

# Canadian Solar Infrastructure Fund, Inc.

## 9284 (TSE Infrastructure)

Company Report

August 20, 2024

Strategy Advisors, Inc.

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### Abolished Distributions in Excess of Earnings to Gain a Higher Level of Responsiveness to Change in the Marketplace

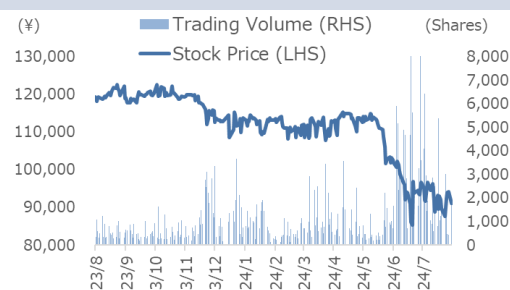
Canadian Solar Infrastructure Investment Corporation (CSIF) announced its medium to long-term strategy. CSIF recognized that the renewable energy market environment has changed significantly from a period of "market expansion through high FIT projects" to a period of "expansion of business opportunities in the post-FIT era" and as such, announced the effective abolition of distributions in excess of earnings as one of its strategies to cope with this change.

The distributions in excess of earnings, which constitute the dividend yield, are in reality distributed by cutting out the net asset value per share (BPS) for many infrastructure investment corporations. In order to understand the true return to investors, the return including changes in BPS should be calculated. When this figure is calculated, CSIF is the top of the five infrastructure investment corporations in terms of return for the most recent two years.

Although it is not a simple subtraction, since a decrease in distributions in excess of earnings leads to an increase in BPS, the impact of the decision to effectively eliminate distributions in excess of earnings on the BPS change unrealized yield is neutral.

However, the above changes in the environment are expected to increase the need for additional investment as well as the options for management decisions, such as corporate PPA, repowering and the introduction of storage batteries. Since the effective abolition of distributions in excess of profits will increase the capacity for additional investment, it can be said that CSIF has acquired a relatively high capacity to respond to changes in the environment compared to other infrastructure investment corporations through this decision.

### Stock Price & Volumes



Source: Strategy Advisors

### Key Indicators

Stock Price (8/19)	89,500
High Since Year Start (1/10)	114,900
Low Since Year Start (8/6)	85,400
52-Week high (23/9/22)	122,500
52-Week Low (24/8/6)	85,400
# Shares on Issue Outstanding	451.8
Market Capitalization (¥ billion)	40.4
EV (¥ billion)	83.7
Capital Adequacy Ratio	50.1
PER (24/12 Forecast, Times)	-
PBR (24/6 Actual, Times)	1.0
Dividend Yield (24/3 Yield, %)	7.6

Source: Strategy Advisors

FY	Sales (¥ mn)	YoY (%)	Operating Income (¥ mn)	YoY (%)	Ordinary Income (¥ mn)	YoY (%)	Net Income (¥ mn)	YoY (%)	EPS (Yen)	DPS (Yen)
23/12	4,538	22.2	1,847	33.6	1,387	14.3	1,386	14.3	3,111	3,750
24/6	4,368	26.5	1,608	39.1	1,362	35.7	1,361	35.7	3,012	3,775
24/12 Company Forecast	4,477	-1.3	1,644	-11.0	1,386	-0.1	1,385	-0.1	3,066	3,066
25/6 Company Forecast	4,502	3.1	1,691	5.2	1,445	6.1	1,444	6.1	3,198	3,198
25/12 Company Forecast	4,458	-0.4	1,645	0.1	1,403	1.2	1,402	1.2	3,103	3,104

Source: Strategy Advisors, Based on Company Data.

### Medium to Long-Term Strategy Announced on August 16, 2024

#### Announced the Effective Abolition of Distributions in Excess of Earnings

In its medium to long-term strategy announced on August 16, 2024, CSIF announced that it intends to essentially eliminate distributions in excess of earnings and emphasize capital expenditures, new property acquisitions and acquisition of its own investment units.

#### Superficially, a Lower Dividend Yield May be Perceived Negatively

This decision will cause the Dividend Yield (Distribution Yield = Distribution Yield on Earnings + Distribution Yield in Excess of Earnings), which has been 6.6% for the past two years, to decline to 5.2% (Distribution Yield on Earnings Only) and will see the firm drop from third to fifth place among the five investment corporations, which may be perceived negatively as a retreat from returns to investors. This may be perceived negatively as a retreat in returns to investors.

**Figure 1: Dividend Yield of Each of the Infrastructure Investment Corporation**

Company Name	2H 2020	1H 2021	2H 2021	1H 2022	2H 2022	1H 2023	2H 2023	1H 2024	Recent 2 Years
Canadian Solar Infrastructure	5.5%	5.8%	6.1%	6.2%	6.2%	6.2%	6.7%	7.6%	<b>6.6%</b>
Enex Infrastructure	6.7%	6.3%	6.8%	9.9%	6.4%	6.6%	6.9%	7.4%	6.8%
Japan Infrastructure Fund	4.2%	6.0%	6.5%	6.6%	6.5%	6.6%	6.8%	7.2%	6.8%
Tokyo Infrastructure & Energy	6.2%	6.0%	6.5%	6.2%	6.6%	6.4%	6.5%	7.2%	6.6%
Ichigo Green Infrastructure	6.1%	5.7%	5.8%	6.0%	5.9%	5.6%	5.8%	6.0%	5.8%

\*Infrastructure Investment Corp. has two fiscal years, one ending in June/December and the other in May/November, and the figures for the May and June fiscal years are shown in H1.

Source: Prepared by Strategy Advisors, Based on Company Data.

# Canadian Solar Infrastructure Fund, Inc.

## 9284 (TSE Infrastructure)

**Figure 2: Distribution Yields of the Infrastructure Investment Corporations**

Company Name	2H 2020	1H 2021	2H 2021	1H 2022	2H 2022	1H 2023	2H 2023	1H 2024	Recent 2 Years
Canadian Solar Infrastructure	4.6%	4.6%	4.6%	5.6%	5.7%	4.7%	5.1%	6.2%	<b>5.2%</b>
Enex Infrastructure	2.7%	2.5%	2.9%	4.7%	3.8%	3.1%	2.9%	3.6%	3.2%
Japan Infrastructure Fund	3.1%	3.9%	4.0%	4.0%	3.6%	3.5%	3.4%	3.5%	3.4%
Tokyo Infrastructure & Energy	4.1%	3.3%	3.7%	3.7%	4.5%	3.5%	3.3%	3.7%	3.5%
Ichigo Green Infrastructure	2.6%	2.5%	2.6%	2.9%	2.9%	2.6%	2.6%	2.5%	2.5%

\*Infrastructure Investment Corp. has two fiscal years, one ending in June/December and the other in May/November, and the figures for the May and June fiscal years are shown in H1.

Source: Prepared by Strategy Advisors, Based on Company Data.

### **Distributions in Excess of Earnings are Made at the Expense of the BPS and Should be Compared with Yields that Include Changes in the BPS**

However, the high level of dividend yields is largely due to the compensation of distributions in excess of earnings and for many infrastructure investment corporations, the compensation of distributions in excess of earnings is done at the expense of net asset value per share (BPS). Therefore, in order to determine the true return to investors, it is necessary to compare yields that include the impact of changes in BPS.

# Canadian Solar Infrastructure Fund, Inc.

## 9284 (TSE Infrastructure)

**Figure 3: Net Assets Per Share (BPS) of Each of the Infrastructure Investment Corporation**

Company Name	2H 2020	1H 2021	2H 2021	1H 2022	2H 2022	1H 2023	2H 2023	1H 2024
Canadian Solar Infrastructure (YoY change)	93,397 -1.3%	104,463 +11.1%	103,665 +11.0%	103,818 -0.6%	103,053 -0.6%	101,898 -1.8%	103,280 +0.2%	102,543 +0.6%
Enex Infrastructure (YoY change)	88,110 -3.9%	84,932 -2.3%	86,263 -2.1%	82,042 -3.4%	81,542 -5.5%	80,253 -2.2%	80,952 -0.7%	79,570 -0.9%
Japan Infrastructure Fund (YoY change)	93,127 -	89,805 -2.2%	89,116 -4.3%	87,956 -2.1%	86,683 -2.7%	85,257 -3.1%	84,065 -3.0%	82,226 -3.6%
Tokyo Infrastructure & Energy (YoY change)	87,998 -1.3%	87,328 -2.5%	86,020 -2.2%	86,322 -1.2%	88,365 +2.7%	85,981 -0.4%	85,028 -3.8%	84,095 -2.2%
Ichigo Green Infrastructure (YoY change)	40,866 -4.5%	42,018 -4.7%	38,777 -5.1%	40,149 -4.4%	36,632 -5.5%	37,776 -5.9%	34,377 -6.2%	35,386 -6.3%

\*Infrastructure Investment Corp. has two fiscal years, one ending in June/December and the other in May/November, and the figures for the May and June fiscal years are shown in H1.

Source: Prepared by Strategy Advisors, Based on Company Data.

### CSIF Tops the List for BPS Change - Unrealized Yields

When calculating the unrealized yield due to changes in BPS, CSIF's yield for the most recent two years was 5.9%, the highest among the five infrastructure investment corporations. This unrealized yield on BPS change is a figure calculated to offset, as much as possible, the decrease in distributions in excess of earnings and the decrease in BPS. This serves as the source of those distributions, so in theory, whether distributions in excess of earnings are continued or discontinued should not have a significant impact.

The denominator of the BPS change rate is net asset value per share (BPS), but by dividing the denominator by PBR, the denominator is converted to the stock price and can be added to the dividend yield.

# Canadian Solar Infrastructure Fund, Inc.

## 9284 (TSE Infrastructure)

**Figure 4: BPS Change in Unrealized Yield Calculations**

Company Name	2H 2020	1H 2021	2H 2021	1H 2022	2H 2022	1H 2023	2H 2023	1H 2024	Recent 2 Years
Canadian Solar Infrastructure	4.6%	15.0%	15.4%	5.7%	5.7%	4.6%	6.9%	8.3%	<b>5.9%</b>
Enex Infrastructure	2.9%	4.3%	4.8%	6.8%	1.7%	4.7%	6.2%	6.6%	5.3%
Japan Infrastructure Fund	-	4.0%	2.3%	4.6%	3.9%	3.7%	3.9%	3.6%	3.4%
Tokyo Infrastructure & Energy	5.0%	3.8%	4.5%	5.2%	9.2%	6.0%	2.8%	4.9%	5.2%
Ichigo Green infrastructure	3.1%	2.8%	2.9%	3.5%	3.1%	2.6%	2.8%	2.7%	2.6%

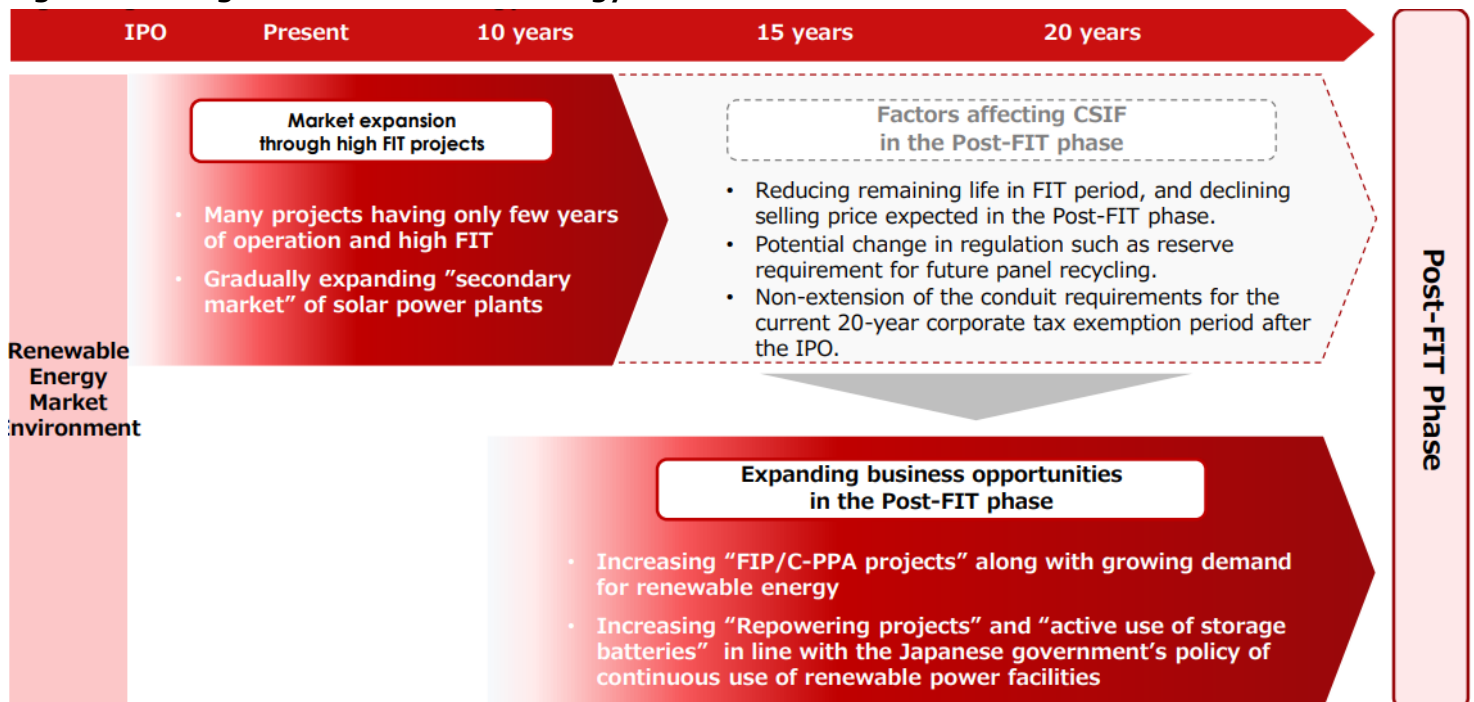
\*Infrastructure Investment Corp. has two fiscal years, one ending in June/December and the other in May/November, and the figures for the May and June fiscal years are shown in H1.

Source: Prepared by Strategy Advisors, Based on Company Data.

### The Market Environment for Renewable Energy is Changing Dramatically

However, as indicated by CSIF, the renewable energy market environment is undergoing a major shift from a period of "market expansion through high FIT projects" to a period of "expanding business opportunities in the post-FIT era".

**Figure 5: Changes in the Renewable Energy Market Environment**



Source: Company Data.

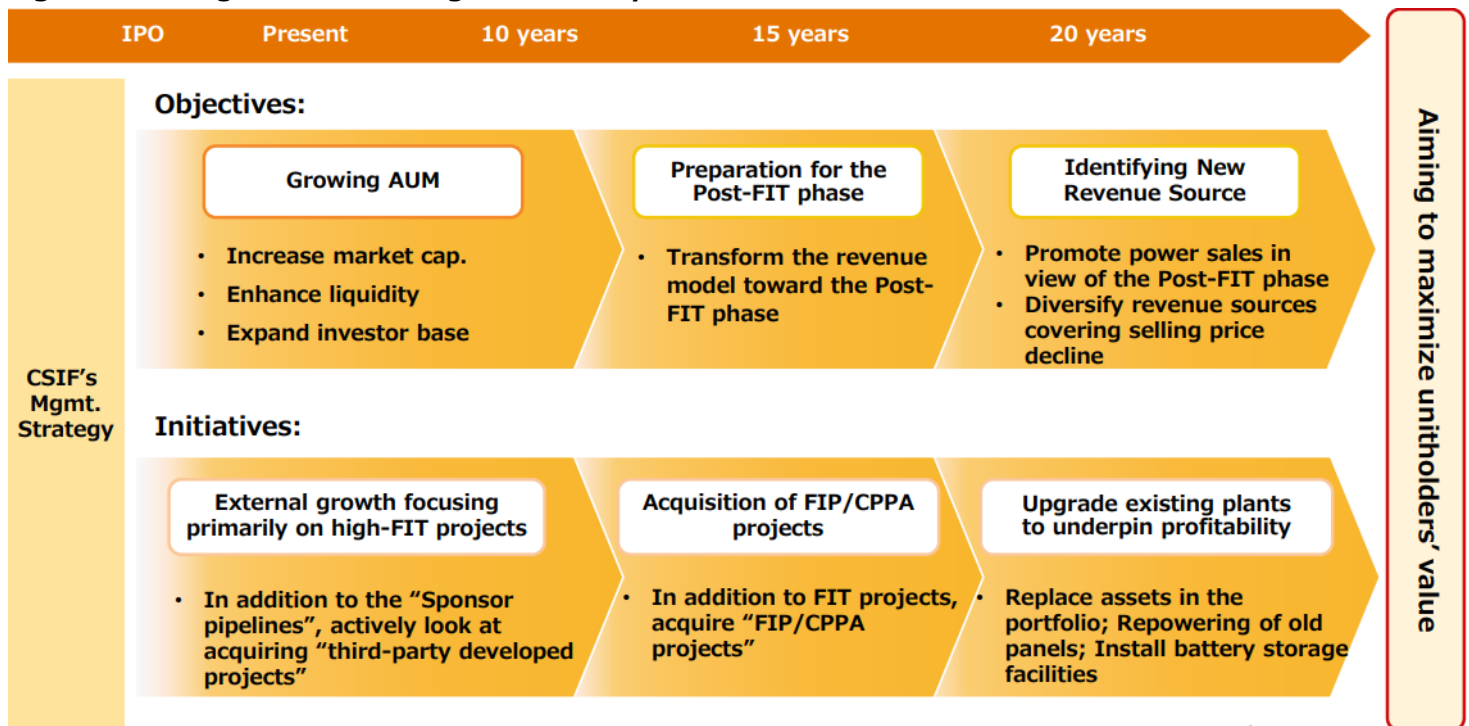
# Canadian Solar Infrastructure Fund, Inc.

## 9284 (TSE Infrastructure)

**Increased Additional Investment Capacity through the Effective Abolition of Distributions in Excess of Earnings. Resulting for CSIF in a Relatively High Degree of Responsiveness to Changes in the Business Environment**

This change in the environment is expected to increase the need for additional investment as well as the number of options for management decisions, such as considering corporate PPA, repowering, installing storage batteries, acquiring new properties and acquiring treasury units. The decision to abolish distributions in excess of profits will increase the capacity for additional investment and thus CSIF has gained a relatively high degree of responsiveness to changes in the environment compared to other infrastructure investment corporations. CSIF has also announced its decision to acquire its own investment units in addition to acquiring new properties at the same time as the announcement of its financial results for the fiscal year ending June 30, 2024.

**Figure 6: Change in Cash Management Policy**



Source: Company Date.

**The Effective Elimination of Distributions in Excess of Earnings Could Lead to Accelerated Capital Accumulation, Resulting in an Early Upgrade of the Rating ⇒ Lower Debt Interest Rates**

The elimination of distributions in excess of earnings will accelerate the accumulation of equity capital, which in turn will accelerate the process of acquiring an AA rating. This will have a positive effect on investor returns as we return to a world with interest rates.



# Canadian Solar Infrastructure Fund, Inc.

## 9284 (TSE Infrastructure)

**Figure 33: Income Statement (¥ mn)**

FY End	6/21	12/21	6/22	12/22	6/23	12/23	6/24	12/24 CoE
<b>Sales (Rental revenues)</b>	<b>3,425</b>	<b>3,587</b>	<b>4,061</b>	<b>3,715</b>	<b>3,453</b>	<b>4,538</b>	<b>4,368</b>	<b>4,477</b>
YoY	<b>46.9%</b>	48.6%	18.6%	3.6%	-15.0%	22.2%	26.5%	-1.3%
Operating expenses	1,966	2,243	2,317	2,332	2,297	2,691	2,759	2,829
Rental expense	1,781	2,034	2,091	2,115	2,083	2,415	2,483	1,185
Asset management fees	88	112	127	116	109	169	166	
Administrative service fees	23	28	28	27	29	28	31	
Director's compensation	2	2	2	2	2	2	2	
Taxes and duties	2	0	0	0	0	3	0	
Other	69	67	68	72	73	74	77	
<b>Operating income</b>	<b>1,459</b>	<b>1,345</b>	<b>1,744</b>	<b>1,383</b>	<b>1,156</b>	<b>1,847</b>	<b>1,608</b>	<b>1,644</b>
OPM	42.6%	37.5%	42.9%	37.2%	33.5%	40.7%	36.8%	36.7%
Non-operating income	91	9	3	40	57	2	9	
Interest income	0	0	0	0	0	0	0	
Dividends	0	-	0	-	0	-	0	
Gain on forfeiture of unclaimed dividends	-	-	-	-	0	1	1	
Insurance income	79	8	-	39	57	-	0	
Guarantee commission received	-	-	-	-	-	1	-	
Interest on refund	0	0	-	-	-	-	1	
Miscellaneous income	12	0	3	0	0	0	-	
Non-operating expenses	476	230	237	209	209	462	255	258
Interest expense	147	160	151	149	141	184	186	
Interest on investment corporation bond	17	19	19	19	19	19	19	
Investment corporation bond issuance cost	3	3	3	3	3	3	3	
Borrowing-related expenses	213	38	38	38	38	213	47	
Investment units issuance costs	73	-	-	-	8	42	-	
Loss on retirement of noncurrent assets	24	10	27	-	-	1	-	
<b>Ordinary income</b>	<b>1,074</b>	<b>1,123</b>	<b>1,510</b>	<b>1,214</b>	<b>1,004</b>	<b>1,387</b>	<b>1,362</b>	<b>1,386</b>
ROS	31.4%	31.3%	37.2%	32.7%	29.1%	30.6%	31.2%	31.0%
<b>Income before income taxes</b>	<b>1,074</b>	<b>1,123</b>	<b>1,510</b>	<b>1,214</b>	<b>1,004</b>	<b>1,387</b>	<b>1,362</b>	
Total income taxes	1	1	1	1	1	1	1	
<b>Net income</b>	<b>1,073</b>	<b>1,122</b>	<b>1,509</b>	<b>1,213</b>	<b>1,003</b>	<b>1,386</b>	<b>1,361</b>	<b>1,385</b>
NPM	31.3%	31.3%	37.2%	32.7%	29.0%	30.5%	31.2%	30.9%

Source: Company Data.

# Canadian Solar Infrastructure Fund, Inc.

## 9284 (TSE Infrastructure)

**Figure 34: Balance Sheet (¥ mn)**

FY End	6/21	12/21	6/22	12/22	6/23	12/23	6/24
Cash and bank deposit	4,612	5,101	5,082	5,272	4,990	5,911	6,082
Operating accounts receivable	1,007	757	1,149	799	1,036	947	1,385
Prepaid expenses	135	224	164	263	181	337	245
Other	75	-	-	13	-	41	45
<b>Total current assets</b>	<b>8,352</b>	<b>6,141</b>	<b>6,470</b>	<b>6,406</b>	<b>6,253</b>	<b>8,621</b>	<b>7,756</b>
Structures, net	920	898	884	864	849	837	815
Machinery and equipment, net	36,848	36,001	35,104	34,277	33,418	33,352	32,484
Tools, furniture and fixtures, net	512	500	488	477	466	454	443
Land	4,506	4,506	4,506	4,506	4,506	4,571	4,571
Structures in trust, net	6,481	6,369	6,250	6,149	6,026	7,217	7,073
Machinery and equipment in trust, net	19,979	19,567	19,165	18,742	18,318	30,406	29,754
Tools, furniture and fixtures in trust, net	92	90	88	87	85	123	119
Land in trust	4,771	4,770	4,770	4,770	4,770	6,949	6,949
Construction in progress in trust	-	-	-	-	4	4	4
<b>Total property and equipment</b>	<b>74,116</b>	<b>72,702</b>	<b>71,255</b>	<b>69,871</b>	<b>68,444</b>	<b>83,913</b>	<b>82,214</b>
<b>Total intangible assets</b>	<b>1,157</b>	<b>1,157</b>	<b>1,160</b>	<b>1,159</b>	<b>1,159</b>	<b>1,489</b>	<b>1,489</b>
<b>Total investment and other assets</b>	<b>651</b>	<b>612</b>	<b>574</b>	<b>535</b>	<b>497</b>	<b>985</b>	<b>926</b>
<b>Total fixed assets</b>	<b>75,924</b>	<b>74,472</b>	<b>72,988</b>	<b>71,565</b>	<b>70,100</b>	<b>86,386</b>	<b>84,628</b>
<b>Total assets</b>	<b>84,299</b>	<b>80,633</b>	<b>79,476</b>	<b>77,986</b>	<b>76,365</b>	<b>95,017</b>	<b>92,391</b>
Operating Accounts payable	80	47	70	87	56	101	93
Accounts payable and accrued expenses	411	259	309	285	280	345	447
Short-term loan payable	2,270	2,249	2,262	2,275	2,267	5,100	3,981
Other	40	307	149	80	86	66	372
<b>Total current liabilities</b>	<b>2,801</b>	<b>2,862</b>	<b>2,790</b>	<b>2,727</b>	<b>2,689</b>	<b>5,612</b>	<b>4,802</b>
Long-term loan payable	36,206	32,788	31,644	30,513	29,376	38,876	37,397
Investment corporation bond	4,900	4,900	4,900	4,900	4,900	3,800	3,800
<b>Total non-current liabilities</b>	<b>41,106</b>	<b>37,688</b>	<b>36,544</b>	<b>35,413</b>	<b>34,276</b>	<b>42,747</b>	<b>41,265</b>
<b>Total liabilities</b>	<b>43,908</b>	<b>40,550</b>	<b>39,334</b>	<b>38,140</b>	<b>36,966</b>	<b>48,359</b>	<b>46,066</b>
Unitholders' capital, net	39,318	38,961	38,633	38,632	38,397	45,272	44,963
Surplus	1,073	1,122	1,509	1,214	1,003	1,386	1,361
<b>Total net assets</b>	<b>40,391</b>	<b>40,083</b>	<b>40,142</b>	<b>39,846</b>	<b>39,400</b>	<b>46,658</b>	<b>46,325</b>
<b>Total liabilities and net assets</b>	<b>84,299</b>	<b>80,633</b>	<b>79,476</b>	<b>77,986</b>	<b>76,365</b>	<b>95,017</b>	<b>92,391</b>

Source: Company Data.



# Canadian Solar Infrastructure Fund, Inc.

## 9284 (TSE Infrastructure)

**Figure 35: Cash Flow Statement (¥ mn)**

<b>FY End</b>	<b>6/21</b>	<b>12/21</b>	<b>6/22</b>	<b>12/22</b>	<b>6/23</b>	<b>12/23</b>	<b>6/24</b>
Income before income taxes	1,074	1,123	1,510	1,214	1,004	1,387	1,362
Depreciation cost	1,259	1,452	1,453	1,454	1,455	1,695	1,730
Decrease (Increase) in operating accounts receivable	-645	250	-391	350	-237	89	-438
Decrease (Increase) in consumption taxes receivable	-2,468	2,493	-	-	-	-1,385	1,385
Decrease (Increase) in long-term prepaid expenses	-337	39	39	39	39	-471	58
Other operating cash flows	50	232	-8	-169	78	-8	398
<b>Cash flows from operating activities</b>	<b>-1,067</b>	<b>5,589</b>	<b>2,603</b>	<b>2,888</b>	<b>2,339</b>	<b>1,307</b>	<b>4,495</b>
Purchases of property and equipment	-30,614	-230	-37	-72	-25	-17,169	-29
Purchases of intangible assets	-403	-	-3	-1	-1	-255	-4
<b>Cash flows from investing activities</b>	<b>-31,017</b>	<b>-230</b>	<b>-40</b>	<b>-73</b>	<b>-26</b>	<b>-17,441</b>	<b>-33</b>
Proceeds from short-term loans payable	-	-	-	-	-	1,100	-
Proceeds from long-term loans payable	23,100	-	-	-	-	11,600	-
Repayment of long-term loans payable	-6,866	-3,439	-1,132	-1,117	-1,145	-1,467	-1,498
Issuance of shares	18,508	-	-	-	-	7,272	-
Dividends paid	-855	-1,431	-1,450	-1,509	-1,450	-1,450	-1,694
<b>Cash flows from financing activities</b>	<b>33,868</b>	<b>-4,870</b>	<b>-2,582</b>	<b>-2,626</b>	<b>-2,595</b>	<b>17,055</b>	<b>-4,292</b>
Free cash flow	-32,804	5,359	2,563	2,815	2,313	-16,134	4,462

Source: Company Data.

# Canadian Solar Infrastructure Fund, Inc.

## 9284 (TSE Infrastructure)

**Figure 36: Stock Indicators and KPI's**

FY End	6/21	12/21	6/22	12/22	6/23	12/23	6/24	12/24 CoE
EPS (¥)	3,234	2,902	3,902	3,138	2,594	3,111	3,012	3,066
BPS (¥)	104,463	103,665	103,818	103,053	101,898	103,280	102,543	
Dividend per share (¥)	3,700	3,750	3,903	3,750	3,750	3,750	3,775	3,066
Dividend payout ratio	133.4%	129.2%	100.0%	119.5%	144.6%	122.2%	-	
Closing price (¥)	126,500	122,700	122,500	124,000	121,600	111,900	98,700	
PER (times)	39.1	42.3	31.4	39.5	46.9	36.0	32.8	
PBR (times)	1.2	1.2	1.2	1.2	1.2	1.1	1.0	
Number of Shares Issued ('000)	387	387	387	387	387	452	452	452
Number of treasury stock ('000)	0	0	0	0	0	0	0	
Number of shares of treasury stock excluded ('000)	387	387	387	387	387	452	452	
Market capitalization (¥ mn)	48,912	47,443	47,365	47,945	47,017	50,551	44,588	
Shareholders' equity ratio	47.9%	49.7%	50.5%	51.1%	51.6%	49.1%	50.1%	
Interest-bearing debt	43,377	39,937	38,805	37,688	36,544	47,776	45,179	
D/E Ratio	1.0	0.9	0.8	0.8	0.8	0.9	0.8	
EV (Enterprise Value)	87,677	82,279	81,088	80,361	78,571	92,416	83,685	
EBITDA (¥ mn)	2,718	2,797	3,197	2,837	2,611	3,542	3,338	
EV/EBITDA multiple	32.3	29.4	25.4	28.3	30.1	26.1	25.1	
ROE	3.5%	2.8%	3.8%	3.0%	2.5%	3.2%	2.9%	
ROIC (capital invested)	2.2%	1.6%	2.2%	1.8%	1.5%	2.2%	1.7%	
ROIC (business assets)	2.4%	1.8%	2.4%	1.9%	1.6%	2.4%	1.9%	
Total output capacity (MW)	183.9	183.9	183.9	183.9	183.9	226.4	226.4	

Note: Share price indices for FY3/2024 are based on the closing price on March 22; balance sheet items are as of FY12/2023.

Source: Company Data.

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