Sansan, Inc.

Earnings Results Briefing for FY2023 Q1

October 13, 2023

Event Summary

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[Participants]	
[Number of Speakers]	1 Muneyuki Hashimoto Director, Executive Officer, CFO
[Analyst Names]*	Naoki Hiraoka Nomura Securities Takashi Miyazaki Goldman Sachs Hiroshi Yamashina Macquarie Capital Securities

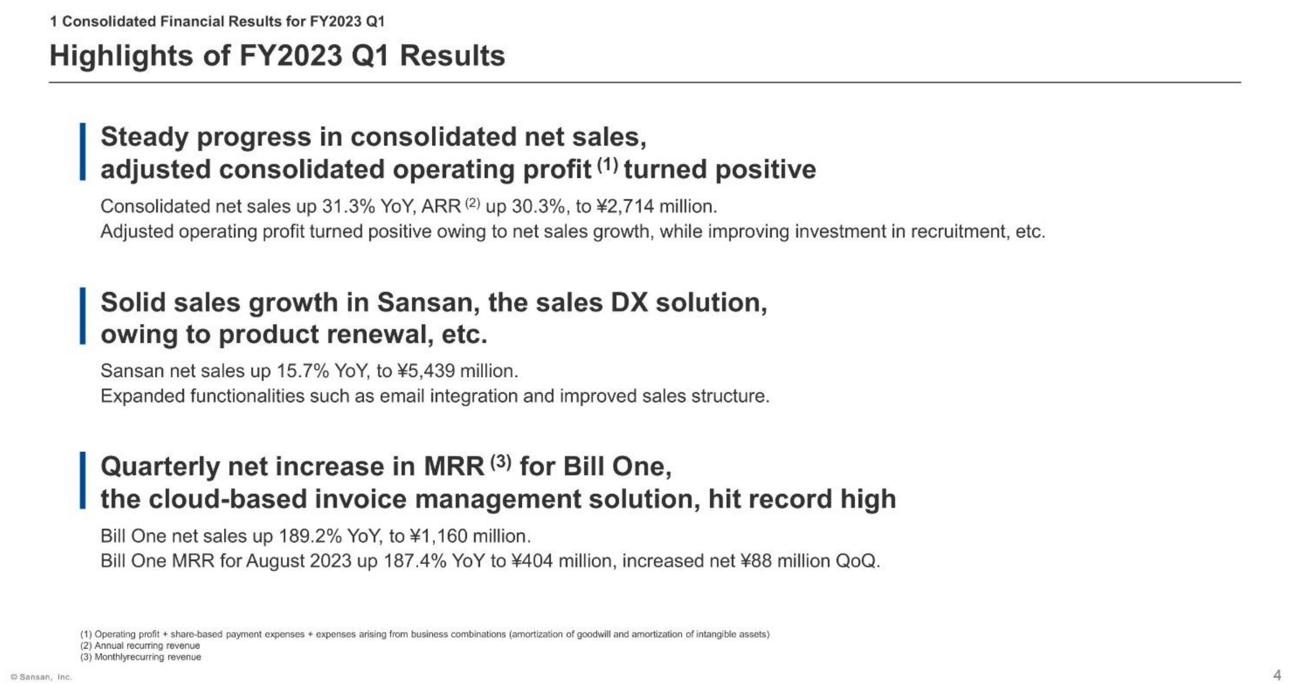
*Analysts that SCRIPTS Asia was able to identify from the audio who spoke during Q&A or whose questions were read by moderator/company representatives.

Presentation

Moderator: Now that we have time, Sansan, Inc. will hold an earnings results briefing for Q1 of the fiscal year ending May 31, 2024. We will be presenting with financial results presentation materials. We will be sharing screens via Zoom, but if you are joining us by phone, please check our website for IR materials.

Mr. Hashimoto, CFO and Director of the Company, will give a 15-minute presentation on the financial results, followed by a question-and-answer session until 11:00 AM.

I would like to begin the briefing with an explanation from Mr. Hashimoto.



Hashimoto: Thank you very much for attending our earnings presentation today. I am CFO Hashimoto. I would like to explain our Q1 results for the fiscal year ending May 31, 2024, and our outlook for the full fiscal year.

See page four. The following are highlights of the cumulative results for Q1 of the fiscal year ending May 31, 2024.

First, sales progressed well, growing 31.3% YoY, with the growth rate accelerating from the previous quarter. In addition, adjusted operating profit for Q1 turned into the black due to the increase in sales.

Second, sales of Sansan DX solution, grew steadily thanks to the effects of product renewal and other measures.

Third, Bill One, the invoice management service, posted a strong performance, with sales approximately 2.9 times that of the same period of the previous fiscal year. MRR increased JPY88 million in a net term in the quarter, the highest net increase of our record.

1 Consolidated Financial Results for FY2023 Q1

Overview of Consolidated Financial Results

Net sales up 31.3% YoY, accelerating growth.
Profit at each stage turned positive owing to net sales increase, while implementing various investments for accelerating sales growth.

(millions of yen)		FY2022	FY2023	
		Q1 Results	Q1 Results	YoY
Consolidated Results	Net Sales	5,714	7,504	+31.3%
	Gross Profit	4,930	6,510	+32.0%
	Gross Profit Margin	86.3%	86.8%	+0.5 pts.
	Adjusted Operating Profit	-227	143	–
	Adjusted Operating Profit Margin	–	1.9%	–
	Ordinary Profit	-173	110	–
	Profit Attributable to Owners of Parent	-325	25	–
	EPS	-2.61 yen	0.21 yen	–

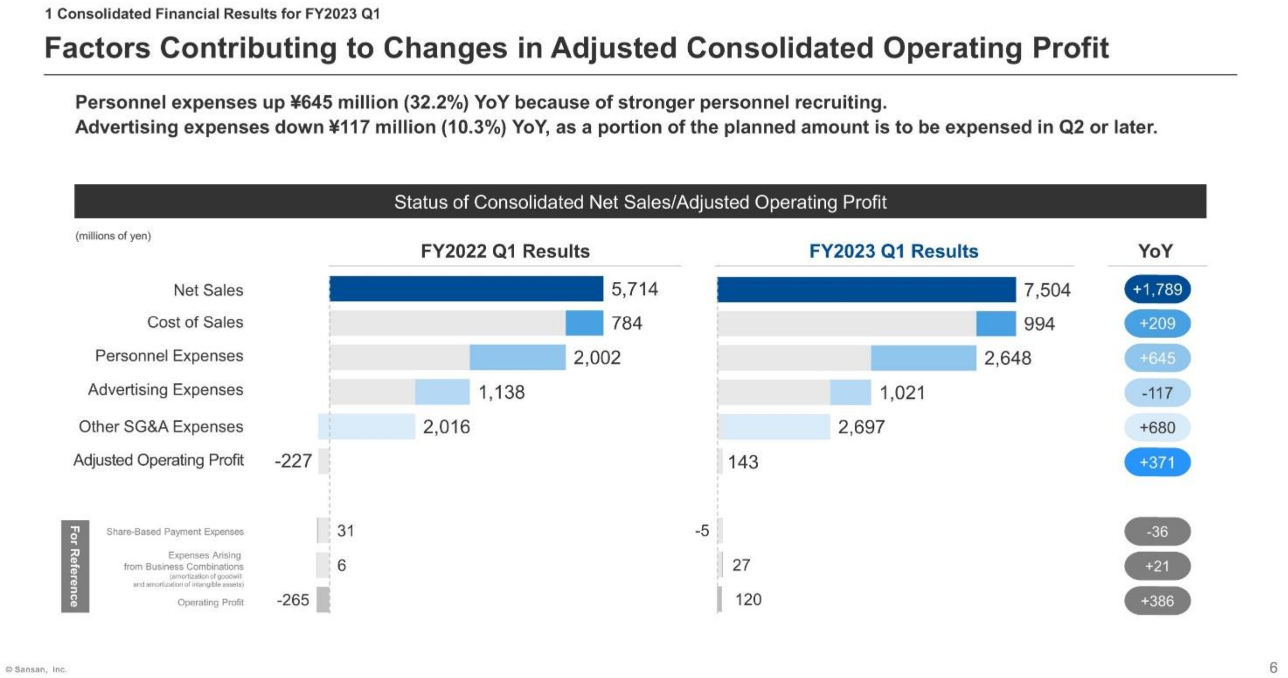
5

Q1 results are shown on page five, as you see them.

Sales remained steady, increasing 31.3%. Excluding the newly consolidated Creative Survey and Institute of Language Understanding, Inc., the organic growth rate was 28.1%.

The slight improvement in gross profit margin was mainly due to Sansan's gross profit margin improvement by about 0.6 percentage points YoY and Bill One's gross profit margin improvement to the level of about 80%, from about 65% in the same period last fiscal year.

Adjusted operating profit increased by JPY371 million from the same period last fiscal year to JPY143 million, as each stage of profit turned profitable with sales growth and other factors.



Next, I will explain the factors behind the increase in adjusted operating profit. See page six.

As a result of continued efforts to strengthen recruitment from the previous fiscal year, the number of consolidated employees made steady progress against the plan, increasing by 306 from the end of last fiscal year Q1 to 1,505.

In addition, personnel expenses increased by JPY645 million from the same period of the previous fiscal year as a result of base salary increases and other measures to strengthen recruiting capabilities.

On the other hand, advertising expenses decreased by JPY117 million from the same period of the previous fiscal year, but this was due to the fact that some expenses originally planned to be recorded in Q1 are now expected to be recorded mainly relating to Bill One in Q2 or later. There are no major changes to the full-year cost plan.

Adjusted operating profit is the sum of operating profit plus stock compensation-related expenses and various expenses incurred in connection with the business combination. A portion of these expenses related to stock-based compensation is structured in a way that expenses are recorded in accordance with the Company's stock price level at the end of each quarter, and a negative amount was recorded in Q1.

Results by Segment

Increased net sales and adjusted operating profit (reduced deficit) in both Sansan/Bill One and Eight Businesses.
Adjustments amount (adjusted operating profit) expanded by ¥333 million in negative YoY, owing to increased headcount, etc.

	(millions of yen)	FY2022	FY2023	
		Q1 Results	Q1 Results	YoY
Net Sales	Consolidated	5,714	7,504	+31.3%
	Sansan/Bill One Business	5,147	6,816	+32.4%
	Eight Business	533	599	+12.4%
	Others	55	117	+111.6%
	Adjustments	-21	-29	–
Adjusted Operating Profit	Consolidated	-227	143	–
	Sansan/Bill One Business	1,221	1,899	+55.5%
	Eight Business	-135	-91	–
	Others	-9	-26	–
	Adjustments	-1,304	-1,638	–

Page seven is a summary by segment.

Both the Sansan/Bill One and Eight businesses increased sales and earnings.

Other includes a new contribution from Q1 from the Institute for Language Understanding, Inc., which became a subsidiary in June 2023.

The negative adjustment in adjusted operating profit has increased, mainly due to the increase in various costs associated with the increase in personnel, especially in the corporate division.

The details of the adjustments are shown on page 28 of the supplementary information.

1 Consolidated Financial Results for FY2023 Q1

Sansan/Bill One Business Overview

Net sales up 32.4% YoY, owing to solid growth for Sansan and high growth for Bill One.
Adjusted operating profit up 55.5% YoY while strengthening investment for sales growth of both Sansan and Bill One.

		FY2022	FY2023	
	(millions of yen)	Q1 Results	Q1 Results	YoY
Sansan/Bill One Business	Net Sales	5,147	6,816	+32.4%
	Sansan	4,701	5,439	+15.7%
	Sansan Recurring Sales	4,451	5,114	+14.9%
	Sansan Other Sales	250	324	+29.8%
	Bill One	401	1,160	+189.2%
	Others	44	216	+385.9%
	Adjusted Operating Profit	1,221	1,899	+55.5%
	Adjusted Operating Profit Margin	23.7%	27.9%	+4.2 pts.

See page eight. I will explain the results by segment.

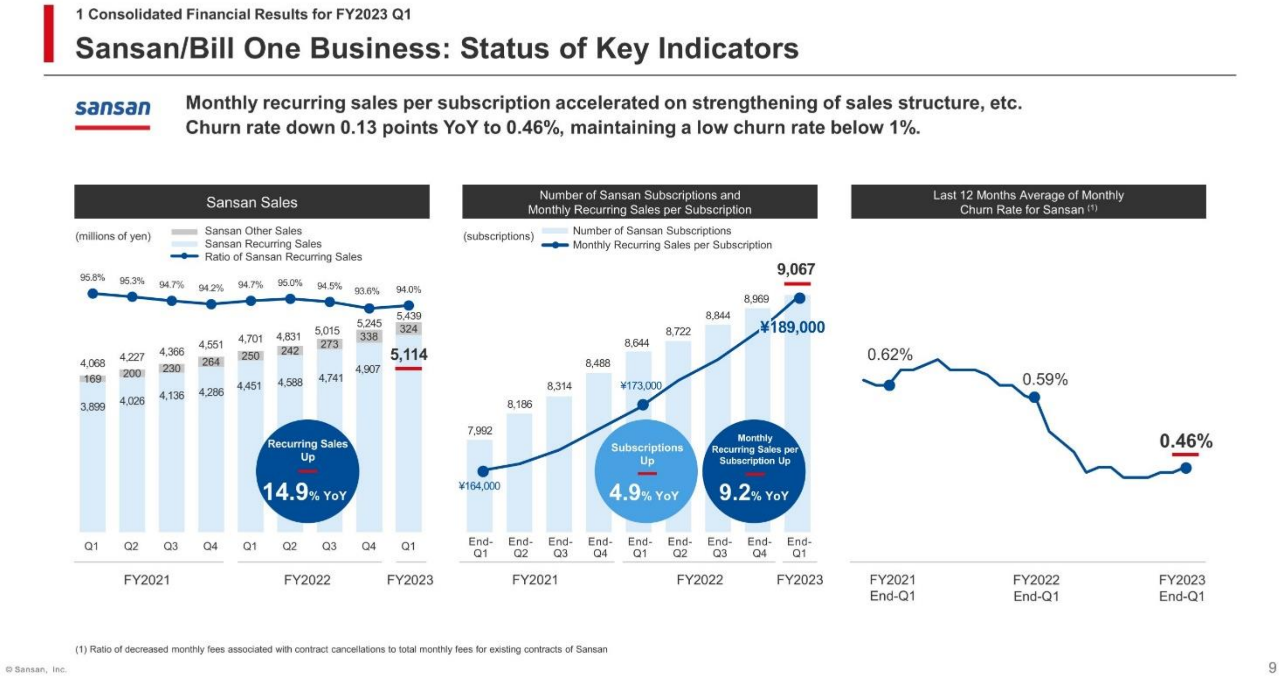
First, I would like to discuss the performance of the Sansan/Bill One business.

Sales in the Sansan/Bill One business increased 32.4% YoY to JPY6,816 million, thanks to solid growth in Sansan and continued high growth in Bill One. The growth was mainly due to enhancement of functionality of each product and to the establishment of dedicated sales organizations for each of Sansan and Bill One, which had been integrated, in order to maximize sales of Sansan and Bill One.

Sansan sales increased 15.7% YoY. In addition, Bill One sales increased approximately 2.9 times compared to the same period of the previous fiscal year.

Others sales also grew significantly, mainly due to the contribution of Creative Survey, which became a subsidiary in February 2023. The number of contracts for Contract One, a contract DX service included in Others, increased by 86 from the end of the same period last fiscal year to 174.

Despite investments in growth in each business, adjusted operating profit increased 55.5% YoY to JPY1,899 million, significantly outpacing sales growth, as Sansan's profit growth exceeded sales growth and Bill One's loss narrowed, in tandem with sales growth.



See page nine. Here are the details of Sansan's KPIs for Q1.

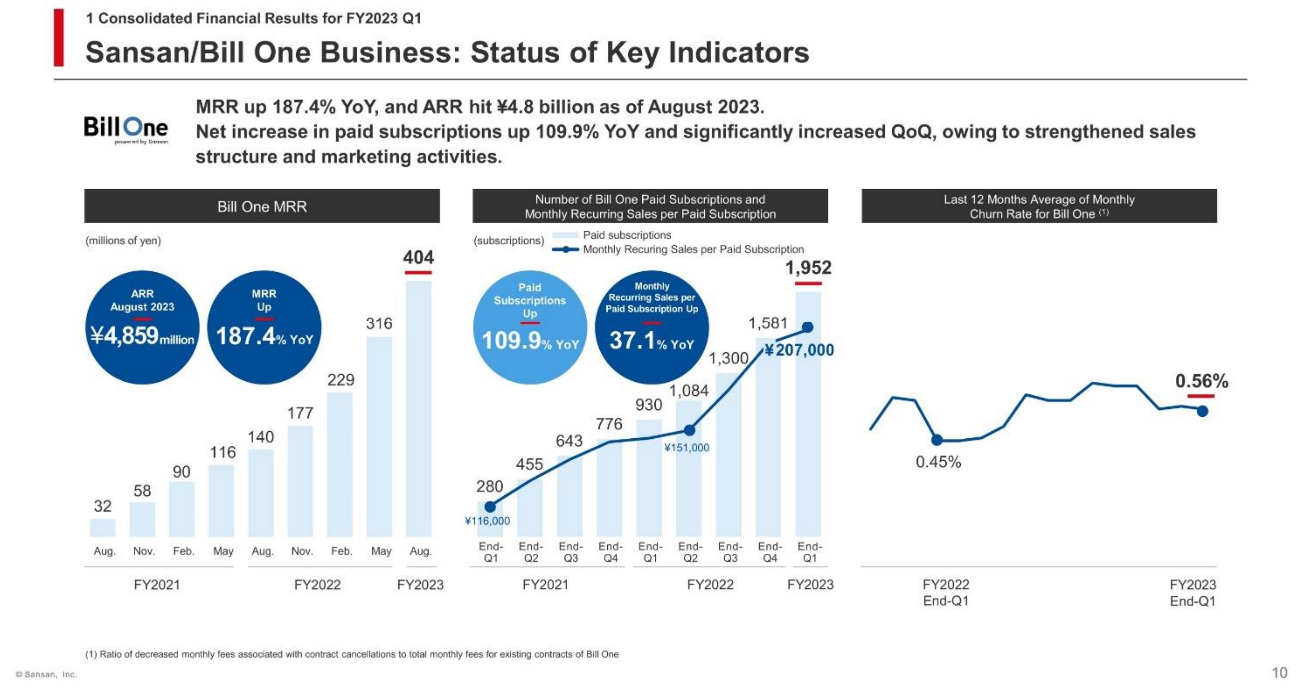
The graph on the left side of the slide shows Sansan's recurring sales, which increased 14.9% YoY, mainly due to the acquisition of new contracts as a result of product renewal. Sansan's other sales increased 29.8% YoY, due to higher initial costs, etc.

The graph in the center of the slide shows the number of Sansan subscriptions and monthly recurring sales per subscription. Subscriptions totaled 9,067, up 4.9% YoY, and monthly recurring sales per subscription were up 9.2% YoY.

The right side of the slide shows Sansan's average monthly churn rate over the last 12 months, which as of August 2023 was 0.46%, maintaining a low churn rate of less than 1%.

The slowdown in the net increase in the number of subscriptions was due to a decrease of 82 subscriptions in Q1 of the current fiscal year, mainly due to the consolidation of subscriptions following a review of some option plans. Excluding this effect, the net increase in the number of subscriptions was also higher than in Q4 of the previous fiscal year. This impact was only temporary in Q1. In addition, the impact on sales is very minor, as can be seen from the average monthly churn rate over the last 12 months.

Monthly recurring sales per subscription remained strong, mainly due to obtaining contracts from medium- and large-sized companies, as a result of the strengthened sales force.



See page 10. Here are the details of Bill One's KPIs for Q1.

The graph on the left side of the slide shows Bill One's MRR for the single month of August 2023, which was approximately 2.9 times higher than the same period last year, the largest quarterly net increase ever.

The graph in the center of the slide shows the number of Bill One paid subscriptions and monthly recurring sales per paid subscription. As a result of new contract acquisitions from medium- and large-sized companies, the number of paid subscriptions increased approximately 2.1 times YoY, with a net increase of 371 for the quarter, a record high net increase. Monthly recurring sales per paid subscription rose 37.1% YoY to JPY207,000.

The right side of the slide shows Bill One's average monthly churn rate over the last 12 months. As of August 2023, the churn rate was 0.56%, maintaining a low level of less than 1%.

As for the current situation, the invoice system started in October, and the appeasement period of the revised Electronic Bookkeeping Maintenance Act will end in 2024. We will continue to monitor demand closely, but for the time being, we anticipate that new sales activities will be temporarily affected by the accounting workload immediately after the start of the invoice system, but we expect demand for more efficient operations in response to the invoice system and the revised Electronic Bookkeeping Maintenance Act to increase again in H2.

The Bill One Business Card, which was launched in June 2023, is in the start-up phase, so its contribution to Q1 results wasminor. We are currently working on measures to promote the service and increase its utilization.

1 Consolidated Financial Results for FY2023 Q1

Eight Business Overview

Sales up 12.4% YoY owing to solid growth of B2C and B2B services.
Adjusted operating loss shrank by ¥44 million YoY, making steady progress toward profitability for the full fiscal year.

	(millions of yen)	FY2022	FY2023	
		Q1 Results	Q1 Results	YoY
Eight Business	Net Sales	533	599	+12.4%
	B2C Services	72	81	+12.1%
	B2B Services	460	518	+12.4%
	Adjusted Operating Profit	-135	-91	–
	Adjusted Operating Profit Margin	–	–	–
	Number of Eight Users [(1)]	3.15 million people	3.37 million people	+0.21 million people
	Number of Eight Team Subscriptions	3,008	4,023	+33.7%

(1) Number of confirmed users who registered their business card to their profile after downloading the app.

 11

Next, I will explain the Eight business. See page 11. Net sales increased 12.4% YoY to JPY599 million, mainly due to a review of pricing strategies in the business card management service. The deficit amount decreased by JPY44 million in the adjusted operating profit as a result of the increase in net sales.

1 Consolidated Financial Results for FY2023 Q1

Eight Business: Net Sales, Adjusted Operating Profit

eight **B2B net sales down QoQ, due to not holding business events.**
Planning to hold large-scale business event in Q2 likewise FY2022.

 12

Page 12 shows the quarterly results of the Eight business. The decrease in sales in Q1 compared to the previous quarter is due to the absence of a major business event. In the current fiscal year, we plan to hold large business events in Q2 and Q4, as we did in the previous fiscal year. Accordingly, we expect further improvement in profits in Q2.

1 Consolidated Financial Results for FY2023 Q1

Product Renewal to Business Card App Eight

Concept changed from contact and career management app to business card app, specializing in virtual card exchange and business card management. Aim to solve paper business card-related issues, such as running out of cards or losing exchanged cards, while introducing a one-touch business card exchange function.

 13

See page 13.

In September 2023, Eight underwent a concept renewal and relaunched from Career Profile Eight to Business Card App Eight, which specializes in virtual business card exchange and business card management.

As business interactions are returning from online to offline, we believe that society and businesspeople will have higher expectations for virtualbusiness card exchange to solve various issues that exist with paper business cards.

Although we are currently operating Eight business with an emphasis on profitability, we believe that this change in concept and the addition of new features will lead to a further increase in the number of Eight users, which will be a positive factor in our medium- to long-term growth of Eight business.

2 Full-Year Forecasts

Consolidated Financial Forecasts

No change to consolidated earnings forecast announced at beginning of fiscal year.
Aim for solid growth in consolidated net sales and growth in adjusted consolidated operating profit that exceeds sales growth in FY2023.

		FY2022	FY2023 (1)	
	(millions of yen)	Full-Year Results	Full-Year Forecasts	YoY
Consolidated Results	Net Sales	25,510	32,653 to 33,674	+28.0% to +32.0%
	Sansan/Bill One Business	22,516	29,046 to 29,835	+29.0% to +32.5%
	Sansan	19,793	22,664 to 22,861	+14.5% to +15.5%
	Bill One	2,414	5,673 to 6,156	+135.0% to +155.0%
	Eight Business	2,867	3,153 to 3,354	+10.0% to +17.0%
	Adjusted Operating Profit	942	1,240 to 1,852	+31.7% to +96.6%
	Adjusted Operating Profit Margin	3.7%	3.8% to 5.5%	+0.1 pts. to +1.8 pts.

(1) We do not disclose specific forecast figures for operating profit (loss) and below, as it is difficult to make a reasonable estimate of expenses related to stock-based compensation, which may vary significantly depending on the level of our stock price, and certain non-operating profit (loss) and other items.

15

Next, I would like to discuss the outlook for the full year. See page 15. Q1 results are progressing well against the full-year forecast, and there is no change from the figures announced at the beginning of the fiscal year. Although some advertising expenses originally planned to be recorded in Q1 are now expected to be recorded in Q2, or later, there are no major changes to the full-year plan for this fiscal year.

2 Full-Year Forecasts

Medium-Term Financial Targets (FY2022-FY2024)

Aim for solid sales growth and stable profit growth.

Important management indicators

Continued consolidated net sales growth of mid-20% range or higher

Improvement of adjusted consolidated profit margin in each fiscal year

Sansan/Bill One Business

Recording adjusted operating profit of ¥10 billion+ for Sansan and Bill One in FY2024 (excluding Others in Sansan/Bill One Business segment)

Eight Business

Recording stable adjusted operating profit for full year

16

See page 16. Finally, I would like to explain our medium-term financial goals. There is no change in our policy to continue consolidated sales growth in the mid-20% range or higher and to achieve adjusted consolidated operating profit growth that exceeds sales growth. This concludes today's presentation. Thank you very much.

Question & Answer

Moderator [M]: We will now begin the question-and-answer session. The content of the question-and-answer session will be transcribed, so if you have any questions, please ask to remain anonymous if you would like your company name and name to remain private. If you are submitting your question in web format, please change your name to any four letters of the alphabet. We would like to receive your questions and will limit each person to two questions at a time. If there are more than three questions, please raise your hand again.

Now, does anyone have any questions? Mr. Hiraoka of Nomura Securities, please begin.

Hiraoka [Q]: Thank you for taking my questions. Nomura Securities, Hiraoka. Please help me with two questions.

The first question is about the growth of the Bill One business from Q2 onward. I believe that the Bill One business had a boost effect from the invoice system in Q1, but is there any possibility that it will peel off in Q2 and beyond? I would appreciate it if you could tell us based on the orders and pipeline as of the end of Q1.

Also, you mentioned that sales resources in Q2 will be strained due to management for new contracts, but what is the impact in terms of, for example, utilization ratio and other indicators?

The second question relates to the use of expenses and how profits will be generated in the future. It seems to me that advertising expenses in Q1 were a little low. Is there any problem with the Company's ability to execute, given that it was unable to use the favorable opportunity before the invoice system? Should we also consider the possibility that, for example, advertising expenses will be concentrated in Q2, resulting in an operating loss in Q2?

These are questions from me. Thank you.

Hashimoto [A]: Thank you for your questions. First, I think you are asking what impact the introduction of the invoice system will have on Bill One's order and sales activities.

First, I might have misstated my point and not explained it well enough, but as of Q2, I am wondering if the launch of the invoice system in October is expected to cause more of a crunch on the client side in terms of accounting resources than on our own sales resources. We ourselves started to comply with the invoice system on October 1, but it is taking more man-hours and effort than expected. I think the situation is similar for our customers and potential customers as well.

At any rate, after October 1, our clients, new and potential clients, will have their hands full making changes to their current operations, so we do not expect to have many opportunities to introduce new software or tools. Therefore, we expect a slight weakening in order-taking activity in October, November, December, and the months following the most recent launch of the invoice system.

However, looking at the pipeline, we do not feel that there is any particular weakness, and the numbers in Q1 were very good. So, we may not be able to compare with those numbers, but we are expanding our own sales resources, and I think we will continue to capture demand for the invoice system.

In addition, in the process of sales activities, they tend to feel that when the invoice system started and they actually tried to deal with it, it was unexpectedly time-consuming, even though they had planned to do it ourselves. Therefore, we believe that there may be some cases in which potential customers will be motivated to introduce new tools, and we would like to capture this demand in H2. We intend to further strengthen our sales activities.

Regarding your second question, we have traditionally been flexible with respect to use of advertising expenses, looking at the timing and deciding whether to do it or not based on the status of the leads. Naturally, if there are a large number of leads, the emphasis may be placed more on the sales and marketing side of the business, nurturing those leads and taking orders, rather than advertising and acquiring leads.

We are making judgments as to whether we should be flexible in our advertising activities based on such opportunities, or whether we should focus on sales activities rather than taking leads through advertising, so we do not necessarily see this as an execution problem. We foresee that the advertising expenditures will be the same for the full year as planned at the beginning of the fiscal year.

Hiraoka [Q]: Thank you. In terms of profit generation, for example, should we consider the possibility of an operating deficit due to a large amount of expenses in Q2?

Hashimoto [A]: Stock-related compensation expenses will depend on the stock price, but at least on an adjusted operating profit basis, we expect profit in H1 as well as for the full year, and we do not anticipate a deficit.

Hiraoka [M]: I understand. That's all from me. Thank you very much.

Moderator [M]: Mr. Miyazaki, please.

Miyazaki [Q]: Thank you for taking my questions. I am Miyazaki from Goldman Sachs. I would like to ask two questions as well.

I would like to ask you about your view of Bill One. For example, when you look at the net increase in QoQ sales or ARR, do you expect the amount to be smaller this year or at some point in the future?

For the second question, I would like to confirm your view of SG&A expenses for this fiscal year. In particular, I wonder if advertising will be used up as planned at the beginning of the period, and also if there will be any change in the view of recruitment. Could you please confirm this area?

Hashimoto [A]: Thank you for your questions. As to your first question, it is a very difficult goal to keep the net increase in number and amount of orders at record highs every quarter. Naturally, there are also fluctuations on the client side, such as the timing of the invoice system and other regulations, as well as timing of fiscal year end. So, I think there will be a time when net growth numbers will no longer reach record highs. I would not be at all surprised if that could be seen at some point in this fiscal year.

However, rather than looking at how things are going on a quarterly basis, we are taking a longer view and considering things on a scale such as how much orders are increasing over the year, or how many orders per person are increasing, and making decisions accordingly. Of course, there was special demand from the invoice system, but even excluding such factors, I believe that a certain level of growth will continue, and I am not too worried about that.

We intend to continue to spend on advertising and hiring as planned at the beginning of the fiscal year, but hiring has been extremely strong. That is true for sales jobs and engineering jobs. Therefore, there may be a slight increase or decrease in personnel and advertising expenses, but I do not think that there will be any discrepancy with the plan of the beginning of the fiscal year when looking at the full year.

Miyazaki [Q]: Thank you very much. I just wanted to follow up briefly on Bill One, but you also commented that you would like to increase in terms of fiscal year -- net increase in the next fiscal year compared to the current year. Is it correct to say that you will aim for a larger net increase in the next fiscal year than in the current fiscal year?

Hashimoto [A]: Yes, I am sure of that.

Miyazaki [M]: Okay, thank you. That's all from me.

Moderator [M]: Thank you. Do you have any other questions? Mr. Yamashina of Macquarie Capital Securities.

Yamashina [Q]: I'm Yamashina from Macquarie. Thank you for your explanation.

In your previous answer, you mentioned resource constraints are expected on the customers' side. How do you now see this affecting not only Bill One, but other commercial products as well?

Hashimoto [M]: What do you mean by other commercial products?

Yamashina [Q]: For example, if the introduction of Sansan is delayed because customer does not have much time or if something like Contract One is delayed. I wonder if [there will be] any impacts on those areas?

Hashimoto [A]: I do not think it will affect these areas. In the course of selling Bill One, the accounting department is basically in charge of placing orders, so I think it is away from Sansan and Contract One.

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

Moderator [M]: Are there any other questions? Mr. Noda of CLSA Securities, please.

Noda [Q]: Thank you. My name is Noda, CLSA Securities. I would like to ask one question.

What is your view on the future of the Sansan business? What is the current status of orders and inquiries? Although the rate of increase in terms of recurring YoY is increasing, albeit gradually, it is still lacking a breakthrough. I am wondering if it is likely to be able to take more demand from enterprise in the future. Could you tell us about the status of orders and pipelines, as well as your view of the future? Thank you.

Hashimoto [A]: Thank you. Gradually but surely, I think we are starting to see a sense of acceleration. But as you say, I understand that it is a very breakthrough situation.

First, in terms of personnel structure, a large percentage of the newly hired salespeople have been assigned to Bill One. Therefore, it is not clear whether the Sansan sales force has been strengthened significantly over the past year or two, so we would like to increase personnel and allocate resources while monitoring sales of our products.

Another is that we have been working on product renewal for the past two years, and although we feel that we have achieved a certain level of functionality, we recognize that information about companies, customers, and contacts is still insufficient when viewed as a corporate database. We need to expand this area, so we are now in the process of generating our own data and collaborating with external parties.

Obviously, it has gained recognition as a business card management service, so we are working on how it can be sold as a sales database. I think we will be required to develop and touch on different in the future, and I feel that it will be a new breakthrough if that is done well.

Noda [Q]: Since you are in a reopening situation, especially with the product renewal, is there anything in the pipeline, especially in H2, that you can expect compared to the previous year? Or has it not changed much in terms of trend, and what is the momentum in that area?

Hashimoto [A]: As for trends, not much has changed. The pipeline of orders and the amount of orders is of course better than last year, with the impact of reopening. However, I don't feel that there has been a dramatic improvement at all.

Noda [M]: I understand. Thank you very much, that will be all.

Moderator [M]: Are there any other questions? With that, we have concluded the question-and-answer session and will now conclude today's financial results briefing. Thank you very much for your time today.

[END]

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Document Notes

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