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On **May 15, 2018**, RVH Inc. announced earnings results for full-year FY03/18.

Cumulative (JPYmm)	FY03/16				FY03/17				FY03/18				FY03/18	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Sales	2,579	5,071	7,504	18,070	10,585	20,999	31,046	41,533	13,016	26,734	39,794	53,006	100.0%	53,000
YoY	1082.0%	1015.9%	346.4%	245.6%	310.5%	314.1%	313.7%	129.8%	23.0%	27.3%	28.2%	27.6%		27.6%
Gross profit	624	1,162	1,693	8,958	8,064	16,053	23,609	32,347	10,847	22,289	32,532	43,880		
YoY	1012.6%	1129.5%	332.1%	656.6%	1192.7%	1281.6%	1294.7%	261.1%	34.5%	38.8%	37.8%	35.7%		
GPM	24.2%	22.9%	22.6%	49.6%	76.2%	76.4%	76.0%	77.9%	83.3%	83.4%	81.8%	82.8%		
SG&A expenses	318	528	827	6,136	6,632	14,097	21,371	29,718	10,958	21,928	31,673	43,143		
YoY	234.1%	189.7%	137.6%	764.6%	1986.5%	2572.1%	2482.7%	384.3%	65.2%	55.6%	48.2%	45.2%		
SG&A ratio	12.3%	10.4%	11.0%	34.0%	62.7%	67.1%	68.8%	71.6%	84.2%	82.0%	79.6%	81.4%		
Operating profit	306	634	865	2,822	1,432	1,957	2,238	2,629	-110	360	859	737	40.9%	1,800
YoY	-	-	1894.5%	495.0%	367.9%	208.4%	158.6%	-6.8%	-	-81.6%	-61.6%	-72.0%		-31.5%
OPM	11.9%	12.5%	11.5%	15.6%	13.5%	9.3%	7.2%	6.3%	-	1.3%	2.2%	1.4%		3.4%
Recurring profit	313	645	874	2,857	1,475	2,080	2,369	2,797	-95	436	961	912	48.0%	1,900
YoY	-	-	711.4%	423.8%	370.9%	222.3%	171.1%	-2.1%	-	-79.0%	-59.4%	-67.4%		-32.1%
RPM	12.1%	12.7%	11.6%	15.8%	13.9%	9.9%	7.6%	6.7%	-	1.6%	2.4%	1.7%		3.6%
Net income	103	397	577	2,087	848	1,137	1,077	841	-312	-262	-94	317	53.7%	590
YoY	-	-	-21.7%	107.5%	719.3%	186.0%	86.7%	-59.7%	-	-	-	-62.3%		-29.9%
Net margin	4.0%	7.8%	7.7%	11.5%	8.0%	5.4%	3.5%	2.0%	-	-	-	0.6%		1.1%
Quarterly (JPYmm)	FY03/16				FY03/17				FY03/18					
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
Sales	2,579	2,492	2,433	10,566	10,585	10,414	10,047	10,487	13,016	13,718	13,060	13,212		
YoY	1082.0%	954.9%	98.3%	197.8%	310.5%	317.9%	312.9%	-0.7%	23.0%	31.7%	30.0%	26.0%		
Gross profit	624	538	531	7,266	8,064	7,989	7,555	8,738	10,847	11,442	10,243	11,348		
YoY	1012.6%	1300.1%	78.6%	817.0%	1192.7%	1384.7%	1323.2%	20.3%	34.5%	43.2%	35.6%	29.9%		
GPM	24.2%	21.6%	21.8%	68.8%	76.2%	76.7%	75.2%	83.3%	83.3%	83.4%	78.4%	85.9%		
SG&A expenses	318	210	300	5,309	6,632	7,464	7,274	8,347	10,958	10,970	9,745	11,470		
YoY	234.1%	141.2%	80.4%	1368.9%	1986.5%	3459.8%	2325.5%	57.2%	65.2%	47.0%	34.0%	37.4%		
SG&A ratio	12.3%	8.4%	12.3%	50.2%	62.7%	71.7%	72.4%	79.6%	84.2%	80.0%	74.6%	86.8%		
Operating profit	306	328	231	1,957	1,432	525	281	391	-110	470	499	-122		
YoY	-	-	76.4%	354.1%	367.9%	59.9%	21.8%	-80.0%	-	-10.4%	77.4%	-		
OPM	11.9%	13.2%	9.5%	18.5%	13.5%	5.0%	2.8%	3.7%	-0.8%	3.4%	3.8%	-0.9%		
Recurring profit	313	332	229	1,983	1,475	604	289	428	-95	531	525	-49		
YoY	-	-	15.6%	353.1%	370.9%	82.1%	26.4%	-78.4%	-	-12.1%	81.7%	-		
RPM	12.1%	13.3%	9.4%	18.8%	13.9%	5.8%	2.9%	4.1%	-0.7%	3.9%	4.0%	-0.4%		
Net income	103	294	179	1,510	848	289	-60	-235	-312	50	168	411		
YoY	-	-	-78.4%	460.6%	719.3%	-1.8%	-	-	-	-82.7%	-	-		
Net margin	4.0%	11.8%	7.4%	14.3%	8.0%	2.8%	-0.6%	-2.2%	-2.4%	0.4%	1.3%	3.1%		

Source: Shared Research based on company data

Note: Figures may differ from company data due to differences in rounding methods.

Segments (cumulative) (JPYmm)	FY03/16				FY03/17				FY03/18				FY03/18	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Sales	2,579	5,071	7,504	18,070	10,585	20,999	31,046	41,533	13,016	26,734	39,794	53,006	100.0%	53,000
YoY	1082.0%	1015.9%	346.4%	245.6%	310.5%	314.1%	313.8%	129.8%	23.0%	27.3%	28.2%	27.6%		27.6%
Beauty	-	-	-	8,247	8,379	16,737	24,545	33,370	11,719	24,191	36,014	47,871		na
YoY	-	-	-	-	-	-	-	304.6%	39.9%	44.5%	46.7%	43.5%		
% of sales	-	-	-	45.6%	79.2%	79.7%	79.1%	80.3%	90.0%	90.5%	90.5%	90.3%		
Media Consulting	2,379	4,614	6,813	8,947	2,000	3,808	5,845	7,191	1,061	2,045	3,040	4,132		na
YoY	na	na	630.1%	114.9%	-15.9%	-17.5%	-14.2%	-19.6%	-47.0%	-46.3%	-48.0%	-42.5%		
% of sales	92.3%	91.0%	90.8%	49.5%	18.9%	18.1%	18.8%	17.3%	8.1%	7.6%	7.6%	7.8%		
System Development	200	456	690	876	205	455	656	972	236	497	740	1,002		na
YoY	-8.5%	0.5%	-7.7%	-17.8%	2.9%	-0.3%	-4.9%	10.9%	15.1%	9.2%	12.7%	3.1%		
% of sales	7.7%	9.0%	9.2%	4.8%	1.9%	2.2%	2.1%	2.3%	1.8%	1.9%	1.9%	1.9%		
Operating profit	306	634	865	2,822	1,432	1,957	2,238	2,629	-110	360	859	737	40.9%	1,800
YoY	-	-	1894.5%	495.0%	367.9%	208.4%	158.6%	-6.8%	-	-81.6%	-61.6%	-72.0%		-31.53%
Beauty	-	-	-	1,738	1,263	1,739	1,830	2,214	-234	194	692	731		
YoY	-	-	-	-	-	-	-	27.4%	-	-88.8%	-62.2%	-67.0%		
% of operating profit	-	-	-	61.6%	88.2%	88.9%	81.8%	84.2%	-	53.9%	80.6%	99.2%		
OPM	-	-	-	21.1%	15.1%	10.4%	7.5%	6.6%	-2.0%	0.8%	1.9%	1.5%		
Media Consulting	369	760	1,020	1,122	228	389	605	594	127	146	130	-41		na
YoY	na	na	595.5%	89.0%	-38.3%	-48.8%	-40.7%	-47.1%	-44.3%	-62.5%	-78.5%	-		
% of operating profit	120.7%	119.8%	117.9%	39.8%	15.9%	19.9%	27.0%	22.6%	-	40.6%	15.1%	-5.6%		
OPM	15.5%	16.5%	15.0%	12.5%	11.4%	10.2%	10.4%	8.3%	12.0%	7.1%	4.3%	-1.0%		
System Development	-30	-65	-78	-75	-50	-62	-69	-37	-9	0	4	12		na
YoY	-	-	-	-	-	-	-	-	-	-	0	0		
% of operating profit	-9.7%	-10.2%	-9.0%	-2.7%	-3.5%	-3.2%	-3.1%	-1.4%	-	0.0%	0.5%	1.6%		
OPM	-14.9%	-14.2%	-11.2%	-8.6%	-24.4%	-13.7%	-10.5%	-3.8%	-3.9%	0.0%	0.5%	1.2%		
Adjustments	-33	-61	-78	38	-9	-110	-128	-142	6	20	31	35		na
% of operating profit	-10.9%	-9.6%	-9.0%	1.3%	-0.6%	-5.6%	-5.7%	-5.4%	-5.2%	5.6%	3.6%	4.7%		
Segments (quarterly) (JPYmm)	FY03/16				FY03/17				FY03/18					
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
Sales	2,579	2,492	2,433	10,566	10,585	10,414	10,047	10,487	13,016	13,718	13,060	13,212		
YoY	1082.0%	954.9%	98.3%	197.8%	310.5%	317.9%	312.9%	-0.7%	23.0%	31.7%	30.0%	26.0%		
Beauty	-	-	-	8,247	8,379	8,357	7,808	8,825	11,719	12,472	11,823	11,857		
YoY	-	-	-	-	-	-	-	7.0%	39.9%	49.2%	51.4%	34.4%		
% of sales	-	-	-	78.1%	79.2%	80.2%	77.7%	84.2%	90.0%	90.9%	90.5%	89.7%		
Media Consulting	2,379	2,235	2,199	2,133	2,000	1,807	2,038	1,346	1,061	984	995	1,092		
YoY	-	-	135.6%	-33.9%	-15.9%	-19.2%	-7.3%	-36.9%	-47.0%	-45.5%	-51.2%	-18.9%		
% of sales	92.3%	89.7%	90.4%	20.2%	18.9%	17.4%	20.3%	12.8%	8.1%	7.2%	7.6%	8.3%		
System Development	200	257	234	185	205	250	201	315	236	261	243	262		
YoY	-	-	-20.3%	-41.7%	2.9%	-2.7%	-14.0%	70.1%	15.1%	4.3%	20.7%	-16.9%		
% of sales	7.7%	10.3%	9.6%	1.8%	1.9%	2.4%	2.0%	3.0%	1.8%	1.9%	1.9%	2.0%		
Operating profit	306	328	231	1,957	1,432	525	281	391	-110	470	499	-122		
Beauty	-	-	-	1,738	1,263	476	90	384	-234	428	498	39		
YoY	-	-	-	-	-	-	-	-77.9%	-	-10.2%	451.0%	-89.8%		
% of operating profit	-	-	-	88.8%	88.2%	90.7%	32.1%	98.2%	-	91.0%	99.8%	-		
OPM	-	-	-	21.1%	15.1%	5.7%	1.2%	4.4%	-2.0%	3.4%	4.2%	0.3%		
Media Consulting	369	391	260	102	228	162	216	-11	127	19	16	-171		
YoY	-	-	77.4%	-77.2%	-38.3%	-58.7%	-17.2%	-	-44.3%	-88.2%	-	-		
% of operating profit	120.7%	119.1%	112.7%	5.2%	15.9%	30.8%	76.6%	-2.8%	-	4.1%	-3.2%	-		
OPM	15.5%	17.5%	11.8%	4.8%	11.4%	8.9%	10.6%	-0.8%	12.0%	1.9%	-1.6%	-15.7%		
System Development	-30	-35	-13	2	-50	-12	-7	32	-9	9	4	8		
YoY	-	-	-	-42.9%	-	-	-	1446.5%	-	-	-	-75.0%		
% of operating profit	-9.7%	-10.7%	-5.5%	0.1%	-3.5%	-2.3%	-2.5%	8.2%	-	1.9%	0.8%	-		
OPM	-14.9%	-13.7%	-5.4%	1.1%	-24.4%	-4.8%	-3.5%	10.2%	-3.9%	3.5%	1.6%	3.1%		
Adjustments	-33	-28	-17	115	-9	-101	-18	-14	6	14	11	4		
% of operating profit	-10.9%	-8.4%	-7.2%	5.9%	-0.6%	-19.2%	-6.3%	-3.6%	-5.2%	3.0%	2.2%	-3.3%		

Source: Shared Research based on company data

Note: Figures may differ from company data due to differences in rounding methods.

Earnings seasonality: The RVH group's Beauty business tends to capture the bulk of new customers during the summer season and around the New Year. During these periods, the company strengthens its advertising activities and spending. However, the amount received at the time a customer signs a contract is booked as an advance received, and the relevant portion is later moved to sales when the customer is actually provided with the contracted service. Since customer visits are typically spread throughout the year, sales from services provided are also spread fairly evenly throughout the year. For this reason, in Q2 and Q4, when the bulk of contracts are completed, the expenses-to-sales ratio tends to be significantly larger.

Earnings overview

For full-year FY03/18, the company reported consolidated sales of JPY53.0bn (+27.6% YoY), EBITDA of JPY4.0bn (-18.3%), operating profit of JPY737mn (-72.0%), recurring profit of JPY912mn (-67.4%), and a net profit attributable to parent company shareholders of JPY317mn (-62.3%). Measured against the company's revised forecasts* (published February 14, 2018), sales reached 100.0% of forecast, operating profit 40.9%, recurring profit 48.0%, and net profit attributable to parent company shareholders 53.7%.

Sales from services in the Beauty business fell below company targets due to the influence of personnel shortages, and in the Media Consulting business orders for ads related to excessive interest in the advertising agency department fell below company expectations. However, robust sales for all brands in the Beauty business compensated for the underperformance, and sales finished in line with company targets.

On the other hand, operating profit, recurring profit, and net profit attributable to parent company shareholders finished far below company forecasts. Major factors included posting allowances for doubtful accounts relating to certain outstanding accounts in the advertising agency department, and of allowances for doubtful accounts due to delays in collecting by one credit card settlement agency for the hair removal department, and the decreased sales from services mentioned above. The company planned to decrease costs in the Beauty business by reviewing marketing policies and to implement personnel policies to secure employment, but this was insufficient to fully compensate for those factors contributing to reduced profit.

*The company's initial forecasts for FY03/18 were released as ranges, but were revised into single-figure format (on February 14, 2018) after forecast precision increased when cumulative Q3 results were released.

Revisions to FY03/18 forecasts

Sales	JPY53.0bn (previous forecast: JPY52.0–53.7bn)
Operating profit	JPY1.8bn (JPY1.7–2.5bn)
Recurring profit	JPY1.9bn (JPY1.9–2.6bn)
Net income	JPY590mn (JPY630–890mn)
EPS	JPY34.40 (JPY37.34–52.75)

(Net income is net income attributable to parent company shareholders.)

Reason for revisions

Based on the business environment and earnings trends, the company now expects FY03/18 sales, operating profit, and recurring profit to finish within its previous forecast ranges. The forecast for net income attributable to parent company shareholders has been revised down to reflect the outlook for a higher income tax burden than expected at the start of the fiscal year.

Sales

For FY03/18, the company reported consolidated sales of JPY53.0bn (+27.6% YoY). Sales from services in the beauty salon department of the Beauty segment fell below initial company forecasts due to worker shortages, but product sales exceeded the company's initial forecast. Another factor underpinning the increase in sales was the contribution from the beginning of Q1 by the Takano Yuri Beauty Clinic chain operated by Fuji Beauty Co., Ltd. By segment, the Beauty segment reported sales of JPY47.9bn (+43.5% YoY; 90.3% of total sales), Media Consulting JPY4.1bn (-42.5%; 7.8% of total sales), and Systems Development JPY1.0bn (+3.1%; 1.9% of total sales). (Figures are based on sales to external customers.) At its core Beauty business, the company is leveraging the competitive advantage provided by having a dominant position in the industry and actively investing in growth sectors with the aim of improving group corporate value by further expanding earnings. It took steps to maximize synergies among group companies by greater sharing of customer data, technology, and service platforms.

Profits

For FY03/18, the company reported a consolidated operating profit of JPY737mn (-72.0% YoY) and recurring profit of JPY912mn (-67.4%). The sharp drop in 1H earnings stemmed in large part from heavy spending on advertising and promotion in support of the new brand Colorée (at the Beauty business), additional advertising and promotional spending at other brands, and increases in rent and personnel costs driven by the increases in the number of salons and employees stemming from recent M&A. RVH also booked JPY963mn in income taxes, which left the company with a net profit attributable to parent company shareholders of JPY317mn (-62.3%).

Of the JPY963mn in tax payments, JPY847mn was an adjustment for previously deferred income taxes, most of which was related to the amortization of goodwill stemming from the company's acquisition of Musee Platinum, which had created a deferred tax asset (resulting from the losses recognized for tax purposes) but has now been utilized. In tax accounting, the relevant goodwill is amortized using the straight-line method over five years starting from the year in which it was generated. Once it is fully amortized, the company will no longer record deferred income taxes linked to the reversal of deferred tax assets.

Earnings by segment

Beauty segment

Beauty segment sales rose 43.5% YoY to JPY47.9bn and now account for 90.3% of total sales. Segment operating profit declined 67.0% to JPY731mn, and EBITDA fell 10.3% to JPY3.9bn. Sales of own-brand original cosmetics and other products at Musee Platinum (beauty department) and Takano Yuri Beauty Clinic (beauty salon department) were strong. On the other hand, sales from services suffered against the background of a personnel shortage across the entire beauty industry. Even so, Fuji Beauty Co., Ltd. and Colorée (hair removal department) contributed to earnings from the start of the fiscal year. There were 378 stores at end-FY03/18 (an addition of five stores since end-Q3 FY03/18; nine openings, four closures).

At Musee Platinum, sales from services declined modestly, but product sales rose a strong 145% YoY supported by promotional measures such as the combination of sales of own-brand cosmetics with hair removal courses. Contract acquisition value was up a solid 18% YoY, supported by price revisions and the introduction of priority reservation courses on Saturdays and Sundays from April 2017. At Colorée, where the company looks for sales and profit contributions from FY03/19, hair removal courses were expanded by adding facial care, customized hair removal, and other options in an effort to continue attracting new customers. The new courses added from February 2018 have been popular, with Colorée monthly contract volume in March 2018 up 82.8% YoY.

In the beauty salon department, contract acquisition value at Takano Yuri Beauty Clinic rose YoY despite constricting advertising expenses in 2H (down 47% compared to 1H), thanks to a continuation of the clinic's 40th Anniversary Campaign. Sales for anti-aging care product Takano Yuri Super Cell, which went on sale from October 2017, were particularly strong. However, sales from services struggled as the provision of services did not progress as expected due to impact from severe worker shortages in the beauty salon industry.

Media Consulting business

Media Consulting segment sales declined 42.5% YoY to JPY4.1bn and now account for 7.8% of total sales. There was a segment operating loss of JPY41mn (versus operating profit of JPY594mn in FY03/17). Segment EBITDA declined 93.8% to JPY41mn.

In the advertising agency department, the number of orders for ads related to claims for refunds of excessive interest was falling. In addition, in order to implement a more effective advertising strategy for the Beauty business, the advertising agency department conducted a review of targets for mass-media ad placement, resulting in a partial contraction of internal sales. For these reasons, Media Consulting sales and profit were down.

Media Consulting has several subsegments. The advertising department provided advertising services related to excessive interest refund claims to professionals including lawyers and judicial scriveners. These services included planning and operational support for free legal consultation events and providing flyer and newspaper insert services. The online marketing department conducted website planning and production, SEO measures, product listing ads, and affiliate marketing for group companies and external customers. The consulting department mainly develops advertising services related to beauty salon operations in the group. It has started an agency business for Hot Pepper and Hot Pepper Beauty, and has started offering "Cine Ads" (ads screened at movie theaters) aimed at raising brand recognition among potential customers in regional areas.

Systems Development business

Systems Development segment sales rose 3.1% YoY to JPY1.0bn and now account for 1.9% of total sales. The segment reported an operating profit JPY12mn (versus loss of JPY37mn in FY03/17) and EBITDA rose 0.1% YoY to JPY32mn. In this segment, RVH conducted temporary staffing of system engineers and back-office staff; PC data destruction and hardware recycling; contracted development of embedded systems; server assembly, operation, and maintenance; and sales of medical imaging software FVT-air. The technology center of the group worked to reduce costs by keeping development internal, and thanks to this effort was able to achieve an operating profit.

Full-year company forecasts

(JPYmn)	FY03/17			FY03/18			FY03/19
	1H Act.	2H Act.	FY Act.	1H Act.	2H Act.	FY Act.	Est.
Sales	20,999	20,534	41,533	26,734	26,272	53,006	58,300
Cost of sales	4,946	4,240	9,186	4,445	4,681	9,125	
Gross profit	16,053	16,294	32,347	22,289	21,591	43,880	
GPM	76.4%	79.4%	77.9%	83.4%	82.2%	82.8%	
SG&A expenses	14,097	15,622	29,718	21,928	21,215	43,143	
SG&A ratio	67.1%	76.1%	71.6%	82.0%	80.8%	81.4%	
Operating profit	1,957	672	2,629	360	377	737	2,140
OPM	9.3%	3.3%	6.3%	1.3%	1.4%	1.4%	3.7%
Recurring profit	2,080	717	2,797	436	476	912	2,130
RPM	9.9%	3.5%	6.7%	1.6%	1.8%	1.7%	3.7%
Net income	1,137	-296	841	-262	579	317	760
Net margin	5.4%	-1.4%	2.0%	-1.0%	2.2%	0.6%	1.3%

Source: Shared Research based on company data
 Figures may differ from company data due to differences in rounding methods.

Company forecasts for FY03/19

For FY03/19, the company forecasts sales of JPY58.3bn (+10.0% YoY), operating profit of JPY2.1bn (+190.4%), recurring profit of JPY2.1bn (+133.6%), and net income attributable to parent company shareholders of JPY760mn (+139.7%).

Customer contract acquisition in FY03/18 grew at hair removal brand Colorée, which the company has been investing in since April 2017 to grow as a new profit base. The company plans to improve sales and profitability in FY03/19 by increasing the number of visits for services in the Beauty business.

At Musee Platinum, an existing hair removal brand, product sales have been strong since Q2 FY03/19. In FY03/19, the company will take measures to expand a system that allows the selection of various working patterns to secure personnel to maintain sales from services, and to cultivate and strengthen product sales channels for further expansion of product sales. To increase sales from services in the beauty salon department, the company will take measures to expand recruitment channels promote reemployment, and improve training for trainee staff and managers to secure employment. At the same time, the company will work to bring the business into profit through cost reduction measures such as reducing advertising expenses by reviewing marketing policy, and thorough cost management. In the Media Consulting segment, the company is focusing on online advertising relating to the group's Beauty segment from FY03/18, but the company expects a continued downward trend for ads related to claims for refunds of overpayments at the advertising agency department.

This note is the most recent addition to the [full report](#).

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