

J Frontier Co., Ltd

23.3x upside potential based on GCC Management™ analysis

Realization of a world where anyone can enjoy good health anywhere by establishing SOKUYAKU economic zone

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)."

Establishing SOKUYAKU economic zone in the huge dispensing pharmacy market of JPY 7.7 trillion

J Frontier Co., Ltd. (hereafter JF, formerly Mobile frontier Co., Ltd) was established in 2008 as an advertising agency and mail order and wholesale company, focusing on the online medical treatment and drug delivery system "SOKUYAKU" with the mail order of pharmaceuticals and health foods, JF was listed on the TSE Growth Market in August 2021. Under the corporate philosophy of "Healthy and beautiful people and society," JF will contribute to the realization of healthy and happy lives for all people in society as a healthcare tech company by establishing SOKUYAKU economic zone through the use of digital technology, while working to reduce healthcare costs and improve the efficiency of the healthcare system. In the dispensing pharmacy market, a huge JPY 7.7 trillion target market, the mid- to long-term action plan calls for sales of JPY 30 billion in 2025 and JPY 100 billion in 2028.

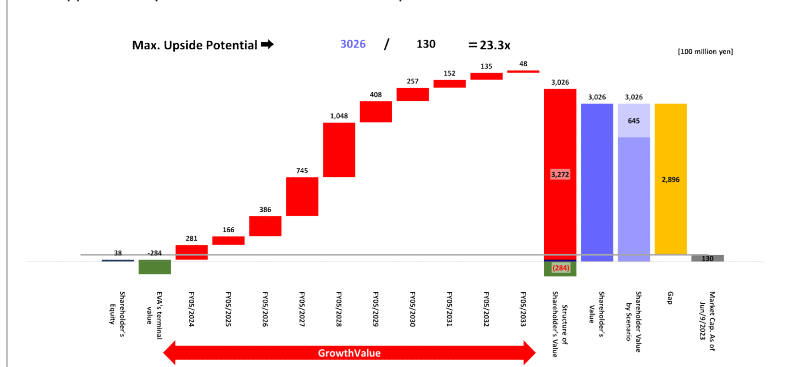
Achieving an Unparalleled Cycle of Improvement in SOKUYAKU economic zone through Insight Acquisition and IT Strengths

JF considers patients, doctors, and pharmacies to be important stakeholders, and seeks to build good relationships with doctors and pharmacies through a patient-first customer experience. While increasing the number of users, JF is expected to establish a value-creation cycle that will strengthen ties with doctors and pharmacies and satisfy their respective greatest needs: patients: a pleasant medical experience, doctors: attracting first-time patients, and pharmacies: pharmaceutical sales. Here, an overwhelming cycle of improvement will be critical, as President Nakamura's background in drugstore management, advertising agency-like analog and digital sales capabilities, and IT expertise will be utilized. In addition, while expanding the lineup of D2C products, SOKUYAKU is expected to further strengthen the mutual customer delivery system by improving convenience and expanding the area of SOKUYAKU.

Although JF is currently in the red due to investment in advertising to rapidly expand market share, the FY5/2025 plan calls for operating income of JPY 2.5 billion, and rapid ROIC improvement (estimated at 22.5%) is expected.

Up to 23.3x upside depending on 10-year growth scenario

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 302.6 billion. This is approximately 23.3 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 5 2022	11,876	-	732	-	712	-	400	-	90.64	4,290	1,622
Results for FY 5 2022 3Q	7,448	-	575	-	549	-	352	-	80.60	2,627	1,622
Results for FY 5 2023 3Q	12,720	70.8%	-690	-	-709	-	-603	-	-131.07	3,025	2,110
Plans for FY 5 2023	16,669	40.4%	-2,028	-	-2,068	-	-2,190	-	-480.59	-	-

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Basic Report

Written and Edited by
J-Phoenix Research Inc.
Taizo Honda

Company Profile

Location of Head Office	Shibuya-ku, Tokyo
Representative	Atsuhiko Nakamura
Date of Establishment	June 10, 2008
Paid-in Capital	JPY 165 million
Date of Listing	August 27, 2021
URL	https://jfrontier.jp/
Type of Business	Foods

Key Indicators As of June 9, 2023

Stock Price	JPY 2,652
52-week high	JPY 3,435
52-Week Low	JPY 1,740
Number of Shares Outstanding	4,892,098 stocks
Trading Unit	100 stocks
Market Capitalization	JPY 12,974 million
Company Projected Dividend	JPY 0
Estimated Net Income	JPY -480.59
Forecast PER	- times
Actual BPS (As of May 31, 2022)	JPY 802.00
Actual PBR	3.31 times

1. Investment Summary

Shareholder value analysis

**Maximum Upside
23.3x in Market
Capitalization
Estimated**

Estimation using the excess profit method

Maximum upside 23.3x depending on realization of growth scenario

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 JF'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)

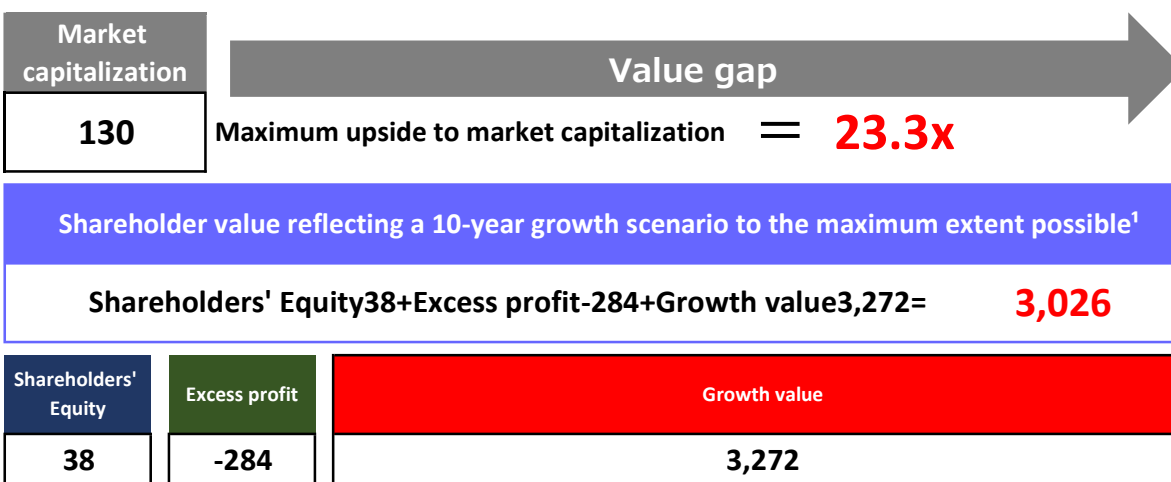
Qualitative Story Outline

Growth: Establish a SOKUYAKU economic zone that satisfies "Kenbikyōii"*2

Connection: Unparalleled Improvement Cycle Achieved through Insight Acquisition and IT Strengths

Confidence: Building high barriers to entry and contributing to solving healthcare and social security cost issues

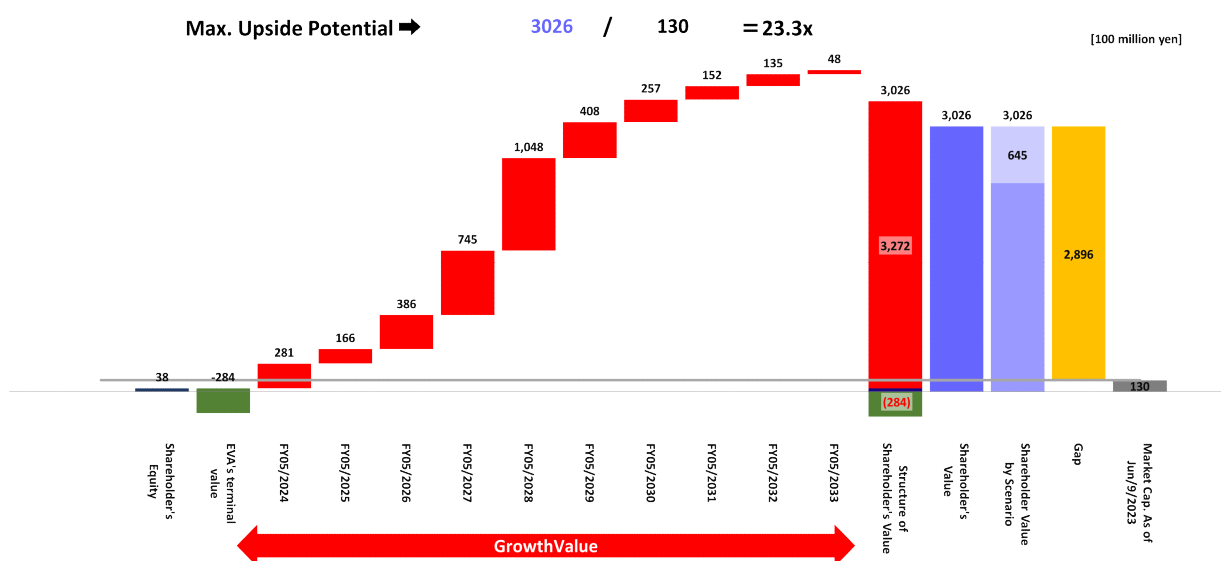
Quantitative Story Outline



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
	2023.05	2024.05	2025.05	2026.05	2027.05	2028.05	2029.05	2030.05	2031.05	2032.05	2033.05
Sales	167	250	300	469	688	1,000	1,197	1,322	1,400	1,472	1,500
Operating income	-20	6	25	70	164	300	364	401	423	444	452
Operating margin	-12.2%	2.4%	8.3%	14.9%	23.8%	30.0%	30.4%	30.3%	30.2%	30.2%	30.1%
Sales growth rate	40.4%	50.0%	20.0%	56.4%	46.5%	45.4%	19.7%	10.5%	5.9%	5.2%	1.9%
NOPAT margin	-8.4%	1.7%	5.8%	10.3%	16.5%	20.7%	21.0%	20.9%	20.9%	20.9%	20.8%
Invested capital turnover ratio	34.3%	20.9%	25.5%	24.2%	31.3%	31.9%	37.2%	35.1%	33.6%	32.2%	31.3%
WACC	6.2%	6.2%	6.2%	6.2%	6.2%	6.2%	6.2%	6.2%	6.2%	6.2%	6.2%
ROIC = NOPAT margin ÷ invested capital net sales ratio	-24.5%	8.0%	22.6%	42.4%	52.7%	65.1%	56.5%	59.7%	62.2%	64.7%	66.5%
ROIC / WACC (value created with the original hand of 1 yen)	(¥4.0)	¥1.3	¥3.6	¥6.8	¥8.5	¥10.5	¥9.1	¥9.6	¥10.0	¥10.4	¥10.7
NOPAT	-14.02	4.15	17.29	48.23	113.26	207.42	251.51	276.94	292.60	307.20	312.34
Invested capital × WACC	3.55	3.23	4.75	7.05	13.32	19.74	27.58	28.74	29.15	29.42	29.10
EVA	-17.57	0.92	12.5373	41.19	99.94	187.68	223.93	248.20	263.45	277.78	283.24
EVA = NOPAT - invested capital × WACC	-17.57	0.92	12.54	41.19	99.94	187.68	223.93	248.20	263.45	277.78	283.24
Value created in each year	-284	298	188	462	948	1,416	585	392	246	231	88
Discount Rate	100%	94%	89%	83%	79%	74%	70%	66%	62%	58%	55%
Present value of EVA	-284	281	166	386	745	1,048	408	257	152	135	48
Invested capital ① Origin	57										
Over profit value (Permanent value of EVA of this term) ②	-284										
Growth value (Present value of increase in EVA) ③	3,272										
Non-business asset value ④	3										
Corporate value = ① + ② + ③ + ④	3,048										
Interest-bearing debt, etc.	-23										
Shareholder value	3,026										

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 share

Growth: Establish a SOKUYAKU economic zone that satisfies "Kenbikyoi" ^{*2}

Values and Worldviews	Value provided and Growth Potential	Sales				
Healthy and beautiful people and society	Contributing to a healthy and happy life	CAGR 25.0% is expected				
Pursues health and social beauty centered on SOKUYAKU, which links online medical care and dispensing pharmacies. JF will work to establish a SOKUYAKU economic zone by utilizing digital technology to curb medical costs and improve the efficiency of the medical care system.	Centered on the dispensing pharmacy market, which is a huge market of 7.7 trillion yen, SOKUYAKU will contribute to the realization of healthy and happy lives for all people in society as a healthcare tech company through SOKUYAKU economic zone that develops SOKUYAKU, D2C sales, branding, and BPO services. It is expected to incorporate a strong distribution system and payment functions, and to expand into the pharmaceutical domain.	<table border="1"> <thead> <tr> <th>2023.03</th> <th>2033.03</th> </tr> </thead> <tbody> <tr> <td>167</td> <td>1,500</td> </tr> </tbody> </table> <p>Assumed sales in the medium- to long-term action plan: 30 billion yen in 2025 and 100 billion yen in 2028.</p>	2023.03	2033.03	167	1,500
2023.03	2033.03					
167	1,500					
		Growth value				
		3,272				

Connection: Unparalleled Improvement Cycle Achieved through Insight Acquisition and IT Strengths

Strategy	Business Model	ROIC				
Patient-driven relationship building	Reinforcement of mutual transfer system	Expected to improve by 91.0 points				
Build good relationships with doctors and pharmacies through a patient-first customer experience, with patients, doctors, and pharmacies as important stakeholders. By increasing the number of users and promoting collaboration with doctors and pharmacies, establish a value creation cycle that satisfies the greatest needs of each: patients: a comfortable medical experience, doctors: acquisition of first-time patients, and pharmacies: sales of pharmaceutical products.	The SOKUYAKU logo on D2C products is expected to increase awareness of SOKUYAKU. In addition, by expanding the number of D2C products handled, a system will be established whereby SOKUYAKU sends customers in the field of pre-symptomatic and preventive diseases to D2C products and D2C products are used as a trigger to send customers to SOKUYAKU, thereby mutually sending customers to SOKUYAKU. Therefore, the mutual customer transfer system is expected to be further strengthened by expanding the lineup of D2C products, improving the convenience of SOKUYAKU, and expanding its service area.	<table border="1"> <thead> <tr> <th>2023.03</th> <th>2033.03</th> </tr> </thead> <tbody> <tr> <td>-24.5 %</td> <td>66.5 %</td> </tr> </tbody> </table> <p>Assumption of achieving planned operating income of 2.5 billion yen in 2025 and operating income of 30 billion yen in 2028.</p>	2023.03	2033.03	-24.5 %	66.5 %
2023.03	2033.03					
-24.5 %	66.5 %					
		Excess profit				
		-284				

Confidence: Building high barriers to entry and contributing to solving healthcare and social security cost issues

Financial Sustainability	Contribution to Social Sustainability	WACC				
High industry-specific barriers to entry	QoL improvement and social security cost reduction	Maintenance of the status quo				
Since doctors are essential in building relationships and pharmacies are important in strengthening competitiveness, a certain amount of market share expansion would create stronger barriers to entry. In addition, entry by Amazon and others is unthinkable under Japan's regulations on prescription drugs.	Developing services specialized in "Kenbikyoi" (health, beauty, education, healing, medicine, and medical care), which are essential for improving QoL in SOKUYAKU economic zone, to realize a society where anyone, anywhere, anytime can connect with a doctor or pharmacist and receive medicine. By actively providing medicines in the areas of pre-disease and prevention, the amount of prescription drugs needed and the length of time people spend at medical institutions will be reduced, contributing to the reduction of social security costs.	<table border="1"> <thead> <tr> <th>6.2</th> <th>%</th> </tr> </thead> <tbody> <tr> <td colspan="2">High barriers to entry and the social contribution of the business itself are unlikely to increase business risk and capital costs.</td> </tr> </tbody> </table>	6.2	%	High barriers to entry and the social contribution of the business itself are unlikely to increase business risk and capital costs.	
6.2	%					
High barriers to entry and the social contribution of the business itself are unlikely to increase business risk and capital costs.						
		Shareholders' Equity				
		38				

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

*2Health, Beauty, Education, Healing, Medicine, Medical Care

2. Overview

Company overview

Company Name	J Frontier Co., Ltd (In Japanese : ジェイフロンティア株式会社)
Establishment	June 10, 2008
Representative	Atsuhiro Nakamura
Head Office Location	8F SANWA Aoyama bldg., 2-9-9 Shibuya, Shibuya-ku, Tokyo
Capital	JPY 165 million
Number of Employees	369 (As of July-31 2022)
Fiscal Year End	March
Business	SOKUYAKU business (operation of online medical services, online medication guidance and drug delivery platform, DX support for medical institutions, operation of dispensing pharmacies), D2C business (D2C business for healthcare products including pharmaceuticals), B2B business (BPO support for medical institutions and healthcare companies (marketing, logistics, call centers, etc.))
Date of Listing	August 27, 2021
Stock Exchange Listing	Tokyo Stock Exchange Growth Market [Securities code: 2934]

Source: Compiled by JPR based on company data.

History

Year	Month	Contents
2008	6	Mobile frontier Co., Ltd (now JF) is established with capital of JPY 9 million.
		Launched Casting Ads in the Advertising Agency Business
2011	6	Launched SNS (social networking service) advertising for an advertising agency.
2012	4	Launched PR event (press conference) advertising for advertising agency.
	8	Launched Kosuiso 328-sen, the official website for own-brand health food products.
2014	6	Company name changed to J Frontier Co., Ltd
2016	12	Established Kusurino Kenko Nihondo official mail order site
2018	11	Launched "BooMStar" influencer marketing site.
2019	5	Opened Dispensing pharmacy "Kenko Nihondo dispensing pharmacy Akasaka store"
		Launched Customer service platform "Sokuyaku" app
	11	JFD took over the online store handling Seikansen®Bofutsushosan and other Kampo medicines from Ain Pharmaciez Inc.
2020	4	Started telephone medication counseling and home delivery of prescription drugs
2021	2	Released SOKUYAKU application, a medical platform service
	8	Listed on the Mothers market of the Tokyo Stock Exchange
	11	Acquisition of shares of CD Co., Ltd and Blosafe Co., Ltd (now a consolidated subsidiary)
	12	Acquisition of shares of Alpharun Co., Ltd and AIGATE career Co., Ltd. (now a consolidated subsidiary)
2022	1	Acquisition of Lycka Co., Ltd's hair and body care brand "LILAY" series through business transfer
	3	Acquisition of shares of Ex-Partners Co.,Ltd. (now a consolidated subsidiary)
	4	Launched SOKUYAKU Online Pharmacy
	7	Acquisition of shares of EC Studio inc. (now a consolidated subsidiary)

Source: Compiled by JPR based on company data.

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Major Consolidated Subsidiaries and Group Companies

Business Line	Company Name	Business Outline	Capital	Shareholding Ratio
Medical Care Sales	CD Co., Ltd	Operation of e-commerce sites for pharmaceuticals and other products, pharmaceutical wholesale business, operation of dispensing pharmacies	30	100%
Healthcare Marketing	Alpharun Co., Ltd	Enclosing, sealing, packing, etc., mail, direct mail and parcel delivery agency, logistics consulting/sales promotion business, warehousing	20	100%
Medical Care Sales, Healthcare Marketing	AIGATE career Co., Ltd.	Sales temporary staffing business, job placement business, outsourcing and contracting business, M&A advisory business	80	100%
Medical Care Sales	Ex-Partners Co.,Ltd.	Website production specialized for medical institutions, SEO measures, MEO measures, VSEO measures, listing advertisement agency (Google/Yahoo), reservation system introduction support, online medical care introduction support (online medical care and medication guidance application SOKUYAKU), job recruitment support services	10	90%

Source: Compiled by JPR based on company data

Major Business and Capital Alliances

Year	Month	Company	Purpose
2022	5	General Incorporated Association Ayamikai	To provide an online clinic service specializing in cosmetic medicine that is even more convenient for patients, such as the ability to receive prescription medication in as little as one hour, by combining the medical staff and knowledge of cosmetic medicine belonging to Gibikai with JF's "SOKUYAKU" online medical treatment, medication guidance, and drug delivery service for medical institutions and pharmacies. To provide online clinic services that are even more convenient for patients, such as receiving prescriptions in the shortest amount of time.
2022	7	FINANCIAL AGENCY, Inc.	To promote the use of "SOKUYAKU" to the customer base of the FINANCIAL AGENCY and its affiliated insurance companies and insurance agencies, and to spread and expand the use of this service. In addition, to implement reminder functions and insurance claim functions on "SOKUYAKU" according to the results of online medical examinations, etc. In addition, to promote the development of new, more personalized insurance products.
2022	9	Japan Airlines Co., Ltd.	Through "SOKUYAKU," JF will promote the spread of online medical services that can be easily accessed from anywhere in the world, and work to realize medical and health support that is suited to the coming era.
2022	11	I&H Co., Ltd.	To develop and verify digital technologies that will contribute to the establishment of a robust medical system in remote areas and islands, and to further strengthen the efforts of the two companies to date.
2022	11	WellBe Holdings Limited	To promote the spread of online medical services that can be easily accessed by expatriate Japanese through the use of "SOKUYAKU" and to realize medical and health support for the coming era.
2023	3	AirTrip Premium Club Corp.	To create a safer environment for travel and business trips by providing an environment in which medical care can be received on the road, including online medical care, medication guidance, and home delivery of prescription medications using "SOKUYAKU."

Source: Compiled by JPR based on company data.

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

Growth

Establish a SOKUYAKU economic zone to fulfill "Kenbikyuu"*¹**Toward a world where anyone can enjoy good health anywhere as an infrastructure next to food, clothing, and shelter**

Conceptual Design

Progress: 90%.

JF's corporate philosophy is "to make people and society healthy and beautiful," and through the use of digital technology, JF is working to "curb medical costs by extending healthy life expectancy" and "improve the efficiency and effectiveness of medical institutions through DX-enabled systems," thereby contributing to the realization of healthy and happy lives for all people in society as a healthcare tech company. JF will contribute to the realization of healthy and happy lives for all people in society as a healthcare tech company. Establish a new business model that links online medical services and dispensing pharmacies, which are being deregulated, and support people's health and happiness by promoting DX in the medical and pharmaceutical fields, as well as developing products and services for the prevention of illness and disease.

TAM/SAM/SOM

TAM (FY2021): dispensing medical expenses JPY 7,705.9 billion*², cosmetics JPY 2,290 billion*³, health foods JPY 888 billion*⁴, total JPY 10,883.9 billion

SAM: SOKUYAKU's 800 million prescriptions*² x JPY 150/usage fee*⁵ = JPY 120 billion, about the 10th largest in the cosmetics industry at about JPY 40 billion*⁶ and about the 5th largest in the health food mail order industry at about JPY 18 billion*⁷ for a total of JPY 178 billion

SOM: JF's planned sales for the full year ending May 2023: JPY 16.6 billion.

Expansion from reform of the dispensing pharmacy industry to beauty, health, distribution, and payment

Implementation Design

Progress: 70%.

To establish the SOKUYAKU economic zone, JF is developing the online medical treatment "SOKUYAKU" and D2C sales of pharmaceuticals, health foods, cosmetics, etc., as well as branding and BPO services to prolong the duration of unwellness and prevention and shorten the duration of illness. By establishing a robust distribution system and incorporating settlement functions, JF is expected to become a Rakuten-like presence that handles all aspects of healthcare. In addition, there is a possibility of further contribution to health care by expanding into the pharmaceutical area, utilizing the needs captured to expand the economic sphere.

Rapid expansion of market share since launch in a huge market

Reflection of results

Progress: 30%.

In 3Q FY5/2023, the number of SOKUYAKU partners was 3,009 hospitals, 6,014 pharmacies, and 1,085,451 users, growing rapidly. The number of new clients in the B2B business is also on track, at 82% of the planned number of new clients.

*¹Health, Beauty, Education, Healing, Medicine, Medical Care

*²Ministry of Health, Labour and Welfare, "Trends in Dispensing Medical Expenses (Computerized) - FY2021 Edition

*³Research Institute of Yano Economics Ltd. "Study on Cosmetics Market (2022)

*⁴Yano Economic Research Institute, "Health Food Market Survey (2022)" *⁴Yano Economic Research Institute, "Health Food Market Survey (2022)

*⁵J Frontier, "Financial Results for the Third Quarter of the Fiscal Year Ending May 31, 2023

*⁶Digital & Works Corporation, "Industry Trends Research Cosmetics Industry Sales Ranking"

*⁷PRECS Corporation, "D2C and Regular Mail Order Know-How Course, Health Food EC Sales Ranking

Connection

Conceptual Design

Progress: 90%.

Implementation Design

Progress: 70%.

Reflection of results

Progress: 10%.

Achieving an Unparalleled Improvement Cycle through Insight Gaining and IT Strengths

Building Relationships with Stakeholders Starting with Patients First

JF's main stakeholders are patients, doctors, and pharmacies. In the value chain among these stakeholders, the greatest needs of patients are a comfortable medical experience, physicians are to acquire first-time patients, and pharmacies are to sell pharmaceuticals. Therefore, it can be said that JF is promoting the establishment of a value creation cycle that can provide a comfortable customer experience by increasing the number of users and promoting collaboration with doctors and pharmacies.

Reinforcement of mutual customer delivery system between SOKUYAKU and D2C products

JF's D2C products carry the SOKUYAKU logo, which is expected to increase awareness of SOKUYAKU through the use of D2C products. In addition, since the compatibility of beauty and health products used by users and medical institutions is also linked, the expansion of the number of D2C products handled will establish a system of reciprocal customer referrals, with SOKUYAKU sending customers in the field of pre-disease and prevention and D2C product use leading to SOKUYAKU use. Therefore, JF expects to further strengthen the mutual customer service system by expanding the D2C product lineup through in-house development, OEM, M&A, etc., while enhancing convenience and expanding the area through the expansion of distribution and settlement functions.

Developing meticulous online medical services that are also compatible with analog support

Currently in the red due to investment in advertising

In order to rapidly expand its market share, JF is focusing on investment in advertising. As a result, SOKUYAKU's loss is affecting JF's overall performance, with operating income of JPY -576 million as of 3Q FY5/2023; JF's FY5/2025 plan calls for operating income of JPY 2.5 billion, and a rapid improvement in ROIC (estimated at 22.5%) is expected.

User Retention through Attentive Service

SOKUYAKU offers a full range of services, from online medical care to pharmacy appointments and drug delivery. In the medical practice, SOKUYAKU is proactively improving the customer experience through the use of SNS, such as by instructing doctors to improve the price display. In the pharmacy setting, JF is taking steps such as rescheduling appointments to a nearby pharmacy based on inventory, in case a prescription drug is not in stock. By providing such detailed services, JF aims to retain new users acquired through increased awareness. These efforts are thought to be a result of President Nakamura's background in drugstore management, analog and digital sales capabilities as an advertising agency, and IT expertise.

Confidence

Current stability is 70%.

Social contribution is 90%.

Building high barriers to entry and contributing to solving healthcare and social security cost issues

Financial Stability: High barriers to entry due to collaboration with doctors and Japan-specific regulations

Building relationships with doctors and pharmacies is essential for online medical services

In order to develop online medical services, it is essential to build relationships with physicians who actually provide medical care. The key to building this relationship is the ease of access to online medical services and the ability to attract first-time patients. JF has demonstrated this competitive edge by building an online medical practice environment, investing in patient-oriented advertising, and by scheduling prescriptions with pharmacies. JF is also making very good progress in building relationships with pharmacies, and is seeing the introduction of the system in all of the pharmacy chains where it has been tested. Thus, barriers to entry have already been established to some extent, and are expected to become even stronger as JF's market share expands.

Under Japanese regulations, the possibility of entry by Amazon and others is expected to be low.

While there are fears of Amazon and others entering the market based on overseas examples, it is difficult to imagine them entering a business category similar to JF's. This is because, under Japanese regulations, ethical pharmaceuticals cannot be delivered from a single distribution center, and because NHI prices are fixed, price competition is not possible. In addition, since medical consultation information cannot be obtained without a link to a doctor, and cloud-based electronic medical records are available for only a small percentage of all patients, full-scale use of electronic prescriptions will take some time. Pharmacies also compete with Amazon and others, so the potential for partnerships is low.

Social Contribution: Fulfillment of "Kenbikyouii" and Contribution to Reduction of Social Security Costs

Satisfying "Kenbikyouii" through SOKUYAKU economic zone

SOKUYAKU economic zone that JF aims to establish will develop services that specialize in "Kenbikyouii" (health, beauty, education, healing, medicine, and medical care). These are the second most important infrastructure after food, clothing, and housing, and are indispensable for improving QoL.

SOKUYAKU alone is also expected to serve as a one-stop platform providing online medical care, online medication guidance, and delivery of prescription drugs, creating a society in which anyone, anywhere, anytime can connect with a doctor or pharmacist and receive medicine.

Contribution to the reduction of social security costs through the activation of the unwellness and prevention field

By activating the provision of medicines in the pre-symptomatic and preventive fields through the improvement of QoL by SOKUYAKU economic zone, it is expected that healthy life expectancy will be extended, and the amount of prescription medicines required and the prolonged use of medical institutions will be reduced. This is expected to contribute to the reduction of social security costs, which continue to increase.

Growth

Accelerate sales expansion through M&A

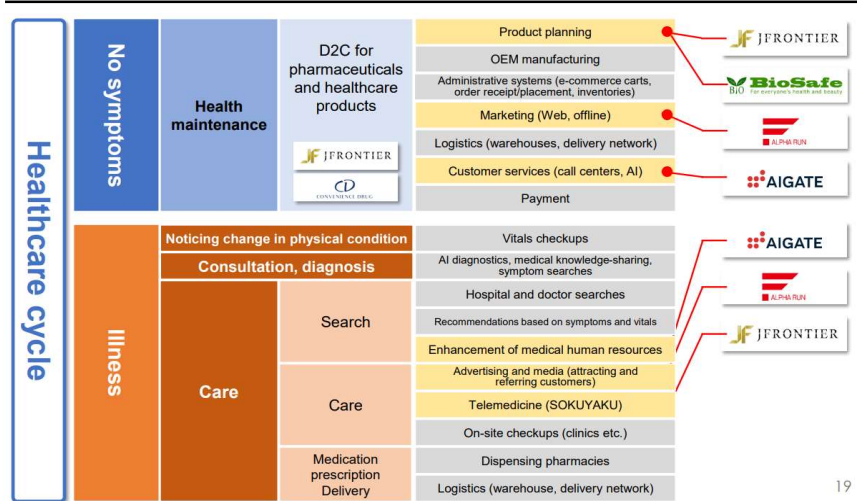
Expect improvement in operating margin through reduction of SG&A expenses

Assumptions for Net Sales and Operating Income Margin

Net sales: Assumption of one M&A each year based on company plan

JF's medium- to long-term action plan*¹ calls for sales of JPY 30 billion in FY5/2025 and JPY 100 billion in FY5/2028. In the D2C business, in particular, JF aims to have 200 original products in FY5/2025 (double the number of products in compared to FY5/2022). To achieve this, JF expects to acquire one M&A company each year through FY5/2033, and to raise funds several times in conjunction with these acquisitions.

JF's M&A Mapping



[Source]Medium and Long-Term JF Group Strategy Outlook, and Midterm Targets of FY Ending May 2025

Operating profit margin: Assumes sequential improvement based on company plan

JF has set an operating income target of JPY 2.5 billion (operating margin of 8.33%) in its medium-term management target, and "We will also focus on M&A to establish SOKUYAKU economic zone, and by the time sales of SOKUYAKU itself reach JPY 100 billion, we hope to be able to generate about JPY 30 billion in profit."*². For this reason, JPR has set its operating margin at 30% for FY5/2028, which is based on the assumption of JPY 100 billion in sales. It is expected to reduce the SG&A-to-sales ratio by recovering current advertising investments and establishing SOKUYAKU economic zone.

*¹J Frontier "Our Group's Medium- and Long-Term Outlook and Medium-Term Management Targets for the Fiscal Year Ending May 31, 2025

*²Logme Finance, "Logme Finance 53rd IR Seminar for Individual Investors Zoom Webinar Part 4, J Frontier

4. Summary of Business Results for 3Q FY5/2023

Financial Summary

Sales, membership,
and partners are all
strong

Overall Overview

Summary of Business Results

As a result of various measures in the three segments, in 3Q of this fiscal year, JF posted consolidated net sales of JPY 12,720,969 thousand (+70.8% YoY), operating loss of JPY 690,424 thousand (vs. operating income of JPY 575,475 thousand in the same period last year), ordinary loss of JPY 709,004 thousand (vs. ordinary income of JPY 549,763 thousand in the same period last year) and net loss attributable to owners of the parent of JPY 603,631 thousand (vs. net income attributable to owners of the parent of JPY 352,531 thousand in the same period last year). Net loss attributable to owners of the parent was 603,631 thousand yen (vs. net income attributable to owners of the parent of 352,531 thousand yen in the same period last year).

Results by Segment

Medical Care Sales Business

In the D2C (e-commerce and mail-order) pharmaceuticals business, sales in Class 1 and Class 2 drugs continued to be strong. In addition, consumer needs for "SOKUYAKU" remained strong due to its high level of convenience, and the number of application members increased favorably, along with the number of affiliated hospitals and pharmacies. In addition, JF launched an online medical consultation service for local governments, and several local governments have contracted with JF to provide this service.

As a result, segment sales were JPY 5,843,656 thousand (+101.9% YoY) and segment loss was JPY 576,157 thousand (segment income of JPY 134,356 thousand in the same period last year).

Healthcare Sales Business

Released a new brand, SOKUYAKU Beauty, and launched a new whitening product as the first product. In addition, collaboration with subsidiary EC Studio continues to progress steadily.

As a result, segment sales were JPY 3,010,136 thousand (+17.5% YoY) and segment profit was JPY 251,689 thousand (-62.2% YoY).

Healthcare Marketing Business

As a result of group-wide efforts to focus on sales to new customers and cross-selling to existing customers, segment sales were JPY 3,867,176 thousand (+94.1% YoY), and segment income was JPY 19,064 thousand (-58.0% YoY).

Appendix: Details of the financial model

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

[Millions of yen]	Corporate Plan JPR Forecast	JPR Forecast	JPR Forecast	JPR Forecast	JPR Forecast	JPR Forecast	JPR Forecast	JPR Forecast	JPR Forecast	JPR Forecast	JPR Forecast	JPR Forecast
FY	2023.5	2024.5	2025.5	2026.5	2027.5	2028.5	2029.5	2030.5	2031.5	2032.5	2033.5	
PL												
Sales	16,669	25,000	30,000	46,928	68,771	100,000	119,685	132,244	139,990	147,209	150,000	
Cost of sales	9,091	13,500	15,954	24,956	36,572	53,180	63,648	70,327	74,447	78,286	79,770	
SG&A Expenses	9,606	11,500	14,046	21,971	32,199	46,820	56,036	61,917	65,543	68,923	70,230	
EBITDA	▲ 1,917	718	2,629	7,125	16,557	30,201	36,594	40,282	42,555	44,642	45,326	
Total Depreciation and Amortization	111	118	129	149	175	201	217	227	235	211	151	
Operating income	▲ 2,028	600	2,500	6,976	16,382	30,000	36,377	40,054	42,320	44,431	45,175	
Interest expenses	15	13	0	0	0	0	0	0	0	0	0	
Other non-operating income	▲ 25	0	0	0	0	0	0	0	0	0	0	
Ordinary income	▲ 2,068	587	2,500	6,976	16,382	30,000	36,377	40,054	42,320	44,431	45,175	
Extraordinary gains/losses	0	0	0	0	0	0	0	0	0	0	0	
Income taxes	122	181	773	2,156	5,062	9,270	11,240	12,377	13,077	13,729	13,959	
Comprehensive income attributable to owners of the parent	▲ 2,190	406	1,728	4,821	11,320	20,730	25,136	27,678	29,243	30,702	31,216	
Number of shares issued at beginning of period (thousand shares)	4,892	4,892	5,381	5,381	5,919	5,919	5,919	5,919	5,919	5,919	5,919	
Number of shares issued (thousand shares)	0	489	0	538	0	0	0	0	0	0	0	
Number of shares issued at end of period (thousand shares)	4,892	5,381	5,381	5,919	5,919	5,919	5,919	5,919	5,919	5,919	5,919	
EPS (yen)	▲ 447.66	75.42	321.02	814.38	1,912.30	3,502.02	4,246.39	4,675.71	4,940.22	5,186.60	5,273.51	
Dividends	0	0	0	0	0	0	0	0	0	0	0	
Dividends paid	0	0	0	0	0	0	0	0	0	0	0	
Retained earnings	▲ 2,190	406	1,728	4,821	11,320	20,730	25,136	27,678	29,243	30,702	31,216	
BS												
Liquidity on hand	3,125	3,750	5,866	8,596	12,500	14,961	16,531	17,499	18,401	18,750	18,806	
Working Capital	2,947	3,536	5,532	8,107	11,788	14,109	15,589	16,502	17,353	17,682	17,735	
Property, plant and equipment subject to amortization	72	86	135	198	288	345	381	403	424	432	433	
Goodwill	786	2,121	2,355	7,764	11,149	18,833	17,018	14,915	12,597	10,303	8,065	
Investment securities	0	0	0	0	0	0	0	0	0	0	0	
Other assets	322	610	1,304	2,424	4,270	6,004	7,620	9,111	10,679	12,000	12,036	
Total assets	7,252	18,014	21,119	58,215	72,076	94,409	120,568	148,876	178,707	209,636	240,888	
Current liabilities other than interest-bearing debt	2,035	2,442	3,820	5,598	8,141	9,743	10,766	11,396	11,984	12,211	12,247	
Short-term debt	3,250	0	0	0	0	0	0	0	0	0	0	
Long-term debt	0	0	0	0	0	0	0	0	0	0	0	
Other long-term liabilities	0	0	0	0	0	0	0	0	0	0	0	
Capital stock, etc.	2,957	16,156	16,156	46,652	46,652	46,652	46,652	46,652	46,652	46,652	46,652	
Retained earnings, etc.	▲ 990	▲ 584	1,143	5,964	17,284	38,014	63,150	90,827	120,071	150,773	181,989	
Net Assets and Liabilities	7,252	18,014	21,119	58,215	72,076	94,409	120,568	148,876	178,707	209,636	240,888	
CF												
Liquidity on hand	▲ 1,041	▲ 625	▲ 2,116	▲ 2,730	▲ 3,904	▲ 2,461	▲ 1,570	▲ 968	▲ 902	▲ 349	▲ 56	
Working capital	▲ 982	▲ 589	▲ 1,995	▲ 2,575	▲ 3,681	▲ 2,321	▲ 1,481	▲ 913	▲ 851	▲ 329	▲ 52	
Current liabilities other than interest-bearing debt	678	407	1,378	1,778	2,542	1,602	1,022	631	588	227	36	
Investment in tangible fixed assets	▲ 45	▲ 42	▲ 87	▲ 121	▲ 175	▲ 167	▲ 163	▲ 159	▲ 165	▲ 157	▲ 152	
Depreciation of property, plant and equipment	21	28	39	58	85	110	126	137	144	149	151	
Investment in goodwill	0	▲ 1,500	▲ 500	▲ 6,000	▲ 4,500	▲ 9,500	▲ 500	▲ 250	▲ 50	▲ 50	▲ 50	
Amortization of goodwill	91	166	266	591	1,116	1,816	2,316	2,353	2,368	2,344	2,288	
Short-term marketable securities	0	0	0	0	0	0	0	0	0	0	0	
Investment securities	0	0	0	0	0	0	0	0	0	0	0	
Other assets	▲ 107	▲ 288	▲ 694	▲ 1,120	▲ 1,847	▲ 1,733	▲ 1,616	▲ 1,491	▲ 1,568	▲ 1,321	▲ 36	
Retained earnings, etc.	▲ 2,190	406	1,728	4,821	11,320	20,730	25,136	27,678	29,243	30,702	31,216	
Operating CF	▲ 3,576	▲ 2,038	▲ 1,983	▲ 5,299	956	8,077	23,271	27,017	28,807	31,216	33,345	
Short-term debt	3,163	▲ 3,250	0	0	0	0	0	0	0	0	0	
Long-term debt	▲ 460	0	0	0	0	0	0	0	0	0	0	
Other Long-term Liabilities	0	0	0	0	0	0	0	0	0	0	0	
Equity financing	0	13,199	0	30,496	0	0	0	0	0	0	0	
Financing CF	2,703	9,949	0	30,496	0	0	0	0	0	0	0	
Surplus Cash and Deposits	▲ 873	7,911	▲ 1,983	25,197	956	8,077	23,271	27,017	28,807	31,216	33,345	
KPI												
High ratio of capital sold under the first investment in the period	23.0%	20.9%	25.5%	24.2%	31.3%	31.9%	37.2%	35.1%	33.6%	32.2%	31.3%	
Initial Capital	3,831	5,217	7,661	11,372	21,491	31,855	44,508	46,373	47,034	47,470	46,956	
High sales growth rate	40.4%	50.0%	20.0%	56.4%	46.5%	45.4%	19.7%	10.5%	5.9%	5.2%	1.9%	
NOPAT	▲ 1,401	415	1,728	4,821	11,320	20,730	25,136	27,678	29,243	30,702	31,216	
ROIC	-36.6%	7.9%	22.5%	42.4%	52.7%	65.1%	56.5%	59.7%	62.2%	64.7%	66.5%	
Operating capital to day ratio (days)	43	43	43	43	43	43	43	43	43	43	43	
Original selling price rate	54.5%	54.0%	53.2%	53.2%	53.2%	53.2%	53.2%	53.2%	53.2%	53.2%	53.2%	
Management fee rate	57.6%	46.0%	38.5%	32.0%	23.0%	16.8%	16.5%	16.4%	16.6%	16.6%	16.7%	
Operating Profit Rate	-12.2%	2.4%	8.3%	14.9%	23.8%	30.0%	30.4%	30.3%	30.2%	30.2%	30.1%	
Current liabilities other than interest-bearing liabilities daily ratio (days)	30	30	30	30	30	30	30	30	30	30	30	
Liquidity on hand monthly ratio (months)	2	2	2	2	2	2	2	2	2	2	2	
Short-term debt interest rate	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	
Long-term debt interest rate	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	
Effective tax rate	30.9%	30.9%	30.9%	30.9%	30.9%	30.9%	30.9%	30.9%	30.9%	30.9%	30.9%	
Dividend payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Gross DE ratio	165.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Net DE ratio	6.4%	-74.9%	-68.2%	-75.5%	-69.7%	-65.1%	-72.8%	-78.5%	-82.6%	-85.7%	-88.6%	
Property, plant and equipment depreciation ratio	29.7%	29.7%	29.7%	29.7%	29.7%	29.7%	29.7%	29.7%	29.7%	29.7%	29.7%	
WACC	6.2%	6.2%	6.2%	6.2%	6.2%	6.2%	6.2%	6.2%	6.2%	6.2%	6.2%	
ROIC-WACC	-42.8%	1.7%	16.3%	36.2%	46.5%	58.9%	50.3%	56.0%	58.5%	60.3%	60.3%	
Excess profit = (ROIC-WACC) x beginning invested capital	▲ 1,639	91	1,253	4,116	9,987	18,755	22,377	24,802	26,327	27,759	28,305	
Permanent value of excess profit	▲ 26,433	1,470	20,202	66,381	161,085	302,500	360,916	400,040	424,633	447,720	456,531	
Estimated value of growth value at the end of each year		27,904	18,731	46,179	94,704	141,415	58,416	39,124	24,593	23,088	8,811	
Present Value Factor	94.2%	88.7%	83.5%	78.6%	74.0%	69.7%	65.6%	61.8%	58.2%	54.8%	51.6%	

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Reference 1. For those new to JPR reports

GCC Management™ Analysis

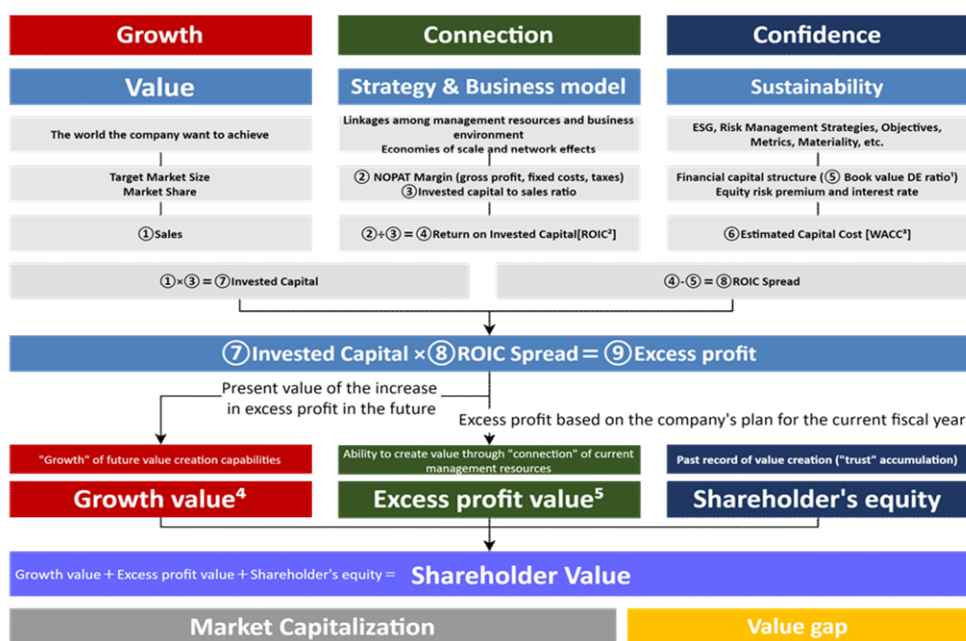
Visualize the value gap between theoretical shareholder value and market capitalization

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"

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

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.

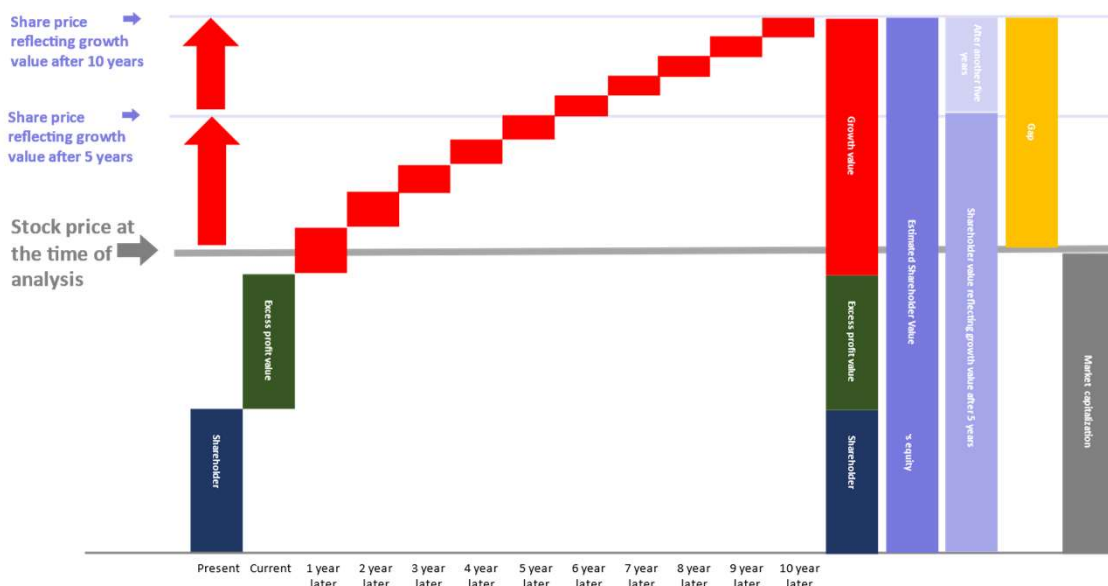
Conservative Growth Scenarios and Scenarios Reflecting Change in Future Stories

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

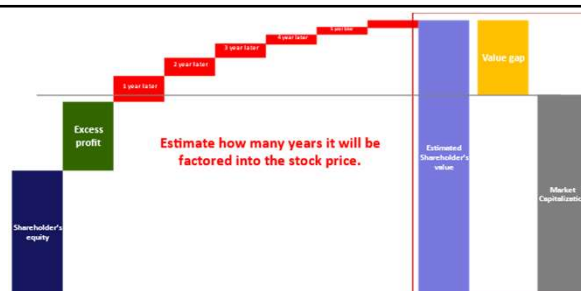
Reference 2. Basis of Calculation

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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