

Oisix ra daichi

Oisix ra daichi Inc.

Q3 Financial Results Briefing for the Fiscal Year Ending March 2022

February 10, 2022

Event Summary

| | | |
|----------------------|---|--|
| [Company Name] | Oisix ra daichi Inc. | |
| [Company ID] | 3182-QCODE | |
| [Event Language] | JPN | |
| [Event Type] | Earnings Announcement | |
| [Event Name] | Q3 Financial Results Briefing for the Fiscal Year Ending March 2022 | |
| [Fiscal Period] | FY2021 Q3 | |
| [Date] | February 10, 2022 | |
| [Number of Pages] | 30 | |
| [Time] | 16:00 – 17:08 (Total: 68 minutes, Presentation: 23 minutes, Q&A: 45 minutes) | |
| [Venue] | Webcast | |
| [Venue Size] | | |
| [Participants] | | |
| [Number of Speakers] | 1 | |
| | Kohei Takashima | Representative Director, CEO |
| [Analyst Names]* | Hideki Sumi Hideki Yasuda Ryotaro Nagai Tadashi Hayami | Tokai Tokyo Research Institute Co., Ltd. ACE Research Institute Co., Ltd. Point72 Asahi Life Asset Management Co., Ltd. |

*Analysts that SCRIPTS Asia was able to identify from the audio who spoke during Q&A.

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Presentation

Sato: It's now time to start, so let us begin. My name is Sato, and I will be leading today's session from the IR Department of the Corporate Planning Division. Thank you for joining us.

First of all, I would like to apologize for the concern and inconvenience caused by the logistics troubles in January. We will hold a financial results briefing for Oisix ra daichi Inc. focusing on the explanation of this matter.

Today, we will proceed in two major parts. In the first half of the session, our representative will give a 20-minute presentation on the recent logistics troubles and our business forecast.

The second half of the session will be a question and answer session with the participants. This session will be about 20 minutes long, and we will try our best to respond to your questions. If you still have a lot of questions remaining at the end, our PR and IR staff will continue to answer them after the session.

The question-and-answer session will be conducted orally. For those participants who are unable to speak due to their streaming environment, we will also accept text questions via the QA button. We will explain the details later.

Finally, please refrain from recording or duplicating the content of this stream by means such as screenshots, etc. Please note that the video may be edited and published on our website at a later date.

Now let's move on to the presentation. Mr. Takashima, please.

Takashima: Thank you very much for your time today.

First of all, I would like to repeat my sincere apologies for the inconvenience caused to many of our customers as well as many investors due to our delivery troubles in January. We sincerely apologize for the inconvenience. I'm truly sorry about it.

Today, I would like to give you an explanation about the troubles as well as the revision of our business performance. We have four documents, but I would like to talk mostly about the first two first.

First, I will talk about the troubles. I would like to talk about the troubles regarding the relocation to the New Ebina Station. First of all, I would like to explain exactly what happened, and how it affected our business performance. Also, since it has been about three weeks since then, I would like to introduce our recovery plan, as well as the measures we will take in the fourth quarter.

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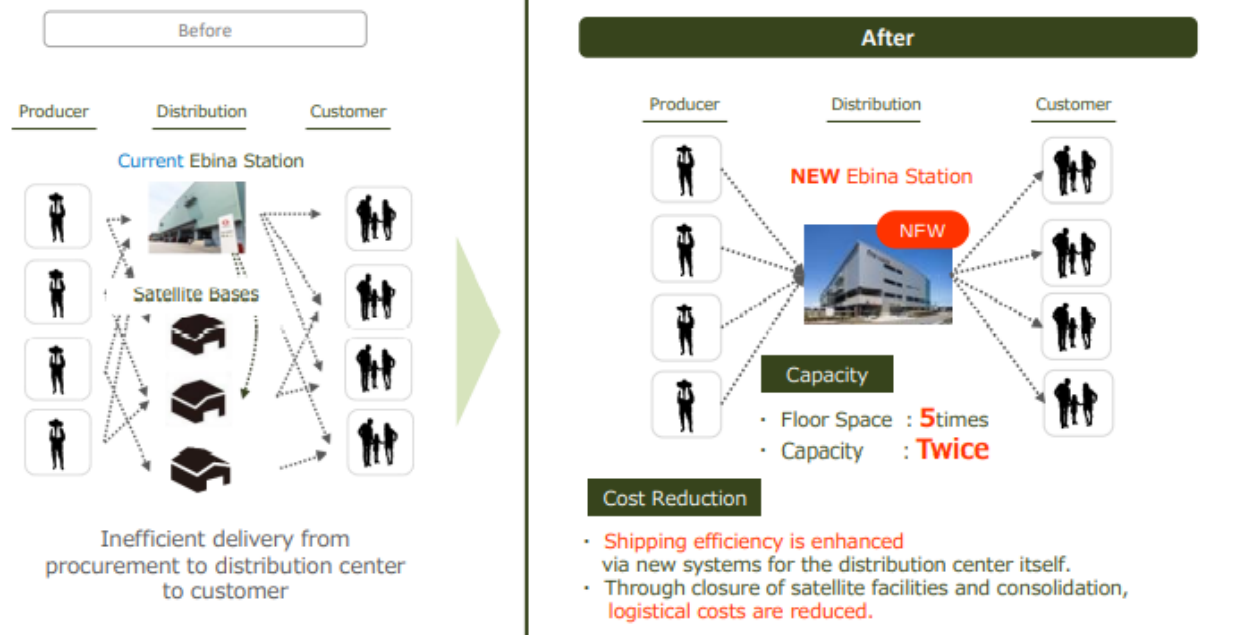


1. Background and Overview

-① Purpose-

With the aim of further enhancing the distribution capability and profitability of "Oisix" which is growing at roughly 20% annually, we decided to relocate to New Ebina Station to

- 1) expand shipping capacity, and 2) reduce costs via company-wide shipping optimization



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First, I would like to explain about the troubles themselves.

I would like to briefly explain what this New Ebina Station was originally intended to do. In May 2020, the capacity of the old Ebina Center, which is also located in Ebina, was exhausted, so we built multiple satellite centers in order to deliver our products to customers.

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1. Background and Overview

-② Schedule Advancement-

Relocation of the distribution center was initially planned for 2024.

In order to meet the increased demand for home delivery, which has been raised by COVID-19, we have moved forward by about two years.



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However, this approach has limitations in terms of volume and efficiency. As such, we decided to invest in a new station to increase capacity, efficiency, and productivity. We have been working to relocate to this New Ebina Station earlier than originally planned.

The plan was to start the relocation around the end of 2021 and complete it in January 2022.

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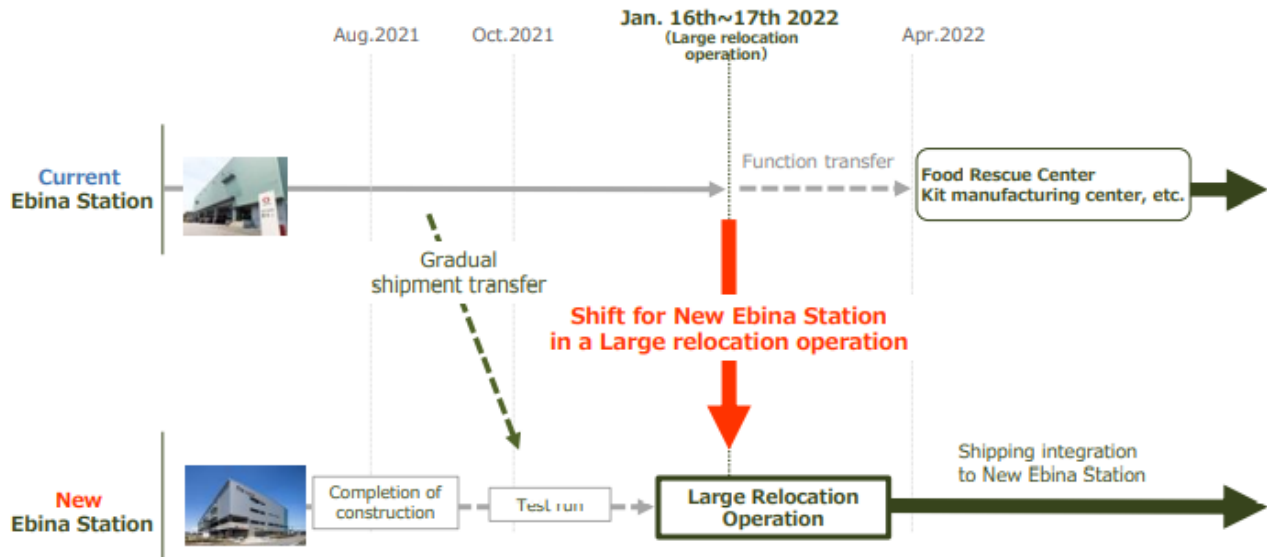
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1. Background and Overview

-③ Schedule Relocation-

The New Ebina Station was completed in Aug. 2021. Shipment transfers and test operations began in Oct., and on Jan. 16th~17th 2022, all shipment functions were shifted to New Ebina Station in a massive relocation operation.



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We have been partially relocating the station since the third quarter of last year, and there were no major troubles there.

However, we had some troubles during the relocation work being conducted on January 16 and January 17 of this year.

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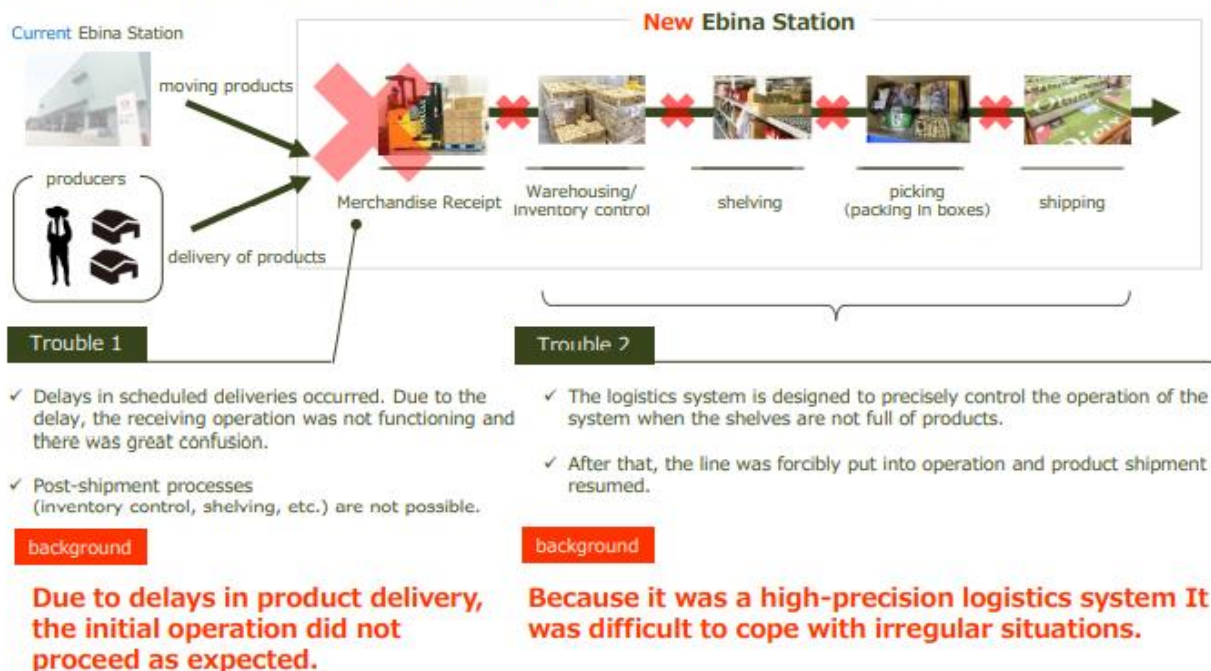
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1. Background and Overview

-④ Causes of trouble-

"Merchandise Receipt," the first step in logistics, experienced problems owing to, among other things, delays in incoming merchandise. Subsequent processes stagnated resulting in an inability to make deliveries. Whilst an attempt was made to ship those items for which inventory levels were known, system parameters preventing picking lines from operating without sufficient inventories meant lines stopped.



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As for what kind of trouble we had, there were two major problems.

One was the relocation of things. The other was the arrival of new products on those two days.

Since it was the first time for them to go to the new location, the arrival time of many drivers was different from the scheduled time, so there was a lot of confusion regarding the arrival of products. The delivery area was overflowing with goods, so we couldn't get them from the delivery area on the first floor to the work area on the third floor.

Also, the New Ebina Station's logistics system has a conveyor belt, which we call a material handling system. It is a very high-precision system, with a concept similar to that of an industrial production line. Which is to say, it runs very efficiently when the products are all in place.

There was an issue with goods brought into the first floor not arriving at the conveyor belt-type line on the third floor. The system was designed in such a way that it was very difficult to recover irregularities compared to our existing centers. This is why the disruption lasted so long.

The above two points were the major factors. It was not machine trouble such as a mistake in the system's program or a hardware failure. Rather, it was purely an inability to create an operation that could cope with the new logistics system. Or rather, we were trying to cope with the new logistics system, but we ran into great difficulties when the initial arrival of goods went wrong.

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1. Background and Overview

-⑤ Current Status-

Shipping and delivery has been completed without delay since January 25. Customer support was also delayed for about two weeks after the trouble, but is now back to normal.

- Shipping and Delivery status

- Since Jan. 25th, shipment/delivery operations have been operating without delay.



- Customer support Status

- Delays in customer support that continued for roughly 2-weeks have been resolved.



Both phone and email inquiries have been **Response rate and reply speed restored to normal**



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So, for about a week, we were unable to deliver products properly. After a week, on January 25, we managed to get things working properly again.

It has now been a little over two weeks since then. There have been no shipping delays or inability to make shipments caused by this center since then. However, it is snowing a bit today, so there might be some delays.

We had been receiving a lot of inquiries from our customers, but the turmoil with customer support has abated.

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2. Financial impact

-① Summary-

The impact of problems is largely limited to (1) Trouble Itself, (2) Recovery Period, and (3) Promotion Suspension. The impact of this trouble on 2022/3 performance will be about 1.5 bn yen in sales and about 1.5-2.0 bn yen in profit.

| | Details | Sales | Profit |
|----------------------------|--|----------------------------------|--|
| 1 | Trouble Itself <ul style="list-style-type: none"> • Customer service related <ul style="list-style-type: none"> • Lost opportunity for cancelled deliveries • Discount point cost as apology • Increase in labor cost for trouble shooting, etc. • Product disposal | About ▲0.5bn yen | About ▲0.6-▲0.8bn yen |
| | | — | About ▲0.2-▲0.3bn yen |
| 2 | Recovery Period <ul style="list-style-type: none"> • Increased costs due to additional CX improvements • Decrease in ARPU <ul style="list-style-type: none"> • due to continued restrictions on the number of product items, etc. | About ▲0.3bn yen | About ▲0.5-▲0.7bn yen |
| 3 | Promotion Suspension <ul style="list-style-type: none"> • Loss of sales and profit opportunities due to stagnant subscribers caused by suspension of promotions | About ▲0.7bn yen | About ▲0.2bn yen |
| 2022/3 Total Impact | | Sales About ▲1.5bn yen | Profit About ▲1.5-▲2.0bn yen |

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*The actual loss for auditing purposes in this trouble is about 0.36 bn yen.

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Next, I would like to talk about the impact of these troubles on our business performance. I would like to divide my talk into three main parts. First, I will talk about the troubles themselves. Then, I will talk about the cost of the ongoing recovery process. Since we have stopped promotions, this means lost net sales and profits.

During the troubles, we were unable to deliver products to customers, and we gave them points as an apology. Having had to dispose of products that couldn't be used, the first problem itself cost us about JPY500 million in net sales. We are still examining the profit figures, but we have a negative figure of about JPY800 million to JPY1.1 billion.

Let's now move on to the recovery.

We will be recovering this month and next month. However, during that period, we will be narrowing down the number of products. Also, to prevent the line from stopping again, we will be deploying a much larger number of personnel. I think it will cost us JPY300 million in net sales and JPY500 million to JPY700 million in profits.

Lastly, the impact of stopping the promotion was JPY700 million in net sales and JPY200 million in profit. This means that the total negative impact on the current period's business results will be JPY1.5 billion in net sales and JPY1.5 billion to JPY2 billion in profit.

I'm truly sorry about this.

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2. Financial impact

-② Trouble itself: Customer Impact-

| | |
|---|----------------------|
| 1 | Trouble Itself |
| 2 | Recovery Period |
| 3 | Promotion suspension |

A total of about 110,000 subscribers were affected by this trouble and about 7,000 inquiries are generated from subscribers.

Loss of about 0.5 bn yen in sales and 0.9 bn yen in profit due to lost opportunities caused by the failure to deliver, and apology points to subscribers.

- Affected subscribers : about 110,000

- Product cancellation : about 80,000
- delay in delivery : about 10,000
- Product shortage : about 20,000

- Related to trouble Subscriber Inquiries* : about 7,000

- Subscriber's Voice

Scolding

- I order a few days in advance based on the availability of my refrigerator, so I don't want to be contacted on the day of delivery.
- I was informed that the items scheduled for delivery tomorrow are almost out of stock. If I don't get the meal kit, I'll be out of a week's worth of menus. I'm wondering if I should stop using it in the future.

Encouragement

- I received an email regarding the trouble. To be honest, it is very troubling to not receive food, but please take it easy and get some rest.

Business Impact

- Lost opportunity for cancelled deliveries
- Discount point cost as apology
- Increase in labor cost for trouble shooting, etc.

Sales : about **▲0.5** bn yen

Profits : about **▲0.6-▲0.8** bn yen

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*Number of unique telephone and e-mail inquiries during the first week after trouble occurred (1/19-1/25)

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Let me tell you a little more about the details.

First of all, in terms of the impact of the trouble, there were about 110,000 customers who were inconvenienced. In addition, we have received 7,000 inquiries, a very large number, so we are incurring costs there.

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2. Financial impact

-③ Trouble itself: Merchandise disposal effects-

| | |
|---|----------------------|
| 1 | Trouble Itself |
| | Recovery Period |
| | Promotion suspension |

We incurred about 0.2-0.3 bn in product disposal costs.
The food waste rate, which is normally about 0.2-0.3%, worsened to about 2% in a single month of Jan.
Reduction of actual waste through donations through "WeSupport Family" and conversion of processed products to raw materials

- Increase in the rate of food waste in distribution

| usual | In Trouble (Jan, 2022) |
|----------------|------------------------|
| about 0.2~0.3% | about 2% |

Business Impact

- Product disposal cost

Profits : about ▲0.2-▲0.3 bn yen

- Activities to reduce the actual amount of waste

Activities to reduce the actual amount of waste as much as possible.

- Donating to food pantries
- Used as raw material for processed products

- Donating to food pantries



▲ Donations to single-parent families

- Used as raw material for processed products



▲ Cabbage to be discarded is quickly processed into dumplings

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Then there's food loss. Since we had products but could not ship them, we had to throw them away.

Normally, our monthly waste rate is 0.2% to 0.3%, but in January, when the trouble occurred, it was about 2%, which is 7 to 10 times higher than usual.

The loss was JPY200 million to JPY300 million, but we tried to get it to people who can use it as much as possible, namely food banks, single parent households, and so on. We also up-cycle the products that are still usable and use them as raw materials for processed foods.

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2. Financial impact

-④ Recovery period-

| | |
|---|----------------------|
| 1 | Trouble itself |
| 2 | Recovery Period |
| 3 | Promotion suspension |

Regarding recovery period, from February onward, the top priority will be to improve the shopping experience for customers and stabilize the service level even at a cost.
From March onward, move to the phase of cost reduction in stages.

- **To implement shopping experience improvement as a priority**
Increase in logistics costs, etc.

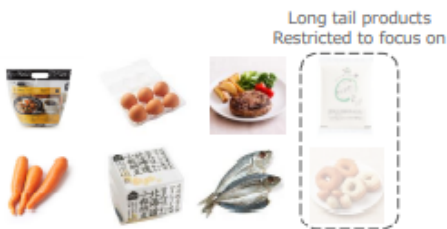
- To reduce product shortages
Increase in waste due to increased order quantities



- Continuous logistics station Strengthen manpower



- **Due to the limitation of the number of product items sold**
Decrease in unit purchase price



Business Impact

- Increase in logistics costs, labor costs, and disposal due to irregular operations
- Decrease in unit purchase price due to restrictions on the number of items sold

Sales : about▲0.3bn yen

Profits : about▲0.5-▲0.7bn yen

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The period of the recovery will be these two months. As I mentioned earlier, we are reinforcing the business with sufficient, or rather extra, manpower. We have also reduced the number of SKUs in some of the items. In addition, we are limiting the number of items and reducing SKUs a little. The impact will be JPY300 million in net sales and a loss of about JPY500 million to JPY700 million in profit.

The third is the impact on promotions for customer acquisition. Before I talk about the promotion, I am very happy to say that the impact on churn has been very low compared to the expectation we had when the problem first occurred.

Although churn was still about 1.3 times higher than usual, the number of customer cancellations has calmed down considerably since then, for which we are very grateful.

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2. Financial impact

-⑤ Promotion suspension -

| | |
|---|----------------------|
| 1 | Trouble Itself |
| 2 | Recovery Period |
| 3 | Promotion suspension |

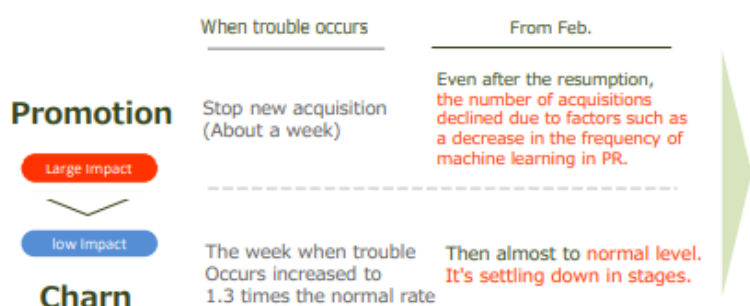
Regarding the number of subscribers, the churn rate of existing subscribers temporarily increased but was lower than expected, and is also returning to normal levels at an early stage.
On the other hand, due to the impact of the temporary suspension of promotions, the acquisition of new subscribers actually decreased significantly for one month

-Decrease in new subscribers due to suspension of promotions

- The impact of the temporary suspension of promotions was significant. As a result, the actual number of new acquisitions for the month decreased significantly.

Business Impact

- Opportunity loss due to suspension of promotion



Sales : about ▲0.7 bn yen

Profits : about ▲0.2 bn yen

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On the other hand, due to the suspension of promotions, it took some time to resume. We are already in a position to resume, and we have, but it will be an opportunity loss of about JPY700 million in net sales.

Now, having explained the situation orally, I'd like to show you a video that we made to share within the Company on what's going on within the center, and so on.

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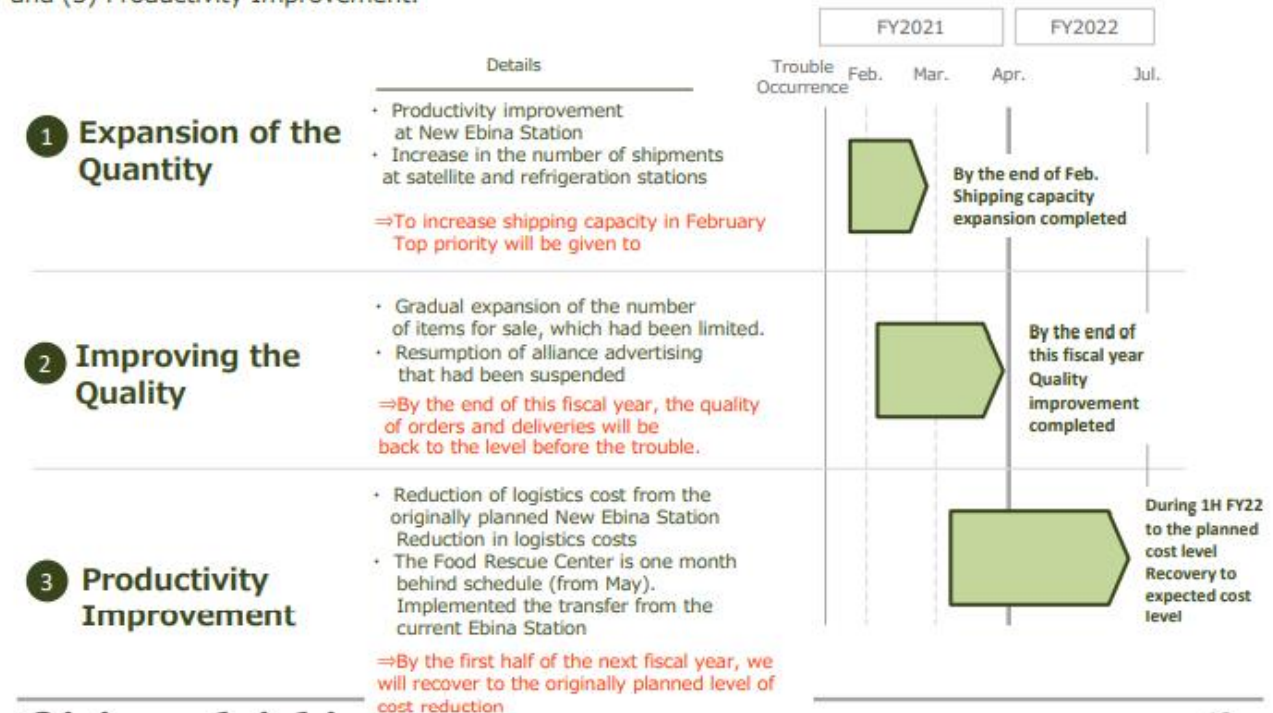
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3. Future Recovery Plan

-① Schedule Overview-

With regard to Recovery Plan, the establishment of a shipment system without delays has already been completed in January.

The recovery will be achieved in three major steps: (1) Expansion of the quantity, (2) Improving the quality, and (3) Productivity Improvement.



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Next, now that the situation has become much more stable, I would like to talk about our recovery past this point. We formulated a recovery plan this week. I will divide it into three major parts.

One of the first things we need to do is to be able to deliver a good volume of products. We have already been able to get out quite a bit, so we are also going to resume promotions to match. However, as I will explain later, February, March, and April are important months for us to promote our products, and we have been planning to do so. This is our top priority.

In terms of the quality of deliveries, there have been no shipping delays or other problems. Product shortages have improved considerably, but this is partially due to limiting the number of SKUs, etc. We are planning to improve that area during the current period.

Thirdly, in February, we are putting a lot of effort and resources into assuring that we can deliver what we promised to our customers, even if it hurts profitability. We will start working on improving profitability in the next month or so.

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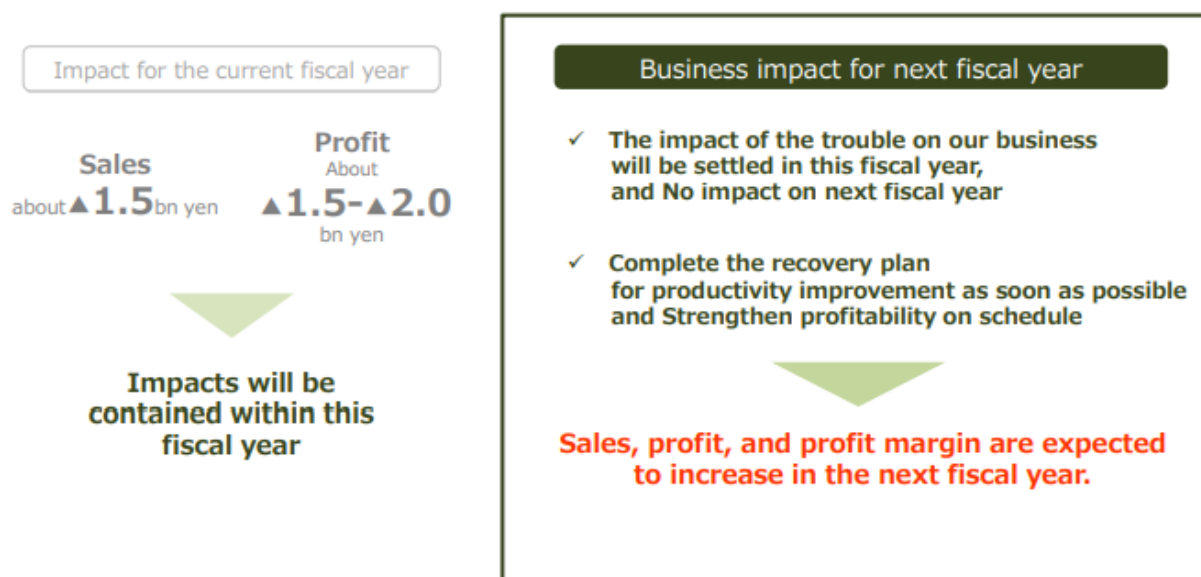
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3. Future Recovery Plan -② Impact on next fiscal year-

The impact of the recovery period for the trouble itself will be settled by the end of this fiscal year.
Sales, profit, and profit margin are expected to increase significantly next fiscal year due to the early completion of the recovery plan for productivity improvement.



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So, to summarize the negative impact on the business, for the current period, net sales will be down about JPY1.5 billion, and profits will be down between JPY1.5 billion and JPY2 billion.

As for the next fiscal year, we expect that most of the problems will be resolved by March.

As such, we believe that we will be able to recover sufficiently to the productivity and capacity levels that we had initially expected. Therefore, we believe that we will be able to grow both net sales and profits in the next fiscal year.

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3. Measures in 4Q

-① Promotion of new subscriber acquisition

Recovery Plan "1: Expansion of the Quantity" will be completed by the end of February, and large-scale promotions, including TV commercials, will be implemented on schedule for the spring season when new life begins.
(TV commercials are scheduled to start airing on February 17.)

① TV Commercial

- New Oisix commercial to air from Feb. 17

(Images of the past)



② Expansion of web ad campaigns.

(Images of the past)



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I would also like to talk a little bit about the promotions for this fourth quarter.

I can't give you any details yet, but we're planning to start a TV commercial next week. We had originally planned to launch this commercial, but now that the center is back in a condition to be able to handle such a situation, we would like to implement it.

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3. Measures in 4Q

-② Sales promotion for current subscribers

Freezing fee campaign started today, on Feb. 10. With the launch of the new service "Patto Oisix" (Feb. 24), we have been working on frozen products, which are in increasing demand due to the expansion of COVID. The launch of the new service "Pato Oisix". We will aim to increase ARPU by strengthening sales of frozen products that we have been able to deliver stably from other distribution stations.

① Strengthen sales of frozen foods

"Patto Oisix" NEW

- 1 Step Side Dish
- Frozen lunches that only need to be microwaved up




It contains more vegetables than any other frozen food ever had.

+

Four-week campaign with no refrigeration fees

② Disney Kit Oisix Course

- Focusing on further nutrition education efforts by making the meal kits featuring Disney characters a yearly course.



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As for promotions for existing customers, we are also thinking of new sections and new collaborations.

One is frozen foods. Frozen foods are shipped from a separate center, but we are thinking of expanding our frozen food business by bearing the freezing costs ourselves.

We are also working on collaborations with Otoya and with Disney.

We will work hard on advancing such initiatives.

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Highlights of Results Forecast Revisions

- Sales Sales increased due to steady progress in the number of subscribers and ARPU compared to the initial plan assumption. On the other hand, there was a loss of sales due to trouble at Shin Ebina Station. As a result, sales were revised upward by about 8 bn yen.
- EBITDA Profit increase due to steady progress in the number of subscribers and ARPU.
- Operating On the other hand, profit loss due to trouble at Shin Ebina station. As a result, EBITDA was revised
Infome downward by 0.5-1.0 billion yen and operating income by 1.0-1.5 billion yen.
(Please refer to the APPENDIX page for the difference between the downward revision of EBITDA and operating income)

| | Initial forecast | | Revised forecast | Change | % |
|--|-------------------------|---|---------------------------|---------------------------------|-------------------|
| Sales | 105.0 _{bn yen} | ▶ | 113.0 _{bn yen} | +8.0 _{bn yen} | +7.6% |
| EBITDA | 6.5 _{bn yen} | ▶ | 5.5-6.0 _{bn yen} | ▲0.5- ▲1.0 _{bn yen} | ▲7.7%- ▲15.4% |
| Operating Income | 5.0 _{bn yen} | ▶ | 3.5-4.0 _{bn yen} | ▲1.0- ▲1.5 _{bn yen} | ▲20.0%- ▲30.0% |
| Net income <small>Attributable to owners of the parent</small> | 3.0 _{bn yen} | ▶ | 2.5 _{bn yen} | ▲0.5 _{bn yen} | ▲16.7% |

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Next, I would like to talk about the revision of the earnings forecast in response to what I have just detailed.

First is net sales. Originally, both the acquisition of new customers and the number of customers were better than originally expected. However, I am sorry to say that there was a negative impact of about JPY1.5 billion on net sales due to the trouble the other day. We had originally expected net sales of about JPY115 billion without this trouble, but we have revised our forecast to JPY113 billion.

We had expected that the profit forecast would be revised upwards due to the steady sales, but because of the loss of between JPY1.5 billion to JPY2.5 billion due the distribution center incident mentioned earlier, we expect to achieve EBITDA of JPY5.5 billion to JPY6 billion and operating income of JPY3.5 billion to JPY4 billion.

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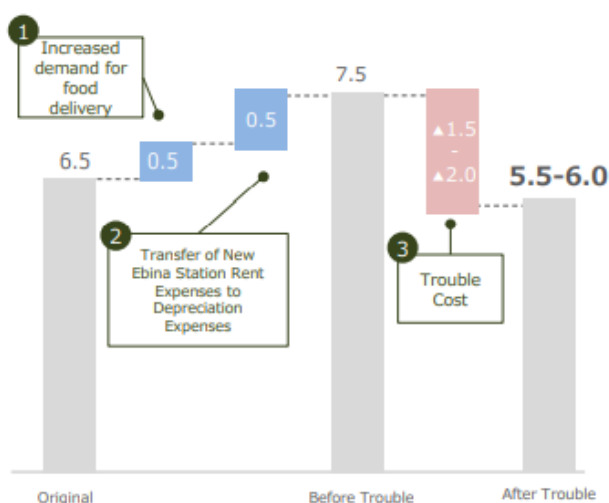
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EBITDA : Forecast trend

EBITDA was expected to be about 7.5 bn yen before the trouble, compared to the initial forecast of 6.5 bn yen. However, due to the costs related to the distribution center trouble (about 1.5-2.0 bn yen), We now expects to arrive at 5.5-6.0 bn yen (Revised downward by 0.5-1.0 bn yen).

-EBITDA : Forecast trend (bn yen)



① Increased demand for food delivery
: about **+0.5** bn yen

② Change in rent of Shin Ebina Station to depreciation expense
(Change in Accounting Standard)
: about **+0.5** bn yen

• Refer to the APPENDIX page for details.

③ New Ebina Station Trouble Cost
: about **▲1.5-▲2.0** bn yen

- Cost of Trouble itself : about **▲0.8-1.1** bn yen
- Cost of Recovery Period : about **▲0.5-0.7** bn yen
- Promotion Suspension : about **▲0.2** bn yen

(Refer to pages 9-14 for details)

Oisix ra daichi

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This is a bit technical, but if you look at the difference between the revised amount of EBITDA and operating income, the change in accounting standards meant that the cost of the Center Station, shown as item two on this chart, had the effect of pushing up EBITDA by about JPY500 million more than expected.

This may be too technical, but the difference is that operating income was revised downward by JPY1 billion to JPY1.5 billion, while EBITDA was revised downward by only JPY500 million to JPY1 billion.

Now that I've explained everything, I'd like to answer your questions.

Sato: Thank you very much, Mr. Takashima.

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Question & Answer

Sato [M]: Now, let's move on to the Q&A session. The question and answer session will be conducted in the form of an oral question and answer session using Zoom's raise hand function. Questions from investors will be followed by questions from the media.

Let's move on to oral question. First, we will take questions from investors. If you have any questions, please let us know using the raise hand button on the screen.

Mr. Sumi. I will allow you to unmute, so please ask your questions.

Sumi [Q]: My name is Sumi from Tokai Tokyo Research Institute Co., Ltd. Thank you very much for your explanation. I have two questions.

First of all, with regard to the distribution center, you mentioned that the troubles that occurred this time was that the distribution center could not operate because of the advanced nature of the material handling system. You can expect irregular situations such as heavy snowfall or typhoons in the future. If a similar situation were to occur again in the future, could you tell us whether or not such troubles will occur in the future?

Secondly, regarding the distribution center, I would like to ask about the deviation between the initial state of the recovery and the synergy you originally expected from the new center.

You have set a medium-term target of a 10% EBITDA margin for the fiscal year ending March 2024. Do you think that the disruptions in logistics that have occurred this time will significantly delay the expected effects of the new center? Or will this not cause a significant deviation from your initial forecast? What are your current thoughts?

Those are my two questions. Thank you.

Takashima [A]: Thank you very much. I will answer your question to the extent of what we know at present.

First of all, I will address the weakness the advanced material handling system showed against irregularities. For example, it's snowing today. But anyway, the method we are using now does not use all of the functions of the material handling system. Rather, we are using a method that is resistant to irregularities by not using some of its high-precision functions.

In that sense, we have experienced things like today's snow many times before. We are currently operating with a system that allows us to recover in the same way that we do in such situations.

There are a couple of disadvantages to not using all the functions of this material handling system. One is that we cannot maximize productivity. The other is that relies heavily on human resources. When we use all of these high-precision systems for inventory location management, for example, anyone can do the job. But when we only use some of the functions, only someone who is skilled can immediately do the job. We are doing it in the same way we have been doing it at the previous stations.

Right now, we're not using all of the functions of the material handling system. As such, while its stronger against irregularities, it also has disadvantages like those I already mentioned. So, in the future, we will have to consider how far we should go in using the material handling systems functions based on the situation at that time.

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This may be related to your next question, but even though we are currently not using all the functions of the material handling system at the moment, productivity has increased considerably. We are getting over 90% of the productivity originally expected when using all the features. So, I think we are in a good place.

Productivity depends on both cost and capacity. Whether we use all the material handling systems' functions, or continue with the current method without doing so, I think we can achieve both the profitability and productivity as planned.

Although the activities have been postponed by about three months, looking a period spanning until the fiscal year ending March 2024, we are fairly confident that there will be no major negative impacts and that we will be able to secure capacity and profitability as planned. That's all.

Sumi [M]: Thank you. That is all from me.

Sato [M]: Thank you, Mr. Sumi. Mr. Yasuda, please unmute and ask your questions.

Yasuda [Q]: Thank you. I am Yasuda from ACE Research Institute. I would like to ask you a few questions about the troubles you have had.

From what you said today, it seems that the system of the New Ebina distribution center is highly automated. Is my understanding correct that this automated system was vulnerable to such troubles in the first place? This is my first point.

The trouble was due to the fact the automated system could not be used due to the logistical disruptions, so you resorted to throwing people at the problem, which resulted in missed visual inspections which in turn caused inconveniences to customers. Can you comment on that?

Takashima [A]: Yes, thank you. First off, the problems were not all due to automation. Rather, it was because the line was designed to take off running only after everything was in place. In the past, we would run the line even when not all items were in place, like with this case. We simply would simply start things down the line and then make up for what was missing before shipping.

For example, we often had delays in the delivery of cabbages. In such cases, we made the decision to put the cabbage in later. We would start up the line, and then cabbages would be put into the boxes of only those who ordered cabbages. The problem with the new automated system this time was that it could not start of running until all the items were ready.

Actually, all the automation past that point was working well. As you can see in the video, the process of automatically closing the lids of the cardboard boxes and moving them directly to the shipping point is highly automated, but it is working very well. The entrance to the automated logistics system is where things went wrong.

As for throwing people at the problem, we resorted to using a method that forced the automated system, which normally would not start running until everything was in place, to start even without everything in place. As a result, we have been able to make the shipments that had been delayed.

As such, we went from cancelling shipments to being able to ship them. However, in that process, given that customers order about 10 items on average, if they order, say, 15 items, we would prepare two boxes. When we prepare these two boxes, we would pack things in the first box, but if we were out of any of the items for the second box, we would end up shipping the second box partially empty.

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It's not that there was a huge volume of such deliveries, but what happened was that the customers who received them happened to post about them on social media. I wouldn't say that throwing people at the problem was a mistake, exactly. If anything, using that tactic to force the start of the line, which wouldn't start until everything was in place to start, led to a recovery in deliveries.

Yasuda [Q]: I understand. One quick follow-up.

This may be because I am usually looking at software, but I think the biggest problem is that when you defined the requirements for the system in the first place, you made it so that the system would not work without all the inventory in place. Was there a reason why you set the requirements like this?

Takashima [A]: That's right. As I mentioned earlier, one of the problems with the conventional way of doing things is that the management of inventory, including the best-before dates, had to be done visually.

By using a system to do location management of things like expiration dates and shipping deadlines, we wanted to improve the precision of our operations while also reducing our reliance on human resources. I suppose that the requirements we defined didn't take major irregularities into account. We were prepared for some small irregularities, but the problem was that we were not prepared for major irregularities.

Although this is something for future discussion, now that the relocation is over, I think it will not be so difficult to use this high-precision system. Although it was very difficult to deal with the big event of the relocation, now that the relocation is complete, it has not been very difficult to use. In that sense, I can't say at this point that the definition of the requirements was wrong.

Given the difficulty of defining the requirements, I now think that the relocation plan should have been more gradual.

Yasuda [Q]: I understand very well. By the looks of it, I understood very well that the fact that the launch of the new distribution center was moved up was probably a pretty big factor. It seems that you were aiming for a highly productive system, so I think these troubles were unavoidable.

One last thing, however. I personally think that this trouble may have the effect of raising your company's profile. Since the number of cancellations has not increased much, is there any positive effect that we can expect to see from the recovery process moving forward, such as a boost in exposure?

Takashima [A]: I can't say anything about that yet, but the number of customer cancellations was much lower than what we were prepared for, and we are very grateful for that.

However, given the notoriety this incident has surely brought upon us, we would like to take on the challenge of delivering positive experiences to the customers we meet in the future.

Yasuda [M]: I understand very well, now. Thank you very much.

Sato [M]: Thank you, Mr. Yasuda. Mr. Nagai, please unmute and ask your question.

Nagai [Q]: My name is Nagai from Point72. Thank you for the detailed explanation. I would like to ask you two questions.

The first is about the profit level for the next period. I think you mentioned earlier that profit growth will be possible for the next period. Does that mean that you think you will be able to grow against your baseline performance of JPY5 billion for the current period, or against the actual performance of JPY3.5 billion after the expenses that resulted from the recent troubles? This is my first question.

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Secondly, regarding the ARPU of Oisix, I think it is a little difficult to see due to the troubles at the distribution center. How much of an impact did the reopening have on ARPU in the October-December period? Looking at the seasonality of the second quarter and the third quarter, I think it should have been JPY500 to JPY1,000 higher. Could you break down how much of this effect was due to the logistics troubles and how much was due to the reopening?

Takashima [A]: Thank you very much. Sorry, the profit level thing was a bit confusing. We believe that it is possible to achieve growth from the target level for the current period, rather than from the current downwardly revised level.

At this point in time, the rates and figures are still under review. However, in the current period, we were relocating to a new center, so we had to redundantly run centers during part of the current period. This resulted in double costs. We were also forced to use some satellite centers, which were not so profitable.

If the new stations work well, we will be able to eliminate this problem to a large extent. Although we suffered a temporary loss during the current period, we believe that we will be able to achieve further growth next period beyond the level we would have achieved had we not suffered that loss.

As for ARPU, the third quarter ARPU was not affected by the logistics trouble, so we believe it is currently as high as it should be. In that sense, ARPU was abnormally high the year before last, in FY2020, and in the current period of 2021.

As such, so the performance figures we have shown here also include figures that exclude the high ARPU levels, which we consider to be our actual capability. Compared to 2019 before the pandemic, people are inevitably spending more times in their homes, so ARPU is higher than normal. We are not very optimistic about this, and our thinking about the next period is more conservative.

If anything, we feel that ARPU still has not dropped as much as we expected.

Nagai [Q]: Thank you very much. Just to confirm, there have been various changes to the earnings forecast due to the logistics troubles, but the actual performance up to the third quarter were not affected by the logistics trouble at all, correct?

Takashima [A]: Yes, that's correct.

Nagai [M]: Okay, thank you very much. That's all.

Sato [M]: Thank you, Mr. Nagai. Are there any other investors who would like to ask questions orally? Mr. Hayami, I have allowed you to unmute, so please unmute yourself and ask your questions.

Hayami [Q]: Thank you very much. My name is Hayami from Asahi Life Asset Management. Thank you very much for your explanation today. I have two questions.

One is about your logistics facilities. I would like to know if the new building, machinery, and personnel belong to the Company, or are they outsourced?

Takashima [M]: Your second question, please.

Hayami [Q]: The other question is about risk management and governance.

Regarding risk management, was the cause of the troubles in the first place the decision to move to a new location ahead of schedule when preparations were not yet complete? Or was it the decision to throw people at the problem after the trouble occurred?

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Given the upcoming launch of the Atsugi station, I would like to know how you plan to rebuild your risk management system to prevent this kind of incident from happening again.

Takashima [A]: Thank you very much. Please wait a moment while I confirm.

First of all, the center is a leased building, so it is on the Company's balance sheet. The machines are owned and depreciated by the Company. As for the personnel inside, we are running our own operations.

As for the second point, we were able to manage the situation by using the solution we used, although “throwing people at the problem” might not been the right phrase to describe it. Rather, I would say that we stopped using all the functions and switched to using only some of them, which allowed us to somehow recover, although it did take significant manpower.

When I say that we used manpower, I mean that we used it to make up for the trouble after it occurred.

The direct cause of the problem was the decision to go ahead with the relocation even though we were not fully prepared. The relocation plan was divided into four stages, with the first, second, and third stages involved relocating about 10% of the total. The plan was to confirm that there were no problems doing 10% at a time, and then relocate the last 60% all at once. Doing the last 60% at once was the problem.

There was not only a large amount of stuff to relocate, but that 60% to 70% was of a different difficulty level than what we expected from the other experiments we had done. I believe that was the problem. However, to be honest, if for example there had been no Omicron variant, and we had a little more time to spare, I am still not sure if we would have realized the problem beforehand.

With regard to the Atsugi relocation, I think that the relocation plan will be carried out in a more precise and phased manner. The plan will of course incorporate the findings of the review of this incident. this review, of course. The Atsugi facility will be a frozen warehouse, so compared to a refrigerated warehouse, the requirements for shelf life management, vegetable quality control, food loss, and so on we be much less severe.

However, we have learned a lot from the failure of this relocation, and we would like to take a more gradual approach to the next relocation based on these learnings. That’s all.

Hayami [Q]: Okay. Thank you. I'm sorry, but I have one additional question about your personnel. You said that the center was staffed with your own personnel. Is it correct that you sent out partially empty boxes even though your own employees were doing visual inspections?

Takashima [A]: Our staff includes people who continuously employed by the Company, but it also includes part-time workers and day laborers. While of course the course the Company is ultimately responsible, it should be pointed out that not all of our staff are continuous employees. In fact, a little less than half of the work is being done by continuing employees.

Basically, as you have just seen in the video, we are running the line for about 20 hours a day. At first, we were not aware of the need for visual inspections. To give an example of what is happening, when you put a flyer in a box, you have to register it as a product. You will have to register an SKU called Flyer and put it in.

For example, if a customer ordered a paper demon mask as an supplementary item, it would be possible for a box with only the mask to be accepted and sent along the line. This is essentially the sort of thing that happened this time. Overall, I would say it would be a very rare problem, but it could happen.

Hayami [M]: Thank you.

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Sato [M]: Thank you, Mr. Hayami. Next, Mr. Hanyu, please unmute and ask your questions.

Hanyu [Q]: My name is Hanyu from Resona Asset Management. I have just one question.

You mentioned that there was a decrease in sales as a result of this trouble, and that you are currently restricting SKUs, etc. I would like to know if there is any impact on the producers you were planning to purchase from. For example, if they were planning to ship to you but were unable to do so as planned.

I would also like you to comment on whether or not this might have an impact on their future transactions with your company, as well as any countermeasures you might be considering.

Takashima [A]: Thank you very much. First of all, in this case, we received the goods. That is, we were able to buy the goods from the producers, but we were unable to transport them due to the logistical disruption. As such, we basically did not lose the ability to do business with producers.

As I mentioned earlier, there are some things that need to be corrected in the operation of the distribution center compared to our previous distribution center. We have to thank the producers for working with us on making various changes, mostly involving changing delivery times, which are now earlier ever before.

For example, for deliveries in the afternoon, we'd previously be OK with deliveries at whatever time. Instead of that, we have for example changed to asking for specific times. That is the sort of change we have been making with our producers, who have worked hard to cooperate with our requests.

We are very grateful to our producers, who have been encouraging us, asking us if there is anything they can do. Basically, we have been asking our producers to cooperate with slight modifications to our operations.

Hanyu [Q]: Thank you very much. Are the producers responding well to the new system of operation that you have just mentioned?

Takashima [A]: Yes, thanks to their prompt cooperation, we have been able to ship products without any problems for the past two weeks.

Hanyu [M]: I understand very well. Thank you very much.

Sato [M]: Thank you very much, Mr. Hanyu. We would now take questions from the media. If you have any questions, please let us know using the raise hand button on the screen. Mr. Hokazono? I've allowed you to unmute, so please unmute yourself and ask your questions.

Hokazono [Q]: My name is Hokazono from Nikkei BP. Thank you. I have a few points to make. The first one is that you mentioned earlier that the last 60% to 70% of the relocation was highly difficult. I was wondering if you could be more specific and tell us in what sense the difficulty level was high.

Also, you mentioned that there was a delay in the arrival of the products. I assume the producers bring the products to your company through logistics companies.

My second question is whether the deliveries were delayed because a lot of the logistics companies were not aware that Oisix's distribution center had been relocated or could not find it.

My third question is regarding the shortages that occurred during the picking process. Did you send the products down the line to be shipped with the knowledge that shortages were occurring, having decided that delivering product even with shortages was more important?

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In other words, were the shortages not because you failed to check, but because you realized that there would be shortages, and decided to allow those shortages?

Those are my three questions.

Takashima [A]: Alright, thank you. As to why the last chunk of the relocation was very difficult, but to be more specific, I feel I should first point out that our service consists of several different courses, so different customers require different products, which is to say, different SKUs.

The number of SKUs for the last 60% to 70% was high. One more thing was that we had a larger selection of products than at the time of the initial preparation stage.

Yet another thing is that we use the same distribution center to ship products for ISETAN Door and d meal kits in collaboration with Docomo. This uses different cardboard boxes and a different level of burden. Of course, the products handled are also different.

The shipments for other companies and other brands were also included in the last 60-70% of the relocation. We had been doing experiments with the Oisix brand, but after confirming that it worked well, we thought it would be OK, so we started shipping products for our other companies at the center as well. This is part of what made the relocation more difficult.

The second question is exactly as you said. While there were no people who didn't know about the relocation, since it was a new place, there were cases where people went to the wrong location. Also, there was some temporary congestion. This was partially due to a mistake in our design; however, I believe there were also some cases where the driver did not take the wrong road, but got the time wrong, contributing to congestion.

As for the last point about the shortages, it is as you pointed out. We decided that partial shipments are better than not shipping anything at all, as long as the shipment includes all of the main items like vegetables or meal kits, or daily foods like milk, natto, and eggs. We went this way because we knew that there were customers who were unable to go shopping due to various circumstances, such as self-isolating at home.

That's all.

Hokazono [Q]: I understand. Thank you. One more thing. You mentioned that it was difficult to respond to irregularities due to the high-precision logistics system. You then said that since we don't know what kind of irregularities will occur in the future, you will need to change the high-precision logistics system itself into a more resilient system that can respond to irregularities to some extent.

I assume that you meant you will not only change the system, but also about changing the way you operate. Do you have any concrete ideas, such as creating a manual for dealing with such irregularities?

Takashima [A]: That is exactly what we are thinking. We are currently operating in a state between the system at the old Ebina station and the-high precision system we envisioned for the new one. We are using some of the high precision functions and some of the old ways.

I think we will have to think about which balances is optimal for normal times, and how to change it in the event of a contingency. I think we will have to consider the balance appropriate for each contingency. Consider the snow today. We will probably have to decide in advance how much of the advanced functions to use depending on the level of snowfall. That will likely be how we operate.

Hokazono [M]: I understand. Thank you very much.

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Sato [Q]: Thank you very much, Mr. Hokazono.

It will soon be 5:00 PM, so let's continue on with the question and answer session. If you have any questions, please use the raise hand button. Is there anyone else who would like to ask a question orally?

Alright, we will now move on to the answers to the text questions that we have received.

Here is the first question. "Will the increase in fixed costs associated with the start of operations at the New Ebina Center be limited to the QoQ increase of about JPY360 million in the third quarter, or will it also increase even further in the fourth and first quarters? Also, could tell us about the depreciation of the old center, the end of the lease burden, etc.?"

That is his question. Mr. Takeshima, please.

Takeshima [A]: Thank you very much. The original plan regarding this was not affected by the trouble that occurred. As planned, the fixed costs of the old center are scheduled to no longer be incurred as logistics costs after the current period. From the next fiscal year, we will incur fixed costs for the new center.

In addition, the depreciation of the old center was accelerated, and was completed in December last year.

As I explained last time, rather than turning over the old center, we'd like to turn it into a food rescue center, a base for procurement. In this sense, the rent for the old center will be included in the cost of goods in the future.

However, we believe converting the Food Rescue Center will probably lead to a reduction in the cost ratio. As such, the fixed costs will no longer be accounted as logistics costs after the current period.

Does that answer your question? Okay, he says it does.

Sato [Q]: Thank you very much. Let's move on to the next question. "Regarding the competitive environment, I heard that Hello Fresh, a major global competitor, as well as MUJI, have both started selling meal kits in Japan since December. What are your general thoughts on the current and future competitive environment? In particular, has there any change in the efficiency of acquiring new customers?"

That is his question. Mr. Takeshima, please.

Takeshima [A]: Yes, thank you for your question. To be honest, I've been so focused on the distribution center that I haven't been able to check much on the intensifying competitive environment. We had stopped acquisition of new customers, so whether or not there is a change in efficiency is currently unclear, as the impact of the recovery after the stoppage is greater than the change due to the intensification of competition.

I've been running this company for more than 20 years now. As you know, we originally started out by selling vegetables online, but when many people enter a market, there is usually not much of a negative impact. Or rather, the market is in the process of growing.

In the UK and the US, the meal kit market is quite large, but in Japan, it has only just begun growing. I think that we will likely be building the market together with many other people. That's all.

Sato [M]: Thank you very much. Is there anyone else who would like to ask a question? Mr. Hokazono, I've allowed you to unmute, so please unmute yourself and ask your questions.

Hokazono [Q]: Apologies for so many questions. My name is Hokazono from Nikkei BP.

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Since the President is also here, I would like to ask when he found out about this logistics trouble and how he dealt with it. For example, since there was a manual in place, did he set up a task force in accordance with it? Also, what kind of instructions did he give on how to respond to the situation? I think troubles with systems inevitably occur, but could you tell us how you responded in terms of your BCP?

Takashima [A]: Thank you very much. We knew that the relocation days are very important dates, and we had been receiving reports of problems with incoming shipments since the day of the relocation.

However, at the time, we didn't have a clear understanding of how difficult it would be to deal with the irregularities due to the troubles with receiving shipments. As for whether it would affect shipments, I was only I was told about the disruption with incoming shipments on Sunday, and the delay in the shipment happened on Tuesday. We became aware of the difficulty at this time.

We immediately set up a task force, and the staff in charge immediately went there. I myself immediately went there on Thursday. For the next two weeks, I was essentially living in Ebina, but I gave top priority to countering the problem, and mustered the Company's resources there to work on it.

In this case, there was no way to respond to the problem using the manual. So, as in the past, when the level of trouble is high, we basically set up a task force, with myself acting as its head.

That is how we responded this time.

Hokazono [Q]: Did you basically decide to prioritize the delivery of products even if a certain amount of shortages occur?

Takashima [A]: I basically gathered information and made decisions about what to prioritize and what to sacrifice in response to the trouble.

Hokazono [Q]: Is it correct to say that President Takashima made all the decisions regarding the recovery and other matters?

Takashima [A]: Yes, we have not yet dissolved the task force, so I am basically in charge of determining priorities.

Hokazono [M]: I understand. Thank you.

Sato [M]: Thank you very much, Mr. Hokazono. Is there anyone else who would like to ask a question?

Now that we have no more questions, we will conclude the briefing. Thank you very much for taking time out of your busy schedule to join us today.

[END]

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