

TAKARA LEBEN (8897 JP)

FY21 Q1 RESULTS WERE LARGELY IN LINE WITH A SOLID CONDO MARKET. SEEKING A GROWTH OPPORTUNITY IN THE PPA BUSINESS

FY21 Q1 RESULTS

Takara Leben (8897 JP) reported FY21 Q1 GP of ¥3,771mil and operating loss of ¥911mil on sales of ¥18,337mil. Due to a change in the accounting method in revenue recognition that is applied from this year, the firm does not disclose the YoY comparison. The results were largely in line with the firm's expectation, hence there is no revision in the full-year guidance. The change in revenue recognition primarily affects the New Built-for-Sale Condominium Segment. Under the new revenue recognition, any optional services the firm offers to condominium buyers at the expense of Takara Leben will be recognised as a discount instead of an SG&A item. On the annualised basis, the impact to earnings will be small. Therefore, the YoY figures we illustrates on the tables listed in this report are not based on apple-to-apple comparison but still demonstrate earnings trend.

SEGMENTS**Real Estate Sales Business**

The Real Estate Sales Business saw FY21 Q1 gross profits [GP] of ¥2,281mil on sales of ¥11,302mil. The segment is further divided into five divisions – New Built-for-Sale Condominiums, New Detached Houses, Renewal Resale, Liquidation and Others. The two segments that have a relatively larger influence on the firm's earnings are discussed below:

1. New Built-for-Sale Condominiums Segment

In the New Built-for-Sale Condominiums Business – Takara Leben's core business – the firm reported FY21 Q1 GP of ¥865mil on sales of ¥4,985mil. The contract ratio of new condominiums reached 70.4% (1,268 units) of the FY21 planned delivery of 1,800 units, which compares to 2,129 units delivered during FY20. Despite the continuous Statement of Emergency closures, number of visitors to the firm's show homes has been unaffected.

According to the Real Estate Economic Institute Co., Ltd. [REEI], a real estate think-tank, Jan~June 2021 supply of newly built condominiums in the Tokyo Metropolitan area increased 77.3% YoY to 13,277units, due to a rebound from a dip in supply during the same period last year under the COVID closures. The REEI reports that the CY2021 supply will be approx. 32,000 units, +17.5% YoY and reaches over 30,000 units supply for the first time in two years. 1H price fell 3.9% YoY on average, due mainly to less proportion of supply in the Central Tokyo. However, the average condominium price still remains high at approximately ¥64mil. The low supply compared to the peak in 2000 (95,635 units) in the Tokyo Metropolitan area will likely continue and result in supporting the price of condominiums. As a result, it will be unlikely that condominium developers need to reduce the price of a condominium to complete the sale.

EXECUTIVE SUMMARY

- Takara Leben (8897 JP) reported FY21 Q1 results which were largely in line with expectation. Due to a change in the accounting method in revenue recognition that is applied from this year, the firm does not disclose the YoY comparison. On the annualised basis, the impact to earnings will be small.
- Repeated State of Emergency closures have not affected the condominium demand. According to the Real Estate Economic Institute Co., Ltd. [REEI], a real estate think-tank, the average condominium price still remains high at approx. ¥64mil in the Tokyo Metropolitan area. The low supply compared to the peak in 2000 (95,635 units) in the area will likely continue and result in supporting the price of condominiums.
- Takara Leben is guiding for FY21 GP of ¥29,100mil (-2.8% YoY), OP of ¥7,900mil (-26.8% YoY) on sales of ¥158,600mil (+6.9% YoY). The firm forecasts the Real Estate Sales Business GP to fall 23.3% YoY to ¥19,100mil on sales of ¥107,900mil (-7.9% YoY), reflecting an expected YoY decline of condominiums to be delivered and a fall in the Liquidation business GPM.
- The firm aims to establish another growth pillar via the PPA model in the Energy Business. The PPA market in Japan is a concentrated market as versus the mega solar market that has many players. The firm aims to cultivate the customer base among the municipal governments.
- Shareholder return policy will be primarily a dividend pay-out of 30~35%. The firm scrapped a shareholder incentive scheme that mainly benefited domestic retail investors in a move to improve dividend pay-out ratio.

2. Liquidation Segment

The second largest division in the Real Estate Sales Business is Liquidation. The sub-segment reported FY21 Q1 GP of ¥1,001mil on sales of ¥4,155mil. Compared to the lacklustre liquidation market during the same period last year, the market has returned to the pre-COVID level. During Q1, the firm sold newly-built residential properties and commercial properties to its affiliated REIT.

Real Estate Sales Business Sales & GP by Division									
(¥mil)		FY19	FY20			FY21			
		FY (Result)	Q1	FY (Result)	YoY (%)	Q1	YoY (%)	FYCE	YoY (%)
Segment Total	Sales	129,649	10,496	117,200	-9.6	11,302	7.7	107,900	-7.9
	Gross profit	22,619	2,942	24,887	10.0	2,281	-22.5	19,100	-23.3
	GPM (%)	17.4	28.0	21.2	+3.8pp	20.2	-7.8pp	17.7	-3.5pp
New Condos	Sales	77,171	5,746	79,435	2.9	4,985	-13.3	70,000	-11.9
	Gross profit	15,650	1,580	17,339	10.8	865	-45.3	14,000	-19.3
	GPM (%)	20.3	27.5	21.8	+1.5pp	17.4	-10.1pp	20.0	-1.8pp
New Detached	Sales	7,808	727	5,329	-31.7	862	18.5	8,900	67.0
	Gross profit	720	105	523	-27.3	134	28.1	900	71.8
	GPM (%)	9.2	14.5	9.8	+0.6pp	15.6	+1.1pp	10.1	+0.3pp
Renewal Resale	Sales	3,431	327	3,866	12.7	1,271	288.8	5,900	52.6
	Gross profit	421	28	613	45.7	277	858.8	900	46.6
	GPM (%)	12.3	8.8	15.9	+3.6pp	21.8	+13.0pp	15.3	-0.6pp
Liquidation	Sales	37,854	3,646	22,376	-40.9	4,155	14.0	22,000	-1.7
	Gross profit	4,828	1,220	6,204	28.5	1,001	-17.9	3,100	-50.0
	GPM (%)	12.8	33.5	27.7	+14.9pp	24.1	-9.4pp	14.1	-13.6pp
Others	Sales	3,382	48	6,193	83.1	28	-40.9	1,100	-82.2
	Gross profit	997	7	205	-79.4	3	-57.2	200	-2.9
	GPM (%)	29.5	16.5	3.3	-26.2pp	11.9	-4.6pp	18.2	+14.9pp

Source: Nippon-IBR based on Takara Leben's FY20 and FY21 Q1 Fact Books

Segments other than Real Estate Sales Business

There are four other segments outside of Real Estate Sales – Real Estate Rental, Real Estate Management, Electric Power Generation (which includes Facility Sales and Electricity Sales) and Others.

Real Estate Rental / Real Estate Management Business

The Real Estate Rental Business earned FY21 Q1 GP of ¥272mil on sales of ¥1,441mil, largely in line with the company estimate. The main business is to temporarily lease properties before they are sold through the Liquidation business.

The Real Estate Management Business reported FY21 Q1 GP of ¥144mil on sales of ¥1,438mil. The number of condominiums under management reached 67,064 units, rose by 1,027 units during Q1.

Energy Business

During Q1, there was not any mega solar facilities sold. The sale of electricity generated tends to have a high seasonality during the spring and summer time. The firm earned FY21 Q1 GP of ¥394mil on sales of ¥2,646mil. Compared to FY20 Q1, which saw a loss in the business due to a shortage of insolation and a rise in depreciation cost. However, this improvement in earnings was in line with the firm's expectation. Takara Leben has acquired PPA model specialist ACA Clean Energy Co., Ltd. (currently named Leben Clean Energy Co., Ltd.) and it is registered as a consolidated subsidiary. Earnings contribution from the PPA business have not yet been evident.

Sales & GP by Segment - other than Real Estate Sales Business									
(¥mil)		FY19	FY20			FY21			
		FY (Result)	Q1	FY (Result)	YoY (%)	Q1	YoY (%)	FYCE	YoY (%)
Real Estate Rental	Sales	5,965	1,391	5,753	-3.5	1,441	3.6	5,400	-6.1
	Gross profit	1,589	299	1,183	-25.5	272	-9.0	1,600	35.2
	GPM (%)	26.7	21.5	20.6	-6.1pp	18.9	-2.6pp	29.6	+9.0pp
Real Estate Management	Sales	5,046	1,355	5,446	7.9	1,438	6.1	5,500	1.0
	Gross profit	576	155	518	-10.1	144	-6.6	600	15.8
	GPM (%)	11.4	11.4	9.5	-1.9pp	10.1	-1.3pp	10.9	+1.4pp
Sale of Power Facilities	Sales	15,983	n/a	7,688	-51.9	n/a	n/a	23,260	202.5
	Gross profit	3,020	n/a	973	-67.8	n/a	n/a	3,940	304.6
	GPM (%)	18.9	n/a	12.7	-6.2pp	n/a	n/a	16.9	+4.2pp
Sale of Electricity	Sales	4,999	1,514	5,797	16.0	2,646	74.8	7,740	33.5
	Gross profit	116	-53	-290	-348.7	394	n/a	560	-292.8
	GPM (%)	2.3	n/a	n/a	n/a	14.9	n/a	7.2	n/a
Others	Sales	6,850	958	6,512	-4.9	1,508	57.3	8,800	35.1
	Gross profit	2,593	329	2,655	2.4	678	105.9	3,300	24.3
	GPM (%)	37.9	34.4	40.8	+2.9pp	45.0	+10.6pp	37.5	-3.3pp

Source: Nippon-IBR based on Takara Leben's FY20 and FY21 Q1 Fact Books

FY21 GUIDANCE

Takara Leben is guiding for GP of ¥29,100 (-2.8% YoY) and OP of ¥7,900mil (-26.8% YoY) on sales of ¥158,600mil (+6.9% YoY). The full-year guidance for each segment remains unchanged.

FY19~FY20 Earnings Results & FY21 Guidance				
(¥mil)	FY19	FY20	FY21CE	YoY (%)
Sales	168,493	148,397	158,600	6.9
Real Estate Sales Business	129,649	117,200	107,900	-7.9
Real Estate Rental Business	5,965	5,753	5,400	-6.1
Real Estate Management Business	5,046	5,446	5,500	1.0
Energy Business	20,982	13,485	31,000	129.9
Sale of Energy Facilities	15,983	7,688	23,260	202.5
Sale of Electricity	4,999	5,797	7,740	33.5
Other Business	6,850	6,512	8,800	35.1
COGS	137,977	118,469	129,500	9.3
Gross Profit	30,516	29,928	29,100	-2.8
GPM (%)	18.1	20.2	18.3	-1.9pp
SG&A	18,614	19,139	21,200	10.8
OP	11,901	10,789	7,900	-26.8
RP	11,201	9,933	7,100	-28.5
NP attributed to the Parent's Shareholders	5,361	4,693	4,800	2.3

Source: Nippon-IBR based on Takara Leben's FY20 Earnings Results Presentation

Real Estate Sales Business

The firm is expecting a 23.3% YoY drop in the Real Estate Sales segment GP to ¥19,100mil on sales of ¥107,900mil (-7.9% YoY), to reflect the lower number of condominiums to be delivered compared to FY20 and a fall in the GPM of the Liquidation business. Of the estimated ¥5,787mil decline in the Real Estate Sales Business GP, ¥3,339mil will likely stem from New Built-for-Sale Condominiums and ¥3,104mil from Liquidation Segment.

New Built-for-Sale Condominiums Segment

FY21 guidance for the firm's core business – newly built condominium sales – calls for GP of ¥14,000mil (-19.3% YoY) on sales of ¥70,000mil (-11.9% YoY). Takara Leben plans to sell 1,800 units of condominiums (1,750 units excluding units under a JV) in FY21, down by 329 units YoY. Although the contract ratio achieved 70.4% as of Q1, the firm does not intend to aggressively sell condominiums during FY21. Number of condominiums to be supplied will still be limited due to limited numbers of developers. With the price of condominiums remains high, the firm will likely earn sufficient profit in the segment without aggressively selling numbers of units. At the same time, there are only 1,500 units delivery schedule for FY22, 300 units less than estimated sales units in FY21. The firm would rather carry over unit sales into FY22 to even out the segment sales trend. The supply-demand balance of the condominium market will likely remain favourable for developers, thanks to tight supply of condominiums.

Liquidation Segment

Takara Leben is guiding for FY21 segment GP of ¥3,100mil (-50.0% YoY) on sales of ¥22,000mil (-1.7% YoY). The firm plans to invest ¥25,000mil on properties for the Liquidation business, primarily focusing on residential properties. The pipeline for liquidation has been largely determined, hence the segment earning's downside risk is likely limited.

Real Estate Sales Business Sales & GP by Division							
(¥mil)		FY19		FY20		FY21CE	
		1H	FY	1H	FY	FY	YoY (%)
Segment Total	Sales	46,102	129,649	40,190	117,200	107,900	-7.9
	Gross profit	9,872	22,619	8,678	24,887	19,100	-23.3
	GPM (%)	21.4	17.4	21.6	21.2	17.7	-3.5pp
New Condos	Sales	24,874	77,171	26,148	79,435	70,000	-11.9
	Gross profit	5,780	15,650	6,490	17,339	14,000	-19.3
	GPM (%)	23.2	20.3	24.8	21.8	20.0	-1.8pp
New Detached	Sales	2,092	7,808	2,268	5,329	8,900	67.0
	Gross profit	161	720	203	523	900	71.8
	GPM (%)	7.7	9.2	9.0	9.8	10.1	+0.3pp
Renewal Resale	Sales	1,578	3,431	1,920	3,866	5,900	52.6
	Gross profit	233	421	293	613	900	46.6
	GPM (%)	14.8	12.3	15.3	15.9	15.3	-0.6pp
Liquidation	Sales	16,491	37,854	5,360	22,376	22,000	-1.7
	Gross profit	3,044	4,828	1,355	6,204	3,100	-50.0
	GPM (%)	18.5	12.8	25.3	27.7	14.1	-13.6pp
Others	Sales	1,065	3,382	4,493	6,193	1,100	-82.2
	Gross profit	653	997	334	205	200	-2.9
	GPM (%)	61.3	29.5	7.5	3.3	18.2	+14.9pp

Source: Nippon-IBR based on Takara Leben's FY20 Earnings Results Presentation

Segments other than Real Estate Sales Business (Non-sale Segments)

FY21 guidance for Segments other than real estate sales business in total is GP of ¥10,000mil (+98.4% YoY) on sales of ¥50,700mil (+62.5% YoY). The largest contributor to sales and profit growth will be Energy Business Segment (changed the name from Electric Power Generation Business Segment from this year), thanks to increase in facility sales.

Energy Business (formerly Electric Power Generation Business)

Takara Leben changed the Electric Power Generation Business segment's name to Energy Business because of its plan to build a power purchase agreement [PPA] model. Whereas the remaining mega solar facilities available for sale have lower FIT price, the shift to a PPA model will likely offer Takara Leben an opportunity to expand the Energy Business. The bilateral trade of electricity, in which a seller and a buyer directly trade electricity under a PPA, enables the seller to make profits without having to rely on FIT prices. Through a newly consolidated subsidiary, Leben Clean Energy Co., Ltd., the firm aims to offer both onsite and offsite electricity to prospective customers. Unlike the mega solar market, the PPA market has less than handful of competitors in Japan. Unlike mega solar facilities that generate

a rated output of more than 2,000kW (ultra-high voltage) for corporate customers such as manufacturers, the rate output under the PPA model is less than 1,000kW. Takara Leben plans to offer both onsite (electricity is generated and supplied at a customer's site) and offsite (electricity is generated and distributed from a power producer to a customer via grid) electricity supply primarily to municipal offices. There are approximately 1,700 municipal offices (prefectures, cities and towns) in Japan which are under pressure from the central government to reduce carbon emissions in accordance with the government's zero carbon target by 2050. Takara Leben initially markets onsite electricity supply to those municipalities, however, onsite facilities will require back-up power source. For the offsite supply, the firm considers to tie-up with another company that has a Power Producer and Supplier (PPS, i.e. an independent non-utility power producer and supplier) business for such a company already has a client base. Takara Leben reckons that demand for the PPA business will exhibit another growth pillar for the firm's business portfolio and will bring in long-term recurring revenue based on the 20-year supply contract.

For FY21, the Sales of Power Facilities sub-segment is expected to generate a GP of ¥3,940mil (+304.6% YoY) on sales of ¥23,260mil (+202.5% YoY). The Sale of Electricity sub-segment will likely move into the black with a GP of ¥560mil (vs a loss of ¥290mil in FY20) on sales of ¥7,740mil (+33.5% YoY) from facilities under operation which have generated 250MW (+44MW YoY). The firm does not assume any earnings contribution from the PPA business subsidiary in the FY21 guidance.

Real Estate Rental / Real Estate Management Business

For FY21, the Real Estate Rental business is forecast to generate a GP of ¥1,600mil (+35.2% YoY) on sales of ¥5,400mil (-6.1% YoY) from rental properties before they are sold through the Liquidation business.

The Real Estate Management Business has become even more competitive in pricing as many new entrants, developers as well as companies from other industries, enter the market. In such a competitive market, Takara Leben plans to increase the number of properties under management to 70,000 condominiums (+3,963 units YoY) in FY21, to earn ¥600mil (+15.8% YoY) in GP on sales of ¥5,500mil (+1.0% YoY). Takara Leben aims to target properties from which it can earn other fee income, such as for insurance, and repairs and maintenance. The first major repair phase of properties completed prior to the Lehman crisis is about to commence – properties for which the firm is also aiming to obtain property management mandates.

Sales & GP by Segment - other than Real Estate Sales Business							
(¥mil)		FY19		FY20		FY21CE	
		1H	FY	1H	FY	FY	YoY (%)
Real Estate Rental	Sales	2,886	5,965	2,815	5,753	5,400	-6.1
	Gross profit	753	1,589	575	1,183	1,600	35.2
	GPM (%)	26.1	26.7	20.5	20.6	29.6	+9.0pp
Real Estate Management	Sales	2,468	5,046	2,720	5,446	5,500	1.0
	Gross profit	257	576	264	518	600	15.8
	GPM (%)	10.4	11.4	9.7	9.5	10.9	+1.4pp
Sale of Power Facilities	Sales	383	15,983	0	7,688	23,260	202.5
	Gross profit	172	3,020	0	973	3,940	304.6
	GPM (%)	45.0	18.9	n/a	12.7	16.9	+4.2pp
Sale of Electricity	Sales	2,928	4,999	2,903	5,797	7,740	33.5
	Gross profit	139	116	-189	-290	560	-292.8
	GPM (%)	4.8	2.3	n/a	n/a	7.2	n/a
Others	Sales	3,230	6,850	2,951	6,512	8,800	35.1
	Gross profit	1,294	2,593	1,051	2,655	3,300	24.3
	GPM (%)	40.1	37.9	35.6	40.8	37.5	-3.3pp

Source: Nippon-IBR based on Takara Leben's FY20 Earnings Results Presentation

Shareholder return

The FY21 dividend will be ¥14/share (flat YoY). In the previous medium-term management plan ending in FY20, the firm met its target pay-out ratio of between 25~30% per annum. In the new four-year medium-term management plan that commences from FY21 until FY24, the firm has committed to a 30~35% pay out of EPS annually. In FY21, the estimated pay-out ratio will be 31.7%. Takara Leben also decided to discontinue a shareholder incentive scheme specifically targeted at retail investors who owns more than 100 shares in the firm. As of the end of FY20, the firm has more than 70,000 shareholders of which approx. 42,000 are those who own a minimum round lot of 100 shares. Those investors will seek to enjoy benefit provided via shareholder incentives, which, in case of Takara Leben, a voucher that can be exchanged to a bag of rice. Such an incentive so far failed to benefit, especially overseas shareholders. The firm reckons that it is important to improve fairness to shareholders by streamlining allocation of shareholder return budget. Solely by scrapping the voucher and resulted decrease in number of round lot shareholders, the firm estimates that it could improve dividend by ¥1/share.

The new Four-Year Medium-term Management Plan

FY21 is the start of the new medium-term management plan that lasts four years to FY24. During the previous three-year management plan (FY18~FY20), earnings overshoot the targets in the first two years but fell short in the final year due to COVID. For the details of the Plan, please refer to our report published on 2 July 2021 via the following link: https://www.leben.co.jp/en/pdf/e2021_3_4qsponsoredreport.pdf

FY21~FY24 Medium-term Management Plan Earnings Target Summary						
(¥mil)	FY20 (Result)	Medium-term Management Plan				
		FY21	FY22	FY23	FY24	CAGR (%)
Sales	148,397	158,600	155,200	187,100	203,700	8.2
GP	29,928	29,100	28,400	35,200	38,700	6.6
GPM (%)	20.2	18.3	18.3	18.8	19.0	n/a
OP	10,789	7,900	8,000	13,200	15,700	9.8
OPM (%)	7.3	5.0	5.2	7.1	7.7	n/a
RP	9,933	7,100	7,400	12,500	15,000	10.9
NP for the parent's shareholders	4,693	4,800	5,000	8,500	10,000	20.8

Source: Nippon-IBR based on Takara Leben's Medium-term Management Plan FY21~24

Medium-term Management Plan (FY21~FY24) by Business Segment														
(¥mil, March-yr end)	FY21~24 Medium-term management plan													
	FY21			FY22			FY23			FY24			4-yr CAGR (%)	
	Sales	GP	GPM (%)	Sales	GP	GPM (%)	Sales	GP	GPM (%)	Sales	GP	GPM (%)	Sales	GP
Real Estate Sales	107,900	19,100	17.7	114,400	20,200	17.7	149,800	27,600	18.4	160,500	30,000	18.7	8.2	4.8
New Condos	70,000	14,000	20.0	58,000	12,000	20.7	93,500	19,500	20.9	101,500	21,500	21.2	6.3	5.5
New Detached	8,900	900	10.1	11,000	1,500	13.6	12,200	1,600	13.1	13,500	1,800	13.3	26.2	36.2
Renewal Resale	5,900	900	15.3	6,400	1,000	15.6	7,100	1,100	15.5	8,500	1,300	15.3	21.8	20.6
Liquidation	22,000	3,100	14.1	38,000	5,400	14.2	36,000	5,100	14.2	36,000	5,100	14.2	12.6	-4.8
Others	1,100	200	18.2	1,000	300	30.0	1,000	300	30.0	1,000	300	30.0	-36.6	9.9
Real Estate Rental	5,400	1,600	29.6	6,500	2,000	30.8	7,100	2,200	31.0	8,100	2,600	32.1	8.9	21.7
Real Estate Management	5,500	600	10.9	5,900	600	10.2	6,300	700	11.1	6,700	800	11.9	5.3	11.5
Energy	31,000	4,500	14.5	19,900	1,900	9.5	15,200	900	5.9	19,200	1,300	6.8	9.2	17.4
Facilities Sales	23,260	3,940	16.9	11,000	1,400	12.7	6,000	400	6.7	10,000	800	8.0	6.8	-4.8
Electricity Sales	7,740	560	7.2	8,900	500	5.6	9,200	500	5.4	9,200	500	5.4	12.2	n/a
Others	8,800	3,300	37.5	8,500	3,700	43.5	8,700	3,800	43.7	9,200	4,000	43.5	9.0	10.8

Source: Nippon-IBR based on Takara Leben's Medium-term Management Plan (FY21~FY24)

KPIs under the medium-term management plan (FY21~24)				
	Prev plan target	FY20 result	New Target	Target
Shareholder equity ratio (%)	30.0	26.5	>30.0	30% (by the end of FY24)
LTV (%)	<60%	58.0	<60%	less than 60% (end of each year)
D/E Ratio (x)	<3x	2.2x	<2.5x	less than 2.5x (end of each year)
ROE (%)	15.0	9.0	>13.0	13% (after FY23)

Source: Takara Leben's Medium-term Management Plan FY21~24

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