6.8% | 6.8% | 6.8% | 6.8% | 6.8% | 6.8% | 6.8% | 6.8% | 6.8% |
| ROIC = NOPAT margin ÷ invested capital net sales ratio | 3.8% | 5.1% | 8.0% | 9.7% | 11.7% | 13.8% | 15.4% | 16.2% | 16.3% | 16.4% | 16.3% |
| ROIC / WACC (value created with the original hand of 1 yen) | ¥0.6 | ¥0.8 | ¥1.2 | ¥1.4 | ¥1.7 | ¥2.0 | ¥2.3 | ¥2.4 | ¥2.4 | ¥2.4 | ¥2.4 |
| NOPAT | 4.49 | 6.91 | 12.10 | 17.63 | 25.68 | 36.36 | 47.79 | 54.01 | 59.95 | 65.64 | 71.22 |
| Invested capital × WACC | 7.96 | 9.17 | 10.34 | 12.40 | 14.91 | 17.97 | 21.07 | 22.67 | 25.03 | 27.29 | 29.73 |
| EVA | -3.47 | -2.26 | 1.7613 | 5.23 | 10.77 | 18.39 | 26.73 | 31.34 | 34.92 | 38.36 | 41.50 |
| EVA = NOPAT - invested capital × WACC | -3.47 | -2.26 | 1.76 | 5.23 | 10.77 | 18.39 | 26.73 | 31.34 | 34.92 | 38.36 | 41.50 |
| Value created in each year | -51 | 17 | 52 | 42 | 63 | 81 | 82 | 43 | 31 | 28 | 24 |
| Discount Rate | 100% | 94% | 88% | 82% | 77% | 72% | 67% | 63% | 59% | 55% | 52% |
| Present value of EVA | | -51 | 17 | 52 | 42 | 63 | 81 | 82 | 43 | 31 | 28 |
| Invested capital ① Origin | | 117 | | | | | | | | | |
| Over profit value (Permanent value of EVA of this term) ② | | -51 | | | | | | | | | |
| Growth value (Present value of increase in EVA) ③ | | | 461 | | | | | | | | |
| Non-business asset value ④ | | 22 | | | | | | | | | |
| Corporate value = ① + ② + ③ + ④ | | 550 | | | | | | | | | |
| Interest-bearing debt, etc. | | -117 | | | | | | | | | |
| Shareholder value | | 432 | | | | | | | | | |

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: Contribute to regional development by synthesizing its business portfolio

| Values and Worldviews | Value provided and Growth Potential | Sales | | | | |
|---|---|--|--------|--------|-----|-------|
| <p>Solving social issues</p> <p>Through its business, ITbookHD is taking on the challenge of solving various social issues such as global environmental problems, natural disasters, energy, resource, and food problems, declining birthrate, aging and declining productive population, depopulation of rural areas, aging infrastructure, and the light and shadow of the information society. Materiality is defined as "disaster prevention and mitigation" and "regional development."</p> | <p>Promoting collaboration with local governments</p> <p>ITbookHD approaches local governments and enterprises with the goal of "regional development" mainly through its consulting business. Issues identified in the upstream consulting business are solved in each business. It has increased its business in response to customer needs, and has built relationships of trust with local governments and established a track record of success in providing solutions for local development.</p> | <p>CAGR 16.0% is expected</p> <table border="1"> <thead> <tr> <th>2023.3</th> <th>2033.3</th> </tr> </thead> <tbody> <tr> <td>285</td> <td>1,288</td> </tr> </tbody> </table> <p>Sales growth expected through collaboration with government and local governments related to local development</p> | 2023.3 | 2033.3 | 285 | 1,288 |
| 2023.3 | 2033.3 | | | | | |
| 285 | 1,288 | | | | | |
| | | <p>Growth value</p> <p>461</p> | | | | |

Connection : Toward realizing group synergies to solve social issues

| Strategy | Business Model | ROIC | | | | |
|---|---|--|--------|--------|-------|--------|
| <p>Selection and concentration on core businesses</p> <p>Although ITbookHD has been profitable since its establishment, its operating margin was less than 1%. As a result, it has shifted its investment focus to its core business, shifting from consulting to one-stop solutions and focusing on regional development. Through this, it aims to extract business synergies from the stand-alone business expansion path.</p> | <p>Aiming to increase sales and profits through business</p> <p>ITbookHD has become more robust by consolidating and closing loss-making companies to focus on core businesses, while using mergers and acquisitions to add businesses that meet customer needs. In addition, it cites measures to improve efficiency and expand sales. If the number and scale of bulk orders increase, it can target cases where profit margins are higher than in stand-alone businesses.</p> | <p>Expected to improve by 12.5 points</p> <table border="1"> <thead> <tr> <th>2023.3</th> <th>2033.3</th> </tr> </thead> <tbody> <tr> <td>3.8 %</td> <td>16.3 %</td> </tr> </tbody> </table> <p>Increase profitability by realizing business synergies. Assumption that no special investment is required and investment will be less than the status quo</p> | 2023.3 | 2033.3 | 3.8 % | 16.3 % |
| 2023.3 | 2033.3 | | | | | |
| 3.8 % | 16.3 % | | | | | |
| | | <p>Excess profit</p> <p>-51</p> | | | | |

Confidence : Contribution to local development also leads to business stability

| Financial Sustainability | + | Contribution to Social Sustainability | = | WACC | | |
|--|---|---|---|--|-------|---|
| <p>Capital increase and business portfolio improvement</p> <p>ITbookHD is expected to significantly improve its profit/loss this fiscal year due to the replacement of its business portfolio. In addition to withdrawing from and dissolving businesses, it has also strengthened its financial structure by increasing capital through third-party allotment to invest in M&A, etc., and has been swift and well-balanced in its offensive and defensive actions.</p> | | <p>Contribution to regional development</p> <p>ITbookHD is strengthening edgy businesses such as English, sports, and drones, all of which are in response to the needs of local governments. It will contribute to regional development in a wide range of areas, from infrastructure development, which is its forte, to software provision.</p> | | <p>Maintenance of the status quo</p> <table border="1"> <thead> <tr> <th>6.8 %</th> </tr> </thead> <tbody> <tr> <td>The current level of stability will be maintained even after taking into account the risk from investment Assuming WACC unchanged at current level</td> </tr> </tbody> </table> | 6.8 % | The current level of stability will be maintained even after taking into account the risk from investment Assuming WACC unchanged at current level |
| 6.8 % | | | | | | |
| The current level of stability will be maintained even after taking into account the risk from investment Assuming WACC unchanged at current level | | | | | | |
| | | | | <p>Shareholders' Equity</p> <p>22</p> | | |

*1 Compiled by JPR based on its own projections of post-company plan estimates based on company hearings.

2. Overview

Company overview

| | |
|------------------------|---|
| Company Name | ITbook Holdings Co., Ltd. |
| Establishment | October 1, 2018 |
| Representative | Toshimori Mae |
| Head Office Location | TOYOSU FORESIA 9F, 3-2-24 Toyosu, Koto-ku, Tokyo |
| Capital | JPY 1,800 million |
| Number of Employees | 2,351 (As of March 31, 2022) |
| Fiscal Year End | March |
| Business | IT consulting, System development, System equipment sales, Ground investigation and improvement, etc. |
| Date of Listing | October 1, 2018 |
| Stock Exchange Listing | Tokyo Stock Change Growth Market [Securities code: 1447] |

Source: Compiled by JPR based on company data.

History

| Year | Month | Contents |
|------|-------|--|
| 2018 | 10 | ITbook Co., Ltd. and Something Holdings Co., Ltd. establish ITbook Holdings Co., Ltd. through a joint share transfer |
| | | Common stock is listed on the Tokyo Stock Exchange Mothers. |
| 2019 | 3 | Consolidated subsidiary ITbook, Co., Ltd. acquires 100% of the shares of Bohme English Academy Corporation. |
| | 5 | Consolidated subsidiary ITbook, Co., Ltd. acquires 38.8% of the shares of KANAC Corporation |
| | 5 | ITloan Co.,Ltd. is established in Chuo-ku, Tokyo. |
| | | Consolidated subsidiary ITbook, Co., Ltd. established Tohoku ITbook Corporation in Akita City, Akita Prefecture. |
| | | Subsidiary ITglobal Co.,Ltd. and Watami Co., Ltd. jointly establish Global Dream Street Pte.Ltd. |
| 2020 | 6 | Consolidated subsidiary Something Holdings Co., Ltd. acquired 100% of the shares of EARTH PRIME Corporation. |
| | 9 | Consolidated subsidiary GeoSign Co.,Ltd. allocates new shares to a third party. |
| | 2 | Established ITbook Technology Co.,Ltd. in Minato-ku, Tokyo |
| | 3 | Consolidated subsidiary Tokyo Application System Co., Ltd. acquires 100% of the shares of Misuzu Corporation, making it a consolidated subsidiary. |
| | 4 | Consolidated subsidiary ITbook, Co., Ltd. transferred all shares of Data Technology Corporation, System Integration Technics Co., Ltd., and RINET Corporation to ITbook Technology Co.,Ltd., a consolidated subsidiary. |
| | 5 | Transferred all shares of consolidated subsidiary NEXT Co.,Ltd and i-NEXT Corporation, a subsidiary owned by ineed Corporation, to WATAMI CO., LTD. |
| | 6 | Started an unmanned boat demonstration project for "Development of Amphibious Unmanned Operation Technology - Yamba Smart Mobility" in Naganohara-machi, Gunma Prefecture. |
| | 9 | Established CREED PERFORMANCE Corporation in Tsurumi-ku, Yokohama City, Kanagawa Prefecture. |
| | 10 | Established ZOX Co., Ltd. in Minato-ku, Tokyo |
| | 11 | ITbook, Co., Ltd. is merged with RINET Corporation and System Integration Technics Co., Ltd., Ltd. in an absorption-type merger, with ITbook Technology Co.,Ltd. as the surviving company and its consolidated subsidiaries RINET Corporation and System Integration Technics Co., Ltd., Ltd. as the absorbed companies. |
| | 12 | Opened the Fujieda branch office of ITbook in Fujieda City, Shizuoka Prefecture. |

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| Year | Month | Contents |
|------|-------|--|
| 2021 | 1 | A&I Outsourcing Co., LTD. established in Minato-ku, Tokyo, jointly owned by ITbook Holdings Co., Ltd. and AcroHoldings Co., Ltd. (ITbook Holdings Co., Ltd.: 51%, AcroHoldings Co., Ltd.: 49%). |
| | 3 | Acquired all shares of consolidated subsidiary NEXT Co., Ltd. owned by consolidated subsidiary ITbook, Co., Ltd. and made it a direct subsidiary, issuing new shares through a third-party allotment to the Company. |
| | | ITbook Holdings Co., Ltd. acquired all shares of ITbook, H.L Co., LTD. a consolidated subsidiary owned by ITbook Co., Ltd. and made it a direct subsidiary, issuing new shares through a third-party allotment to ITbook Holdings Co., Ltd.. |
| | | Consolidated subsidiary Something Co., Ltd. acquired 100% of the shares of Geopro Corporation (currently kiipl&nap Co., Ltd.). |
| | 4 | Movy co, ltd,. is established in Minato-ku, Tokyo. |
| | 6 | Conducted an absorption-type merger with consolidated subsidiary Something Holdings Co., Ltd. |
| | 7 | Geopro Corporation increased capital through a third-party allotment to consolidated subsidiary Something Co., Ltd. and Nagasaki Broadcasting Company and changed its corporate name to kiipl&nap Co., Ltd. |
| | | ITbook Technology Co., Ltd. was merged into the Company, with ITbook Technology Co., Ltd. as the surviving company and System House Wagaya Corporation as the absorbed company. |
| | | ITbook XCloud inc. established in Minato-ku, Tokyo. |
| | | Shinei Insurance Service Co., Ltd. established in Tochigi City, Tochigi Prefecture through joint investment by ITbook Holdings Co., Ltd. and consolidated subsidiary ITloan Co., Ltd. |
| | | Established ITbook Hiroshima Corporation in Aki-Ota-cho, Yamagata-gun, Hiroshima Prefecture. |
| | | Consolidated subsidiary GIR Co., Ltd. acquired 80% of the shares of san-ai-home Inc. |
| | 8 | Consolidated subsidiary Tokyo Application System Co., Ltd. transfers all shares of consolidated subsidiary Misuzu Corporation to Apatech Japan Ltd. |
| 2022 | 2 | Consolidated subsidiary Something Co., Ltd. acquired 80% of the shares of TOUMEI CO., LTD. |

Source: Compiled by JPR based on company data.

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

| Segment | Company Name | Business Outline | Capital stock | Investment Ratio |
|--------------------|------------------------------------|--|---------------|------------------|
| Consulting | ITbook Co., Ltd. | Management and operation of subsidiaries, IT consulting and other services in four business areas: "for government," "for independent administrative agencies," "for private companies," and "for the financial industry." | 1048 | 100% |
| | MIRAI Inc. | Consulting and think-tank business in which members with various specialties are based in local regions and combine their knowledge and experience to work on regional creation and revitalization in Japan and abroad. | 80 | 100% |
| System Development | ITbook Technology Co., Ltd. | Focusing on three areas: system solutions, IoT solutions, and embedded solutions, offering a variety of products and services | 100 | 100% |
| | Tokyo Application System Co., Ltd. | Provides comprehensive IT solutions centered on IT sales, software development, and computer infrastructure construction | 50 | 100% |
| | front applications inc. | FinTech system development, including the construction of financial information systems and trading systems, and market-related front and back office systems | 1 | 100% |
| | Cosmo Engineering Co., Ltd. | Software development business, construction consulting business | 30 | 100% |
| Human Resources | NEXT Co., Ltd. | ICT services business, IoT services business, engineering services business | 150 | 100% |
| | ineed Corporation | Comprehensive human resources services including temporary staffing, placement, and outsourcing | 50 | 100% |
| | IST Inc. | EMPS business for educational human resource services and Yoyogi Preparatory Association business for tutoring services | 75 | 100% |

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| Segment | Company Name | Business Outline | Capital stock | Investment Ratio |
|--|---------------------------------|--|--------------------|------------------|
| Other Businesses | ITloan Co.,Ltd. | Finance business for businesses and individuals that meet their needs using ICT | 70 | 100% |
| | M&A MAX Co.,Ltd. | M&A brokerage, post-merger integration support, development and operation of M&A matching website (M&A*) | 20 | 100% |
| | CREED PERFORMANCE Corporation | Personal training gym management, yoga studio management, etc. | 12 | 83% |
| | kiipl&nap Co., Ltd. | Business, consulting, equipment sales, etc. related to drones, AI, and IoT | 53 | 80% |
| Geotechnical Investigation and Improvement | Something Co.,Ltd. | Business management, planning, finance, new business development, etc. of operating subsidiaries, and geotechnical investigation, improvement, and guarantee business | 50 | 100% |
| | EARTH PRIME Corporation | Perform borings, field testing and exploration, soil and groundwater investigations, analysis and studies, laboratory testing, and surveying | 49 | 100% |
| | TOUMEI CO.,LTD. | Construction foundation work, specialized construction and civil engineering foundation work related to railroads, on-site construction piling work, seismic work, boring work | 40 | 80% |
| | san-ai-home Inc. | Engaged in residential subdivision, construction contracting, leasing, and brokerage mainly in Saitama Prefecture. | 80 | 70% |
| Warranty Inspection | GIR Co.,Ltd. | Ground warranty, home completion warranty, manufacture and sale of water treatment equipment, ground investigation, ground improvement, real estate sales | 100 | 100% |
| | Something Re.Co.,Ltd | Captive of Guaranteed Businesses. | 13 | 100% |
| Construction Tech | GeoSign Co.,Ltd. | Providing residential geotechnical system solutions, residential inspection system solutions, etc., mainly related to geotechnical investigations. | 97 | 51% |
| Overseas | Something VIETNAM CO.,LTD. | Ground investigation, ground improvement work, civil engineering work, import and sales of building materials, etc. | VND 30,630 million | 100% |
| | JAPANEL HOME (CAMBODIA)CO.,LTD. | WPC (Wall Precast Concrete) housing construction contracting and related business, ground investigation | USD 300,000 | 70% |

[Source] Prepared by JPR based on company data.

Major M&A/Investment

| Year | Month | Company | Purpose |
|------|-------|---|---|
| 2019 | 5 | EARTH PRIME Corporation | Acquisition by subsidiary Something Holdings Co., Ltd. It believes that by making the subject company, which provides geological survey and testing services mainly in the Kanto area, a new business development will be achieved, and sales and earnings are expected to increase. |
| 2021 | 3 | Geopro Corporation (currently kiipl&nap Co., Ltd.) | Consolidated subsidiary Something Co., Ltd. acquired 100% of the shares of Geopro Corporation (currently kiipl&nap Co., Ltd.), which provides various solution services in the field of industrial drones. In July of the same year, Geopro Corporation increased its capital through a third-party allotment to Nagasaki Broadcasting Company. |
| | 7 | san-ai-home Inc. | By acquiring san-ai-home Inc., which engages in home sales, construction contracts, leasing, and brokerage mainly in Saitama Prefecture, GIR Co.,Ltd., a consolidated subsidiary, will acquire the know-how that san-ai-home Inc. has cultivated over the years, and is expected to expand its business. |
| 2022 | 1 | TOUMEI CO., LTD. | By making TOUMEI CO., LTD. a subsidiary of its consolidated subsidiary Something Co.,Ltd., it aims to expand its geo-related services and expand business opportunities by integrating its business scale, sales, technology, etc. |
| 2023 | 2 | Next Corporation | Next Corporation aims to make Something Co.,Ltd. a comprehensive construction company by increasing orders for ground investigation and improvement work for the more than 100 new detached houses it handles each year, and by making a full-scale entry into the field of housing foundation work through business collaboration. In addition, as a cross-selling strategy, it will consider creating new added value through collaboration with financial businesses, such as various loans and insurance for homebuyers, and the development and provision of disaster mitigation services derived from the disaster prevention IoT, which is a specialty of the system development business. |

Source: Compiled by JPR based on company data.

Major Business and Capital Alliances

| Year | Month | Company | Purpose |
|------|-------|---|--|
| 2018 | 12 | Japan business ability authorize association (General incorporated association) | Japan business ability authorize association (General incorporated association) provides training/education curriculum such as Japanese culture, business manners, professional ethics, etc. to foreign human resources who wish to work for Japanese companies, and ITbookHD as a whole is working on acceptance of foreign human resources and regional development (ICT). |
| 2019 | 9 | LABOUR AND EXPERT EXPORT SERVICE JOINT STOCK COMPANY | International exchange agreement with LABOUR AND EXPERT EXPORT SERVICE JOINT STOCK COMPANY, which sends out technical intern trainees in Ho Chi Minh City, Vietnam. ITbookHD, which accepts foreign human resources in Japan and provides detailed Japanese language education, expects synergistic effects from this partnership. |
| 2019 | 9 | Vietnam Dong Thap Province Job Placement Center | International exchange agreement signed with the aim of expanding foreign human resources business in Southeast Asian countries. Provides specific skills training, job placement in Japan, and lifestyle support. |
| 2020 | 10 | Toda City, Saitama Prefecture | Signed a comprehensive cooperation agreement on "Digital Transformation. In addition to promoting the efficiency of administrative services, the two companies cooperate in the development of digital human resources. |
| 2020 | 12 | Fujieda City, Shizuoka Prefecture Fujieda ICT Consortium | The three parties signed a collaboration agreement to promote regional DX. The goal is to further promote a decentralized society and realize more efficient operations and convenient services for residents through the digitalization of public administration. |
| 2021 | 12 | Utsunomiya City, Tochigi Prefecture | Signed a collaboration agreement with Utsunomiya City regarding "Promotion of Administrative DX. The city aims to enhance resident services and improve operational efficiency through the digitization of the city's administration. |
| 2022 | 4 | Isahaya City, Nagasaki Prefecture | kiipl&nap Co., Ltd. and Isahaya City, Nagasaki Prefecture, conclude an agreement to cooperate in activities to utilize drones in the event of natural disasters. Aiming to promote the city's disaster prevention and the need for drones in times of disaster and peace. |
| 2022 | 9 | INNOVATION LEADERS Inc, | INNOVATION LEADERS Inc, which specializes in industry-specific M&A and has extensive experience in M&A advisory for major listed companies, and M&A MAX Co.,Ltd. Through this agreement, the two companies will be able to jointly work on projects that they both hold and make proposals to clients quickly and accurately. |
| 2023 | 2 | Hiroshima Prefectural Kake High School | Subsidiary MIRAI Inc. and Hiroshima Prefectural Kakei High School signed a comprehensive partnership agreement for collaboration and cooperation in the development of local communities and human resource development for the purpose of regional development, and to build a problem-solving model for high schools located in mountainous areas. |

Source: Compiled by JPR based on company data.

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

Growth

Conceptual Design

Progress: 80%.

Already established a business portfolio of one-stop solutions starting from consulting business

Portfolio evaluation will be based on future results

Progress: 50%.

Progress in reflecting the results in the
Progress: 20%

Become a reliable partner for local governments

Conceptual Design: Solving Social Issues

Identification of social issues: Materiality is "disaster prevention and mitigation" and "regional development"

ITbookHD is taking on the challenge of solving various social issues through its business, including global environmental problems and natural disasters; energy, resource, and food problems; declining birthrate, aging population, and decrease in productive population; depopulation of rural areas; aging infrastructure; and the lights and shadows of the information society. Materiality is defined as "disaster prevention and disaster mitigation" and "regional development."

TAM/SAM/SOM

In regional development, which ITbookHD will focus on in the future, the government's budget has been in the JPY 2 trillion range in recent years, and the total amount is large if local governments and the private sector are included. In addition, in the DX market, the domestic market is expected to be JPY 1.38 trillion in 2020 and JPY 5 trillion in 2030, according to a research firm.

Implementation Design: One-stop solution from upstream to downstream

Regional development is the main axis of business starting point

In order to solve depopulation in rural areas, mainly through consulting business, approaches are made to local governments and companies with the goal of "regional development". ITbookHD also considers the resolution of social issues that it hears about in its approach to be a priority.

Build a portfolio of businesses from upstream to downstream

Issues identified in the upstream consulting business will be solved downstream by each of ITbookHD's businesses. The core of the base is ITbook and SOMETHING's ground-up and IT-related and staffing services. In addition, ITbookHD is increasing the number of edgy businesses by utilizing M&A based on customer needs, and synergies among these businesses will be the key to making a leap forward.

| | |
|---------------------|---|
| Consulting Business | In addition to IT, subsidiary Mirai provides consulting services related to regional development |
| Base Business | Core business centered on geotechnical survey improvement, temporary staffing, and system development |
| Edgy Business | Businesses with needs mainly in the soft side, such as education, fitness, and drones |

Results: Increased trust building with local governments

The values that ITbookHD portrays have already spread to a number of municipalities and other organizations. The details of its achievements are introduced in the next section, "Connction." This track record is proof of the trust of clients, including local governments, and is expected to increase ITbookHD's presence as a reliable partner in the eyes of local governments.

Connection

Direction is clear.

Progress: 70%

The core of the
business portfolio
has been built

Progress: 50%

Toward Group Synergy to Solve Social Issues

Conceptual Design: Reorganizing into a business with consulting as its starting point

Although ITbookHD has remained profitable since its establishment, its operating profit margin is less than 1%. Therefore, ITbookHD changed its course to stabilize and expand its corporate base by shifting from new business investment to investment focusing on core businesses. The core business is the one that forms a one-stop solution from consulting, as explained in the Growth section, and mainly targets regional development. Even though it is difficult to achieve business viability as a stand-alone business, if it functions as a component of the one-stop solution, ITbookHD expects overall sales to increase and profit margins to improve as a result of increased efficiency.

Implementation Design: Toward Improved Profitability

Business Selection and Concentration

In order to concentrate on the core business, ITbookHD has been consolidating and closing loss-making companies and has also sold its apparel business. At the same time, ITbookHD is using M&A to add businesses that meet customer needs, and will continue to make repeated selection and concentration decisions based on business potential, aiming to become a more muscular company.

Strengthening synergies as a key to improving profitability

In order to increase profit margins, ITbookHD is citing measures to improve efficiency and expand sales in each of its businesses. In addition to efforts in stand-alone businesses, if the number and scale of bulk orders from consultants increase, this will lead to improved efficiency in sales and other areas, and it is possible that ITbookHD may be able to target cases where profit margins are higher than in stand-alone businesses.

Achievements: Mainly cases of one-stop solutions for local development

Comprehensive Collaborative Agreement on Promotion of DX in Saitama, etc.

ITbookHD has also been building relationships of trust with local governments and building a track record of success in providing solutions for local development. In August 2020, it signed a comprehensive collaboration agreement with Toda City, Saitama Prefecture, regarding the promotion of DX, etc. In April 2021, Cos-DEC (Council of Municipal DX) was established with Toda City as well as Tawaramoto Town, Nara Prefecture and Aki Ota Town, Hiroshima Prefecture as initiators (advisors).

Establish a specialized team on disaster prevention and mitigation

MIRAI, a subsidiary of the same location, is conducting consulting activities in Hiroshima Prefecture, and in August 2021, SOMETHING, which constructs disaster prevention and mitigation works, and ITbook Technology, which observes with sensing technology, established a specialized team to promote the use of digital technology in the civil engineering and construction fields. This team will develop business activities related to consulting services, system development services, human resource services, and the ground that provides security for the country's infrastructure in order to realize an efficient digital society.

Accumulated a great deal of experience in collaboration with local governments and a comprehensive portfolio of businesses.

Expect these initiatives to flourish and contribute to the enhancement of corporate value

Reflection of results in Progress: 20%

Support for primary industrialists and local development organizations

MIRAI, a subsidiary in charge of consulting, noticed a dilemma in its dialogues with primary industries and regional development organizations that they were unable to start working on "what they wanted to do and what they should do." This was due not only to a lack of human resources in the region, but also to the characteristics of the industry and operations, and the difficulty of organizing and separating operations in response to ever-changing social and regional needs, making it difficult to fully utilize existing services and solutions. Therefore, in January 2022, Mirai began offering "recopit," a tailor-made and interactive BPO (Business Process Outsourcing) service that reconfigures back-office functions in response to customer needs and together with customers.

Use of Drones in Natural Disasters

In April 2022, ITbookHD concluded an activity cooperation agreement with Isahaya City in the drone business. Kiipl&nap, a subsidiary that operates a variety of industrial drone businesses including inspection and surveying, will use drones for early recovery and reconstruction from disasters and provide drone technology training to Isahaya City employees to help build a disaster-resistant city. Nagasaki Broadcasting Corporation has invested in kiipl&nap and is deepening its relationship with the local community.

Supported Tsumagoi Village in Gunma Prefecture to receive the Prime Minister's Award

In September 2022, Tsumagoi Village, Gunma Prefecture, a "Smart City for Increasing Tourism and Related Populations," for which front applications, Inc. of the ITbookHD Group was in charge of system development, won the Prime Minister's Award in the implementation category of the "Summer Digi-ta Koshien" held by the Cabinet Secretariat. Through this effort Tsumagoi Village in Gunma Prefecture has successfully strengthened the "Tsumagoi Brand" and revitalized tourism by realizing a tourism smart city using an urban OS (FIWARE).

Creation of a problem-solving model for upper secondary schools

On February 28, 2023, ITbookHD announced the conclusion of a comprehensive partnership agreement with Hiroshima Prefectural Kake High School. Since fiscal 2019, subsidiary MIRAI has served as a coordinator to support the school's operations, particularly in realizing learning that fosters an entrepreneurial spirit and thereby fostering local human resources, and in supporting activities that contribute to the revitalization of Aki Ota Town, where Kake High School is located, and has steadily produced results, including an increase in applicants for admission, a higher percentage of students entering university, and an increase in the number of project proposals and adoptions to Aki Ota Town.

Build relationships with overseas municipalities

ITbookHD subsidiary SOMETHING is engaged in business activities based in Southeast Asia. In Vietnam, it has partnered with Dong Thap Province to accept foreign trainees, and is working to utilize the skills acquired in Japan in Vietnam. Few companies are involved in this kind of initiative, and SOMETHING plans to accelerate it in the future as it is effective in both resolving labor shortages and acquiring technology. SOMETHING has also issued a memorandum of understanding with the Ministry on agricultural DX, and is willing to emphasize its relationship with Vietnam and actively recruit Vietnamese nationals.

Confidence

Aiming for both business stability and growth, but awaiting results of ROIC improvement

Financial stability rating: 30%

Wide-ranging contributions from disaster prevention and mitigation that lead to community security to the utilization of local infrastructure and the revitalization of communication

Themes are highly evaluated in line with national policy, but further accumulation of achievements is expected.

Evaluation of social contribution: 50%

Achieve investment effects and a solid management structure

Financial stability: capital increase and business portfolio improvement

Third-party allotment

ITbookHD issued new shares through a third-party allotment to Daiwa House Industry in March 2022. This will raise a total of JPY 344,879,700. The purpose is to expand its financial base and invest in new businesses. ITbookHD has been active in M&A and is expected to continue to reinforce its business portfolio, and strengthening its core businesses will ultimately contribute to stability.

Profitability is expected to improve significantly in the fiscal year ending March 31, 2023.

ITbookHD is expected to post operating profit of JPY 650 million for the current fiscal year, a significant improvement of 569.9% over the previous year, due to the dissolution and transfer of unprofitable businesses. Although some of the core businesses are also struggling in terms of profit and loss in their respective segments, it is expected to turn upward if business synergies are realized in addition to improvements in stand-alone businesses.

Social contribution: Contribution to regional development

ITbookHD mainly targets local governments and attempts to provide solutions to various local government issues through consulting, with a focus on IT and disaster prevention/mitigation, and in recent years has also contributed to more detailed needs such as drones, sports, and English conversation. Examples of their contributions are given in the Connection section, but are summarized below.

Contribution to disaster prevention and mitigation

ITbookHD is working to solve the problem of levee breaches in reservoirs (aging problems in many areas) in Hiroshima Prefecture through monitoring, strength, and investigation of the causes by developing a system and improving ground surveys. Disaster prevention and mitigation is considered to be of high interest due to flood damage caused by heavy rainfall in recent years, and contributions are expected throughout Japan.

Utilization of Closed Schools

Due to the decrease in the number of students resulting from the declining birthrate and other factors, approximately 450 school facilities are closed every year in Japan. Since closed school facilities are valuable assets for local governments, they are required to be utilized effectively based on local conditions and needs. ITbookHD is not only good at infrastructure development such as IT and land improvement, but also owns content such as English and sports, which are in high demand in local communities, and will continue to strengthen these soft aspects of its business to meet the needs of local governments and increase its contribution to local development.

4. Summary of Business Results for 3Q FY3/2023

Profit and Loss Summary

Profit and Loss Summary

outlook

In the cumulative 3Q of the FY03/2023, sales were JPY 21,809,354 thousand (117.9% YoY), gross profit was JPY 5,231,449 thousand (117.2% YoY), selling, general and administrative expenses were JPY 5,375,201 thousand (111.3% YoY), operating loss was JPY -143,752 thousand (operating loss of JPY -364,976 thousand in the same period of the previous year), ordinary loss was JPY -134,437 thousand (ordinary loss of JPY -375,882 thousand in the same period of the previous year), and net loss attributable to shareholders of the parent company was JPY -534,661 thousand (net loss attributable to shareholders of the parent company of JPY -654,121 thousand in the same period of the previous year).

Consulting Business

ITbookHD strived to increase orders for consulting projects from central government agencies, independent administrative agencies, and local governments by leveraging the trust and knowledge it has accumulated from clients in the past, including responses to the My Number system and My Key Platform. In the consulting business for the private sector, ITbookHD proposed a wide range of new services, including "Smart Tool," a proprietary technology service that enables DX promotion by analyzing and utilizing legacy systems owned by companies, and an automatic conversion tool from the programming language "COBOL" to "JAVA," which is considered a standard for open systems and the basis for DX. As a result, sales amounted to JPY 283,960 thousand (106.8% YoY).

System Development Business

ITbookHD promoted the development and sales of products in the software development, FinTech, and IoT device fields, centered on the near-shore development business. As a result, sales totaled JPY 2,525,842 thousand (107.6% YoY).

Human Resource Business

In the temporary engineer staffing business and the temporary staffing services for manufacturers, distributors, and teachers, sales increased due to the success of sales efforts to secure human resources and develop client companies. As a result, sales were JPY 4,890,166 thousand (116.5% YoY).

Ground Survey and Improvement Project

In addition to the "Columnar Improvement Method," which has been ITbookHD's mainstay product to date, it worked to promote sales of the "Screw Friction Pile Method," which constructs a stable quality reinforced body with spiral-shaped nodes. ITbookHD also focused on expanding its customer base beyond the detached housing market, and worked to promote sales of the "Column Z Method" for small commercial facilities and low-rise condominiums, and the "Eco-Geo Method" that uses only natural crushed stone, which is positioned as a product to expand sales of ground improvement methods and also related to "SDGs".

Earth Prime Corporation, which operates a soil investigation and testing business, focused on receiving orders for soil testing from large general contractors for large-scale construction projects, etc., and for boring surveys from major construction developers.

TOUMEI CO., LTD., which specializes in specialized railway-related civil engineering foundation work, focused on receiving orders for its TBH and BH methods, which enable large-diameter excavation under narrow, low-space construction conditions, mainly from major general contractors.

san-ai-home Inc. engaged in the real estate business, focused on real estate sales and purchases, mainly in Kawagoe City and the Tobu-Tojo Line in Saitama Prefecture, taking advantage of the characteristics of a local company.

As a result, sales amounted to JPY 12,876,301 thousand (124.2% YoY).

Warranty Inspection Business

In addition to sales promotion of the comprehensive ground warranty "THE LAND" in the Warranty Division, ITbookHD focused on orders for new housing construction contracts derived from housing construction completion guarantees, quality inspections of rental housing buildings, and related repair work. As a result, sales were JPY 223,736 thousand (95.7% YoY).

Construction Tech Business

Because its main sales product, the GeoWeb System, can enhance the recording and management of various business data related to housing construction (fraud and falsification prevention function) and automate operations, ITbookHD focused on sales of this product, which has also been adopted by major housebuilders for their infrastructure systems. ITbookHD also focused on expanding operations through linkage with the client's infrastructure system and on customized development projects. As a result, sales totaled JPY 353,174 thousand (104.3% YoY).

Overseas Business

ITbookHD focused on orders for infrastructure development (sea walls, roads, bridges) in Vietnam, geotechnical surveys for solar and wind power generation in the renewable energy power generation business, and temporary works related to sewerage construction. Despite the impact of the re-expansion of infection caused by COVID-19, sales efforts were successful and sales increased. As a result, sales totaled JPY 393,557 thousand (105.2% YoY).

Other Businesses

Total sales of the finance, education, and M&A advisory businesses amounted to JPY 262,614 thousand (152.4% YoY).

Appendix 1: Details of the financial model

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

| (Unit: JPY million) | | Company Plan JPR Forecast | | | | | | | | | | | |
|---------------------|--|------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|----------|
| FY | | 2023.03 | 2024.03 | 2025.03 | 2026.03 | 2027.03 | 2028.03 | 2029.03 | 2030.03 | 2031.03 | 2032.03 | 2033.03 | 2034.03 |
| PL | Sales | 28,500 | 34,400 | 42,000 | 50,986 | 61,895 | 75,137 | 86,408 | 97,641 | 108,382 | 118,678 | 128,765 | 128,765 |
| | COGS | 21,663 | 25,628 | 31,080 | 37,475 | 45,183 | 54,475 | 62,214 | 70,302 | 78,035 | 85,448 | 92,711 | 92,711 |
| | SGA | 6,187 | 7,772 | 9,170 | 10,962 | 12,998 | 15,403 | 17,282 | 19,528 | 21,676 | 23,736 | 25,753 | 25,753 |
| | EBITDA | 1,236 | 1,685 | 2,567 | 3,518 | 4,869 | 6,605 | 8,307 | 9,220 | 10,179 | 11,092 | 11,940 | 11,937 |
| | Total depreciation and amortization | 586 | 685 | 817 | 969 | 1,155 | 1,346 | 1,394 | 1,409 | 1,508 | 1,598 | 1,639 | 1,636 |
| | OP | 650 | 1,000 | 1,750 | 2,549 | 3,714 | 5,260 | 6,913 | 7,811 | 8,671 | 9,494 | 10,301 | 10,301 |
| | Interest rate | 88 | 67 | 71 | 79 | 87 | 96 | 99 | 101 | 107 | 118 | 125 | 81 |
| | Other non-OP | 101 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | CP | 662 | 933 | 1,679 | 2,470 | 3,626 | 5,164 | 6,814 | 7,710 | 8,564 | 9,376 | 10,176 | 10,220 |
| | Extraordinary Profit/loss | ▲ 103 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | NP before taxes and minority interests | 560 | 933 | 1,679 | 2,470 | 3,626 | 5,164 | 6,814 | 7,710 | 8,564 | 9,376 | 10,176 | 10,220 |
| | Tax | 173 | 288 | 519 | 763 | 1,121 | 1,596 | 2,105 | 2,383 | 2,646 | 2,897 | 3,144 | 3,158 |
| | NP | 387 | 645 | 1,160 | 1,707 | 2,506 | 3,568 | 4,708 | 5,328 | 5,917 | 6,479 | 7,032 | 7,062 |
| | Number of shares issued and outstanding at the beginning of the period (thousand shares) | 22,331 | 24,133 | 24,133 | 24,133 | 24,133 | 24,133 | 24,133 | 24,133 | 24,133 | 24,133 | 24,133 | 24,133 |
| | Number of shares issued (thousand shares) | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | Number of shares issued and outstanding at the end of the period (thousand shares) | 24,133 | 24,133 | 24,133 | 24,133 | 24,133 | 24,133 | 24,133 | 24,133 | 24,133 | 24,133 | 24,133 | 24,133 |
| | EPS(JPY) | 16.0 | 26.7 | 48.1 | 70.7 | 103.8 | 147.9 | 195.1 | 220.8 | 245.2 | 268.5 | 291.4 | 292.6 |
| | Dividend | 0 | 0 | 0 | 0 | 0 | 1,070 | 1,883 | 3,197 | 4,142 | 6,479 | 7,032 | 7,062 |
| | Retained Earning | 387 | 645 | 1,160 | 1,707 | 2,506 | 2,498 | 2,825 | 2,131 | 1,775 | 0 | 0 | 0 |
| BS | Operating cash | 4,300 | 5,250 | 6,373 | 7,737 | 9,392 | 11,521 | 13,832 | 16,257 | 18,791 | 21,461 | 21,461 | 21,461 |
| | Excess cash | 1,760 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 12,589 |
| | Working Capital | 6,963 | 8,501 | 10,320 | 12,528 | 15,208 | 17,489 | 18,191 | 19,301 | 20,159 | 21,167 | 21,167 | 0 |
| | Short-term investment securities | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | Tangible Fixed Assets | 1,719 | 2,154 | 2,614 | 3,174 | 3,853 | 4,431 | 4,199 | 4,552 | 4,866 | 5,151 | 5,151 | 5,151 |
| | Goodwill | 806 | 725 | 653 | 587 | 529 | 476 | 428 | 385 | 347 | 312 | 281 | 253 |
| | Software | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | Investment securities | 178 | 178 | 178 | 178 | 178 | 178 | 178 | 178 | 178 | 178 | 178 | 178 |
| | Other assets | 2,356 | 4,033 | 4,896 | 5,943 | 7,215 | 8,297 | 9,376 | 10,407 | 11,396 | 12,365 | 12,365 | 0 |
| | Total Assets | 18,082 | 20,841 | 25,034 | 30,147 | 36,375 | 42,392 | 46,204 | 51,081 | 55,737 | 60,634 | 60,602 | 39,632 |
| | NIBCLs | 4,486 | 5,477 | 6,648 | 8,071 | 9,798 | 11,267 | 12,732 | 14,132 | 15,475 | 16,790 | 16,790 | 16,790 |
| | ST debt | 7,239 | 7,126 | 8,987 | 10,970 | 12,965 | 15,015 | 14,538 | 15,883 | 17,421 | 21,002 | 20,971 | 0 |
| | LT debt | 3,368 | 3,368 | 3,368 | 3,368 | 3,368 | 3,368 | 3,368 | 3,368 | 3,368 | 3,368 | 3,368 | 3,368 |
| | Other long-term liabilities | 459 | 459 | 459 | 459 | 459 | 459 | 459 | 459 | 459 | 459 | 459 | 459 |
| | Paid Capital | 4,819 | 6,055 | 6,055 | 6,055 | 6,055 | 6,055 | 6,055 | 6,055 | 6,055 | 6,055 | 6,055 | 6,055 |
| | Retained Earnings | ▲ 2,288 | ▲ 1,643 | ▲ 483 | 1,224 | 3,730 | 6,228 | 9,053 | 11,184 | 12,959 | 12,959 | 12,959 | 12,959 |
| | Debt&Equity | 18,082 | 20,841 | 25,034 | 30,147 | 36,375 | 42,392 | 46,204 | 51,081 | 55,737 | 60,634 | 60,602 | 39,632 |
| CF | Operating cash | ▲ 738 | ▲ 950 | ▲ 1,123 | ▲ 1,364 | ▲ 1,655 | ▲ 2,129 | ▲ 2,311 | ▲ 2,425 | ▲ 2,533 | ▲ 2,670 | 0 | 0 |
| | Working Capital | 196 | ▲ 1,538 | ▲ 1,819 | ▲ 2,208 | ▲ 2,680 | ▲ 2,281 | ▲ 702 | ▲ 1,110 | ▲ 858 | ▲ 1,008 | 0 | 21,167 |
| | NIBCLs | 122 | 991 | 1,172 | 1,422 | 1,727 | 1,470 | 1,465 | 1,401 | 1,343 | 1,315 | 0 | 0 |
| | Gross Investment | ▲ 754 | ▲ 1,039 | ▲ 1,205 | ▲ 1,463 | ▲ 1,776 | ▲ 1,871 | ▲ 1,114 | ▲ 1,719 | ▲ 1,784 | ▲ 1,848 | ▲ 1,608 | ▲ 1,608 |
| | Depr | 496 | 604 | 744 | 903 | 1,097 | 1,293 | 1,347 | 1,366 | 1,470 | 1,563 | 1,608 | 1,608 |
| | Software Investment | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | Software amortization | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | Goodwill investment | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | Amortization of goodwill | 90 | 81 | 73 | 65 | 59 | 53 | 48 | 43 | 39 | 35 | 31 | 28 |
| | Short-term marketable securities | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | Investment securities | 76 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | Other assets | 381 | ▲ 1,677 | ▲ 863 | ▲ 1,048 | ▲ 1,272 | ▲ 1,082 | ▲ 1,079 | ▲ 1,031 | ▲ 989 | ▲ 969 | 0 | 12,365 |
| | Retained Earnings | ▲ 706 | 645 | 1,160 | 1,707 | 2,506 | 2,498 | 2,825 | 2,131 | 1,775 | 0 | 0 | 0 |
| | CF from operation | ▲ 837 | ▲ 2,884 | ▲ 1,861 | ▲ 1,984 | ▲ 1,995 | ▲ 2,050 | 478 | ▲ 1,345 | ▲ 1,538 | ▲ 3,582 | 31 | 33,560 |
| | ST debt | ▲ 187 | ▲ 113 | 1,861 | 1,984 | 1,995 | 2,050 | ▲ 478 | 1,345 | 1,538 | 3,582 | ▲ 31 | ▲ 20,971 |
| | LT debt | ▲ 407 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | Other long-term liabilities | 223 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | Equity financing | 747 | 1,236 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | CF from finance | 376 | 1,123 | 1,861 | 1,984 | 1,995 | 2,050 | ▲ 478 | 1,345 | 1,538 | 3,582 | ▲ 31 | ▲ 20,971 |
| | Increase in Excess Cash | ▲ 461 | ▲ 1,760 | 0 | ▲ 0 | 0 | 0 | ▲ 0 | ▲ 0 | ▲ 0 | ▲ 0 | 0 | 12,589 |

Source: JPR

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

| (Unit: JPY million) | | Company Plan | JPR Forecast | JPR Forecast | JPR Forecast | JPR Forecast | JPR Forecast | JPR Forecast | JPR Forecast | JPR Forecast | JPR Forecast | JPR Forecast | JPR Forecast | |
|---------------------|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------|
| FY | | JPR Forecast | 2023.02 | 2024.02 | 2025.02 | 2026.02 | 2027.02 | 2028.02 | 2029.02 | 2030.02 | 2031.02 | 2032.02 | 2033.02 | 2034.02 |
| KPI | Ratio to net sales of invested capital at the beginning of the period | 40.2% | 33.9% | 36.2% | 35.7% | 35.4% | 35.1% | 35.8% | 34.1% | 33.9% | 33.8% | 33.9% | 33.9% | |
| | Invested capital at the beginning of the period | 11,452 | 11,658 | 15,186 | 18,208 | 21,898 | 26,399 | 30,947 | 33,294 | 36,770 | 40,083 | 43,665 | 43,634 | |
| | Sales growth | 8.4% | 21.4% | 21.4% | 21.4% | 21.4% | 21.4% | 15.0% | 13.0% | 11.0% | 9.5% | 8.5% | 0.0% | |
| | COGS/Sales | 76.0% | 74.5% | 74.0% | 73.5% | 73.0% | 72.5% | 72.0% | 72.0% | 72.0% | 72.0% | 72.0% | 72.0% | |
| | SGA/Sales | 21.7% | 22.5% | 22.0% | 21.5% | 21.0% | 20.5% | 20.0% | 20.0% | 20.0% | 20.0% | 20.0% | 20.0% | |
| | NOPAT | 449 | 691 | 1,209 | 1,762 | 2,566 | 3,634 | 4,777 | 5,398 | 5,991 | 6,561 | 7,118 | 7,118 | |
| | ROIC | 3.9% | 5.9% | 8.0% | 9.7% | 11.7% | 13.8% | 15.4% | 16.2% | 16.3% | 16.4% | 16.3% | 16.3% | |
| | Working Capital DOH | 92 | 74 | 74 | 74 | 74 | 74 | 68 | 65 | 62 | 60 | 60 | 60 | |
| | NIBCLs DOH | 56 | 48 | 48 | 48 | 48 | 48 | 48 | 48 | 48 | 48 | 48 | 48 | |
| | CASH required | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.6 | 1.7 | 1.8 | 1.9 | 2.0 | 2.0 | |
| | ST interest rate | 0.42% | 0.42% | 0.42% | 0.42% | 0.42% | 0.42% | 0.42% | 0.42% | 0.42% | 0.42% | 0.42% | 0.42% | |
| | LT interest rate | 1.09% | 1.09% | 1.09% | 1.09% | 1.09% | 1.09% | 1.09% | 1.09% | 1.09% | 1.09% | 1.09% | 1.09% | |
| | Tax rate | 30.9% | 30.9% | 30.9% | 30.9% | 30.9% | 30.9% | 30.9% | 30.9% | 30.9% | 30.9% | 30.9% | 31% | |
| | 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% | 100.0% | |
| | Gross DE Ratio | 419.0% | 237.9% | 221.7% | 197.0% | 166.9% | 149.7% | 118.5% | 111.7% | 109.3% | 128.2% | 128.0% | 128.0% | |
| | Net DE Ratio | 179.6% | 118.9% | 107.3% | 90.7% | 70.9% | 55.9% | 27.0% | 17.4% | 10.5% | 15.3% | 15.1% | | |
| | Depreciation rate of property, plant and equipment | 27.0% | 27.0% | 27.0% | 27.0% | 27.0% | 27.0% | 27.0% | 27.0% | 27.0% | 27.0% | 27.0% | 27.0% | |
| | Amortization rate of goodwill | 10.0% | 10.0% | 10.0% | 10.0% | 10.0% | 10.0% | 10.0% | 10.0% | 10.0% | 10.0% | 10.0% | 10.0% | |
| | 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% | 33.3% | |

Source: JPR

Appendix 2: Estimate assuming WACC of 3.5%

Shareholder value analysis

**Maximum Upside
14.1x in Market
Capitalization
Estimated**

Estimation using the excess profit method

Maximum upside 14.1x depending on realization of growth scenario

The following is an estimate based on the case shown in the Investment Summary on page 2, which assumes a lower cost of capital and a WACC of 3.5%.

Shareholder Value Analysis (Unit: JPY 100 million)

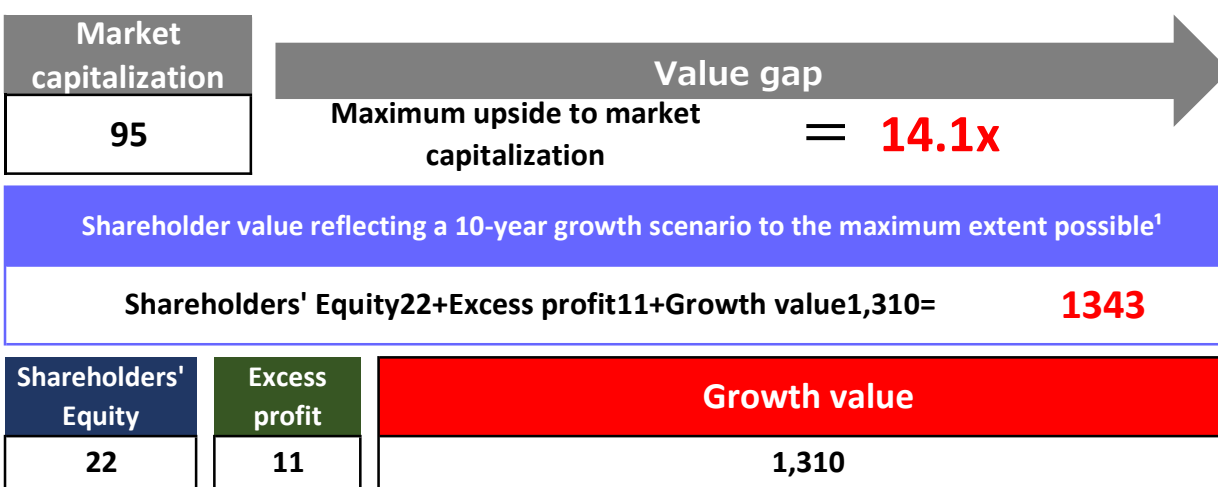
Qualitative Story Outline

Growth: Contribute to regional development by synthesizing its business portfolio

Connection : Toward realizing group synergies to solve social issues

Confidence : Contribution to local development also leads to business stability

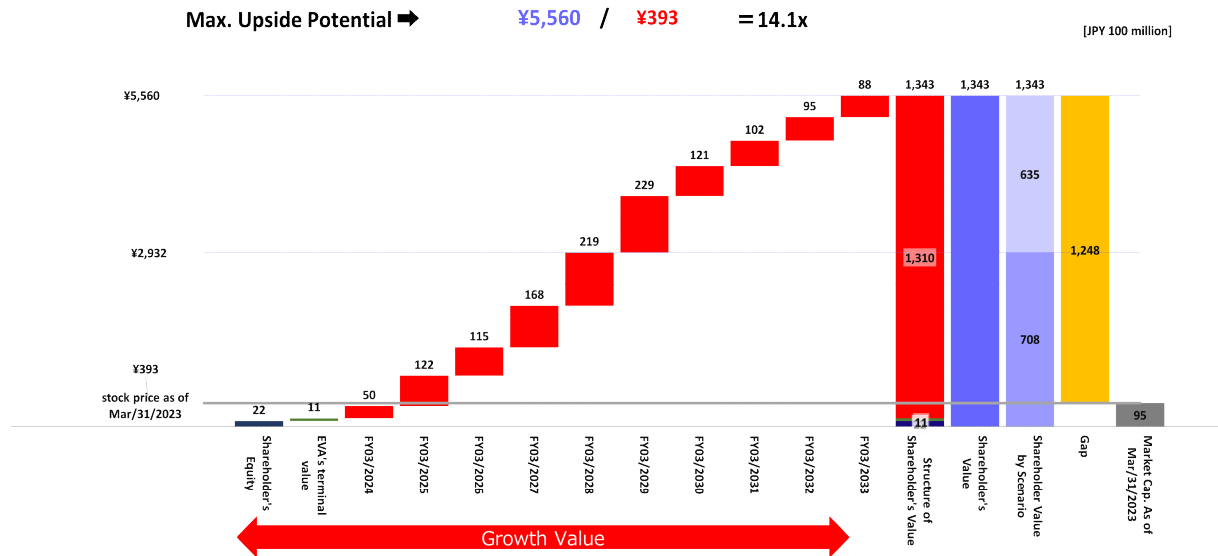
Quantitative Story Outline



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)

| [JPY 100 million] | Current Year | 1 year later | 2 years later | 3 years later | 4 years later | 5 years later | 6 years later | 7 years later | 8 years later | 9 years later | 10 years later |
|---|--------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|
| | 2023.03 | 2024.03 | 2025.03 | 2026.03 | 2027.03 | 2028.03 | 2029.03 | 2030.03 | 2031.03 | 2032.03 | 2033.03 |
| Sales | 285 | 398 | 420 | 510 | 619 | 751 | 864 | 976 | 1,084 | 1,187 | 1,288 |
| Operating income | 6.5 | 10.0 | 17.5 | 25.5 | 37.1 | 52.6 | 69.1 | 78.1 | 86.7 | 94.9 | 103.0 |
| Operating margin | 2.3% | 2.5% | 4.2% | 5.0% | 6.0% | 7.0% | 8.0% | 8.0% | 8.0% | 8.0% | 8.0% |
| Sales growth rate | 8.4% | 39.5% | 5.6% | 21.4% | 21.4% | 21.4% | 15.0% | 13.0% | 11.0% | 9.5% | 8.5% |
| NOPAT margin | 1.6% | 1.7% | 2.9% | 3.5% | 4.1% | 4.8% | 5.5% | 5.5% | 5.5% | 5.5% | 5.5% |
| Invested capital turnover ratio | 41.0% | 33.9% | 36.2% | 35.7% | 35.4% | 35.1% | 35.8% | 34.1% | 33.9% | 33.8% | 33.9% |
| WACC | 3.5% | 3.5% | 3.5% | 3.5% | 3.5% | 3.5% | 3.5% | 3.5% | 3.5% | 3.5% | 3.5% |
| ROIC = NOPAT margin + invested capital net sales ratio | 3.8% | 5.1% | 8.0% | 9.7% | 11.7% | 13.8% | 15.4% | 16.2% | 16.3% | 16.4% | 16.3% |
| ROIC / WACC (value created with the original hand of 1 yen) | ¥1.1 | ¥1.5 | ¥2.3 | ¥2.8 | ¥3.4 | ¥3.9 | ¥4.4 | ¥4.6 | ¥4.7 | ¥4.7 | ¥4.7 |
| NOPAT | 4.49 | 6.91 | 12.10 | 17.63 | 25.68 | 36.36 | 47.79 | 54.01 | 59.95 | 65.64 | 71.22 |
| Invested capital × WACC | 4.09 | 4.72 | 5.32 | 6.37 | 7.66 | 9.24 | 10.83 | 11.65 | 12.87 | 14.03 | 15.28 |
| EVA | 0.40 | 2.20 | 6.7843 | 11.25 | 18.01 | 27.13 | 36.96 | 42.35 | 47.08 | 51.61 | 55.94 |
| EVA = NOPAT - invested capital × WACC | 0.40 | 2.20 | 6.78 | 11.25 | 18.01 | 27.13 | 36.96 | 42.35 | 47.08 | 51.61 | 55.94 |
| Value created in each year | 11 | 51 | 131 | 128 | 193 | 260 | 281 | 154 | 135 | 130 | 124 |
| Discount Rate | 100% | 97% | 93% | 90% | 87% | 84% | 81% | 79% | 76% | 73% | 71% |
| Present value of EVA | 11 | 50 | 122 | 115 | 168 | 219 | 229 | 121 | 102 | 95 | 88 |
| Invested capital ① Origin | 117 | | | | | | | | | | |
| Over profit value (Permanent value of EVA of this term) ② | 11 | | | | | | | | | | |
| Growth value (Present value of increase in EVA) ③ | 1,310 | | | | | | | | | | |
| Non-business asset value ④ | 22 | | | | | | | | | | |
| Corporate value = ① + ② + ③ + ④ | 1,460 | | | | | | | | | | |
| Interest-bearing debt, etc. | -117 | | | | | | | | | | |
| Shareholder value | 1,343 | | | | | | | | | | |

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.

Reference 1. For those new to JPR reports

GCC Management™ Analysis

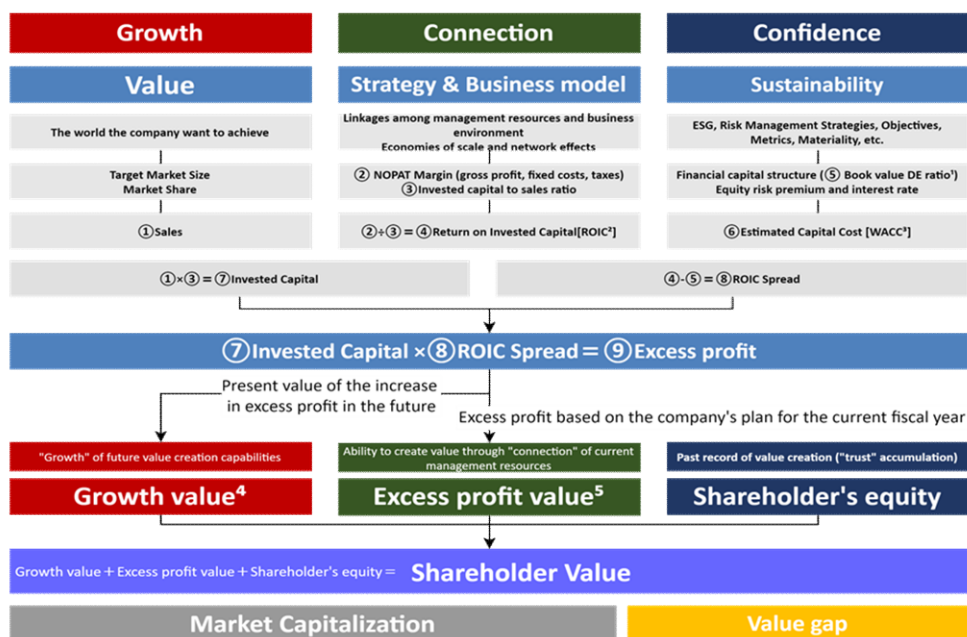
Analyze by the three elements of Growth, Connection, and Confidence.

A framework for directly linking qualitative stories to shareholder value

Visualize the value gap between theoretical shareholder value and market capitalization

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

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.

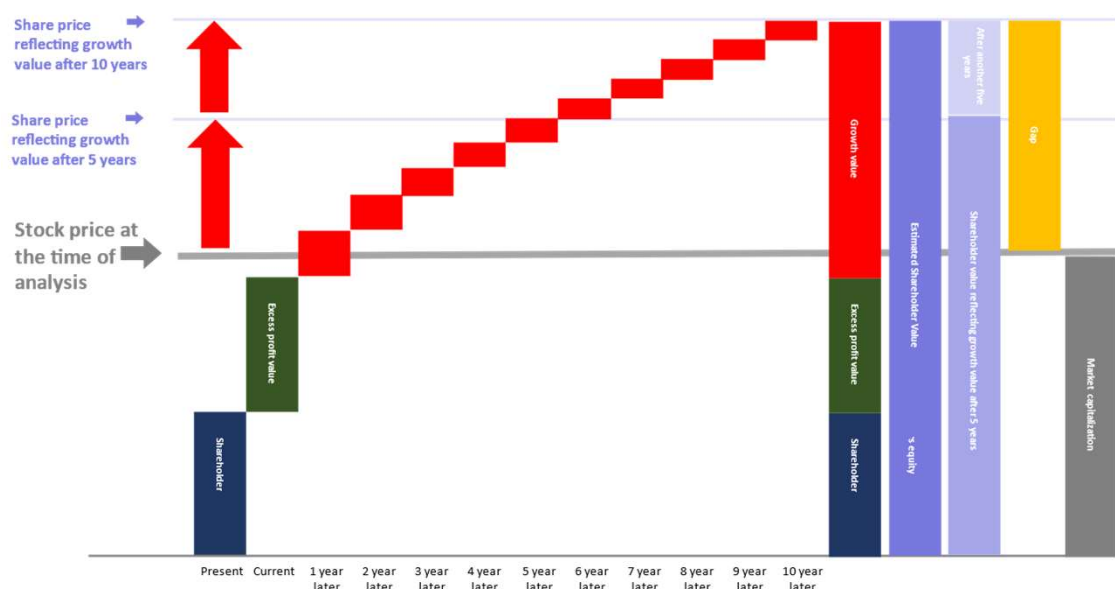
Conservative Growth Scenarios and Scenarios Reflecting Change in Future Stories

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.

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

Visualization of various scenario analysis

Visualizing the Value Gap



Source: JPR

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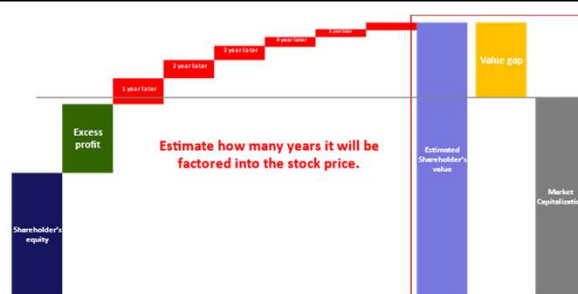
Reference 1. Basis of Calculation

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.

① Excess return = NOPAT – Invested capital X WACC

② Net Operating Profit After Tax (NOPAT) = Operating profit X (1 - Effective tax rate)

③ Invested capital = Total assets – Non-business assets – Current liabilities excluding interest-bearing debt

④ 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

⑤ 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))

⑥ Cost of shareholders' equity = 0.5% + 5% X β

⑦ β = Slope of a linear regression line of five-year daily returns of TOPIX and the stock price of the target company

⑧ E = Market cap at the time of calculation

⑨ 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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