

26 May 2010

Sosei Group Corporation

Year End	Revenue (¥m)	PBT* (¥m)	EPS* (¥'000s)	DPS (¥)	P/E (x)	Yield (%)
03/08	709	(4,569)	(41.5)	0.0	N/A	N/A
03/09	153	(2,067)	(19.9)	0.0	N/A	N/A
03/10	919	(179)	(1.5)	0.0	N/A	N/A
03/11e	810	(252)	(2.2)	0.0	N/A	N/A

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items.

Investment summary: Milestone boosts cash

Sosei's investment case is reliant on the successful development of COPD therapies NVA237 and QVA149, jointly licensed to Novartis with Vectura. Key development and regulatory catalysts over the next two years should bring significant milestone revenues for Sosei (\$70m in milestones are due before US/EU launch): \$7.5m was received in May on Phase III initiation for QVA149. Recurring royalties post-launch should enable expansion of its R&D pipeline through future partnering opportunities that address the Japanese 'drug lag'.

Two Phase III programmes: NVA237 and QVA149

Both Novartis partnered assets are now in Phase III, with earliest data from the first NVA237 trial expected in December 2010. Sosei has high single product risk on NVA237, which is also a constituent of QVA149 (with indacaterol). The latest QVA149 milestone, booked in Q110/11, supplements 2009/10 cash of ¥1,875m.

Norlevo: Sales in Oz, upcoming Japan approval

Sosei generates ¥130m+ annually from emergency contraceptive Norlevo (SOH-075), which is sold by Sandoz in Australia. Approval in Japan is possible by March 2011 (NDA filed September 2009), which would boost revenue through milestones and sales.

Undisclosed licensing deals may also represent upside

Following Sosei's 2008 restructuring, various assets have been divested and others are still available for licensing (pain drug SD118 has recently been brought back in-house). Deal terms are undisclosed, so may represent additional upside to forecasts.

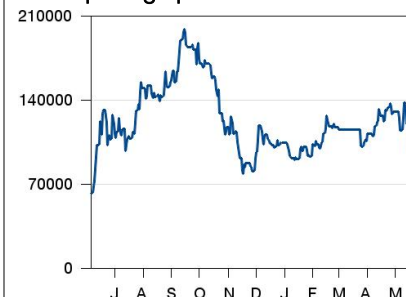
Valuation: ¥16.5bn (£119m); EV ¥7.75bn (£56m)

Our model indicates a valuation of ¥16.5bn (£119m assuming ¥138.5/£), comparing with Sosei's current market cap of ¥10.3bn (£74m) and an EV of ¥7.75bn (£56m).

This valuation principally comprises an rNPV of the key drug programmes (which will rise as products advance in the clinic) and forecast net cash for the financial year ending March 2011, but it does not capture the value of potential milestones (\$70m pre-launch, NPV ¥4.6bn or £33m). We value NVA237/QVA149 on the same basis for both Sosei and Vectura, and consider Sosei as a purer play on these programmes.

Price **¥ 87,300**
Market Cap **¥10.3bn**

Share price graph



Share details

Code 4565:JP
Listing MOTHERS
Sector Pharmaceuticals & Biotechnology
Shares in issue 118m

Price

52 week High Low
¥208,000 ¥68,000

Balance Sheet as at 31 March 2010

Debt/Equity (%) N/A
NAV per share (¥) 87.9
Net cash (¥) 2,554m*

*Pro forma including QVA149 milestone.

Business

Sosei Group Corporation is a Japan-based biopharmaceutical company focused on R&D and drug re-profiling. It is active in licensing – both its proprietary programmes, and external rights for the Japanese market.

Valuation

	2009	2010	2011e
P/E relative	N/A	N/A	N/A
P/CF	N/A	N/A	N/A
EV/Sales	9.2	10.8	5.1
ROE	N/A	N/A	N/A

Revenues by geography

	Europe	US	Other
0%	74%	0%	26%

Analysts

Lala Gregorek 020 3077 5736
Robin Davison 020 3077 5737

healthcare@edisoninvestmentresearch.co.uk

Sosei Group Corporation is a research client of Edison Investment Research Limited

Investment summary: A purer play on COPD?

Company description: Japanese-UK biopharma

Sosei Group Corporation is a Japan-based biopharmaceutical holding company with two subsidiaries: Sosei Co. Ltd. (Tokyo-based and focused on development and sales) and Sosei R&D Ltd. (the London-based R&D operation). CEO Shinichi Tamura founded Sosei in 1990, originally as a technology transfer organisation, but since 1999 it has focused on R&D of in-licensed and in-house programmes (both new chemical entities and re-profiled drugs). As part of its May 2008 strategic restructuring, Sosei closed its discovery capability. It currently has a pipeline of four clinical products: the main value drivers, NVA237 and QVA149, are in late-stage trials and are partnered with Novartis in a \$375m milestone and royalty deal (economics shared 50:50 with Vectura). Sosei is active in partnering, having out-licensed late-stage development programmes and discovery assets, and the in-licensing (and retention) of rights for the Asian market.

Sosei floated on the MOTHERS index of the Tokyo Stock Exchange in July 2004 raising ¥11.3bn (\$104m). Since inception the company has raised c \$157m in equity and has received c \$27m in milestones from partners. Sosei acquired Arakis, a private UK biotechnology company focused on drug reprofiling, for £106.5m (\$187m) through a cash and share deal (£11.7m in cash and the issue of 35,630 new Sosei shares worth £94.8m) in July 2005. The company has 27 employees, four of whom are UK-based, with the CEO dividing his time between Tokyo and London.

Valuation: Reliant on the success of the Novartis partnership

Our valuation of ¥16.53bn (£119m assuming ¥138.5/£), compares with a current market cap of ¥10.3bn (£74m) and current EV (incorporating period-end cash plus the QVA149 milestone) of ¥7.75bn (£56m). This valuation comprises a rNPV of key assets (¥14.6bn or £105m), a ¥390m (£3m) or three times sales value to Australian Norveo sales and forecast net cash of ¥1,573m (£11m) for the financial year ending March 2011. (NB the same rationale/assumptions are used to value the COPD programmes for both Vectura and Sosei, and value of potential milestones is not captured.) Milestone receipts from Novartis (\$70m pre-NVA237/QVA149 launch) could represent upside.

Sensitivities: Drug development, deals and the dollar

Sosei's business is subject to the usual risks associated with biotech company drug development (ie the possibility of clinical trial failure or trials rendering inconclusive/contradictory results, and regulatory and commercial risks). Also, Sosei is reliant on Novartis for the clinical/regulatory progress of – and hence financial benefit derived from – NVA237/QVA149, and may also be impacted by SOH-075 approval and commercialisation, upside from existing/future partnerships and currency fluctuations.

Financials: Novartis milestone boosts cash

Sosei reported net cash of ¥1,857m for the financial year ending March 31 2010 (vs ¥1,769m at end-2008/09), which will be supplemented by the \$7.5m milestone received on the initiation of QVA149 Phase III trials in May. We expect Sosei to end 2010/11 with cash of ¥1,573m, in the absence of any further milestones from either Novartis or Aska Pharma. However, substantial

milestones are likely to be triggered by successful development of NVA237 and QVA149, and approval of SOH-075 – all of which may occur during 2011-12.

Update: QVA149 milestone and 2009/10 results

Sosei recently received a \$7.5m milestone on initiation of the Phase III programme for QVA149 in chronic obstructive pulmonary disease (COPD). Combination drug QVA149 and NVA237, one of its constituents, are Sosei's most valuable assets and are exclusively partnered with Novartis under a \$375m milestone and royalty deal (economics shared 50:50 with partner Vectura). This latest milestone will be booked in Q110/11 and supplements Sosei's cash position of ¥1,875m for the financial year ending March 2010.

Sosei's 2009/10 revenues of ¥919m included the NVA237 milestone on the Phase III start; with the QVA149 milestone included in 2010/11 guidance of ¥800m.

Sosei's R&D pipeline is summarised in Exhibit 1.

Exhibit 1: Sosei Group R&D pipeline

Programme	Indication	Dev stage	Notes/partners
NVA237 (glycopyrronium bromide)	COPD	Phase III	Partnered with Vectura : worldwide rights exclusively licensed to Novartis . Likely to be second LAMA to reach the market. Uses Breezhaler DPI device. Two Phase III studies underway: 1,065-pt one-year trial with tiotropium as active comparator (results: March 2011) and an 800-pt 26-week placebo controlled trial (results: December 2010). NDA filing mid-2011. LAMA.
QVA149 (glycopyrronium bromide + indacaterol)	COPD	Phase III	Partnered with Vectura : worldwide rights exclusively licensed to Novartis. Aims to be first LAMA/LABA combination to market. Uses Breezhaler DPI device. Two Phase III studies underway: 1,998-pt one year superiority trial vs NVA237 monotherapy (results: March 2012) and a 339-pt one-year placebo controlled safety and efficacy study (results: January 2012). NDA filing due 2012. LABA.
SOH-075 (levonorgestrel) – Norlevo	Emergency contraceptive	Registration	Japanese commercialisation agreement with Aska Pharmaceuticals ; exclusive distribution rights (Japan and Australia) licensed from Laboratoires HRA Pharma. Sandoz markets SOH-075 as NorLevo in Australia. Under the Aska agreement, Aska will acquire a stake in Sosei (predetermined but currently undisclosed) via purchases in the market, and will pay Sosei up to ¥300m in upfront and milestone payments plus a significant royalty on net sales. Japan NDA submitted (Sept 2009) following a positive Phase III trial (62/63 pregnancies successfully prevented in Japanese adult females, with no serious adverse events); approval anticipated by March 2011.
SD 118 (formerly also NSL-043)	Neuropathic pain	Phase I completed	Holds global development and commercialisation rights (ex-Japan and Asia); percentage of future revenue due to NeuroDiscovery/NeuroSolutions over life of patent (previous 50:50 co-development agreement re-negotiated March 2010). Oral, re-profiled, small molecule drug. Preclinical and pharmacological profile shows equivalent efficacy to gabapentin, with longer duration of action; Phase I showed better tolerability. Licensing/funding opportunities being explored for further development.

Source: Edison Investment Research

NVA237/QVA149: Further milestones expected from Novartis deal

In April 2005, Sosei (Arakis) and Vectura exclusively licensed the global rights to NVA237/QVA149 to Novartis in a \$375m joint deal. Successful development of both NVA237 and QVA149 triggers undisclosed milestones to Sosei; and both programmes are currently in Phase III. While the precise deal terms remain undisclosed, the economics that are in the public domain are shown in Exhibit 2.

Exhibit 2: Terms of the licensing deal with Novartis

Note: Figures represent Sosei's 50% share of \$375m joint deal (with Vectura).

Headline deal terms:	\$15m upfront, up to \$172.5m in milestones and mid-single digit (ie 6%) royalty.
Milestones received:	\$30m to date: \$15m upfront (April 2005), \$7.5m on NVA237 Phase III initiation (June 2009) and \$7.5m on QVA149 Phase III initiation (May 2009).
Milestones outstanding:	\$157.5m in total: \$70m in milestones are due before US/EU launch.

Source: Edison Investment Research

Novartis's Onbrez (indacaterol), the LABA (long-acting beta-agonist) component of QVA149, was approved for COPD in the EU in November 2009 (subsequently launching in Germany, Ireland and Denmark). In October 2009, Novartis received an FDA Complete Response letter requesting additional information on the proposed dosing regimen for Onbrez and the trials to support a resubmission later this year have started. Novartis is expected to follow its Onbrez launch with that of NVA237, potentially the second single agent LAMA (long-acting muscarinic antagonist) to reach the market; followed by its combination with indacaterol (QVA149), which could become the first available LAMA/LABA combination. Novartis's Q110 results confirmed the expected timing of NDA filings for NVA237 and QVA149 as 2011 and 2012, respectively

NVA237 and QVA149 are key programmes within Novartis's respiratory portfolio and should garner a significant share of the COPD market due to their competitive profile vs both marketed and late-stage clinical products. Of the two, QVA149 has greater market potential, supported by its anticipated superior efficacy and bronchodilatory profile compared with monotherapies (as shown in Phase II studies) resulting from the complementary mechanisms of action of LAMA and LABA. However, NVA237 should also find its niche: Phase II data has indicated that the compound has similar efficacy to tiotropium (Boehringer Ingelheim/Pfizer's once-daily LAMA, Spiriva), but with an improved tolerability profile (reduced anticholinergic side effects) and potentially a more rapid onset of action. Both NVA237 and QVA149 benefit from strong efficacy with once-daily dosing in contrast with acclidinium (Eklira, Almirall and Forest Laboratories' twice-daily single agent LAMA – potentially the first to reach the market), which should have a favourable impact on patient compliance.

Inhaled COPD products in development are shown in Exhibit 3, overleaf.

SOH-075: Potentially the first emergency contraceptive in Japan

While the first levonorgestrel-only products (considered gold standard emergency contraceptives by the World Health Organisation) were approved by the FDA and EMEA in 1999, there is no comparable product approved in Japan, where emergency contraception is limited to off-label use of multiple doses of low dose combined OCPs. Sosei's product, SOH-075, is a levonorgestrel-only product developed by Laboratoires HRA Pharma and marketed as Norlevo in more than 60 EU and Asian countries. In April 2001, Sosei licensed the exclusive distribution rights for Japan and Australia, subsequently licensing the Australian marketing rights to Sandoz in December 2005. Sosei currently books revenues in excess of ¥130m in relation to the Australian Norlevo sales.

Sosei filed the NDA for SOH-075 with the Japanese regulator (Ministry of Health, Labour and Welfare, MHLW) in September 2009, prior to signing a distribution agreement with Aska Pharmaceutical. Sosei bears responsibility for the development and registration of SOH-075, with Aska responsible for sales and marketing. Aska will also provide Sosei with up to ¥300m via equity stakes in Sosei (currently undisclosed but predetermined via purchases in the market), upfront and milestone payments plus a significant royalty on net sales (this margin is undisclosed but is understood to be 'significant' compared with the industry standard). Due to the current lack of visibility related to this potential revenue stream, it is not included in our financial forecasts. Japanese approval is expected by calendar Q111. Peak sales potential is estimated to be in the range of ¥2-5bn (\$20-50m) per annum depending on the pricing obtained and reimbursement.

Exhibit 3: Inhaled products in development for COPD

Notes: MDI = metered-dose inhaler; DPI = dry powder inhaler.

Name	Developer(s)	Device	Notes
Onbrez (indacaterol)/ QAB149	Novartis	DPI (Breezhaler)	150µg and 300µg doses, once-daily use approved in EU (Dec 2009). FDA Complete Response letter requested additional dosing data (Oct 2009); studies to support resubmission in 2010 underway (576-pt Phase III dosing study [results: May 2010] and 326-pt 12-wk Phase III [results: June 2010]). Two large comparative Phase III studies (INTENSITY: 1,568-pt and INVIGORATE: 3,500-pt) vs tiotropium ongoing (results: Feb 2010 and July 2011) plus two smaller Phase III trials: 110-pt inspiratory capacity study (results: June 2010) and 1,126-pt study with open label tiotropium (INTRUST2, results: March 2010).
Eklira (aclidinium) LAS34273 (also in combination with formoterol)	Almirall/ Forest Laboratories	DPI (Genuair)	One-year ACCLAIM/COPD I and II studies (once daily) show 60-70ml difference in trough FEV ₁ at 12 and 28-wks. 561-pt, 12-wk ACCORD/COPD I study (bid) indicate sig. difference (p<0.0001) in trough FEV ₁ vs placebo at 12 weeks for both 220µg and 400µg doses (84ml and 124ml respectively). 513-pt Phase II bid in combination with formoterol completed; 120-pt Phase II fixed dose combination trial (results: Dec 2010). 810-pt and 600-pt Phase III studies (ACCORD/COPD II and ATTAIN) investigating two bid doses ongoing (results: July 2011); two additional Phase III trials (310-pt extension; results Nov 2010, and 510-pt; results: Sept 2011). MAA filing in EU 2010; NDA in 2011/2012.
NVA237 (glycopyrronium bromide)	Novartis	DPI (Breezhaler)	800-pt and 1,065-pt Phase III studies (results: Dec 2010 and March 2011), plus 160-pt Japanese Phase III (results: Jan 2012) and 360-pt eight-arm Phase II crossover trial (results: Feb 2011). Phase II dose-ranging study showed 131ml increase in trough FEV ₁ (50µg dose). Phase II data presented at ERS 2008 show good safety/tolerability, and sustained 24-hour bronchodilation (mean improvement in FEV ₁ of >120ml vs placebo for both 50µg and 100µg doses on day seven), with potentially a more rapid onset of action than tiotropium. Partnered with Vectura. NDA expected in 2011. LAMA.
Dulera (mometasone + formoterol)/ MFF258	Merck & Co	DPI or MDI	Two 1,000-pt Phase III studies (results: July 2010). 240-pt Phase III completed. Filed for asthma (July 2009). Royalty due to Novartis.
Olodaterol (BI-1744) (also in combination with tiotropium)	Boehringer Ingelheim	RespiMat	Four Phase III studies: two as single agent (910-pt and 935-pt; results: Nov 2010) and two with tiotropium (630-pt and 620-pt; results: Sep 2010). 224-pt Phase II dose-finding combo study (results: Jan 2011). 1,102-pt 48-wk Phase III in severe COPD (results: June 2011).
Fostair (beclometasone + formoterol)/CHF1535	Chiesi/UCB	MDI	
Relovair (fluticasone + GW642444/vilanterol)	GSK/ Theravance	DPI (Gemini)	Two 52-week 1,560-pt Phase III trials (results: Oct 2011); two 1,000-pt 24-wk Phase III studies (results: April 2011); 60-pt Phase III crossover study (results: Dec 2010). ICS/LABA.
QVA149 (glycopyrronium + indacaterol)	Novartis	DPI (Breezhaler)	1,998-pt one year Phase III vs NVA237 (results: March 2012) and 339-pt one-year placebo controlled Phase III underway (results: Jan 2012). Two Phase II studies completed: data presented at ERS 2009. In a seven-day trial (n=135), mean improvement in trough FEV ₁ vs placebo on day seven was 226ml and vs indacaterol at doses of 300µg and 600µg was 123ml and 117ml. In a 14-day trial (n=225), all three doses tested were safe and well tolerated, with no change in 24-hour mean heart rate or clinically relevant effect on QTc interval. Partnered with Vectura. NDA filing due 2012. LAMA/LABA combination.
CHF-4226 (carmoterol)	Chiesi	MDI	Three Phase II studies completed. LABA.
CHF-5188	Chiesi	MDI	Intended for once-daily use. Budesonide + carmoterol. ICS/LABA.
ADC4022	Argenta	N/A	91-pt Phase II rendered positive results. Budesonide + theophylline.
BEA-2180 BR	B. Ingelheim	RespiMat	3 Phase II studies completed.
GSK573719+GW642444	GSK	DPI	100-pt Phase II (results: May 2010). LAMA/LABA.
GW642444 (vilanterol)	GSK	DPI	576-pt Phase II study of 5 doses complete. LABA.
AZD3199	AstraZeneca / Argenta	DPI	490-pt Phase II study of AZD3199 once daily vs 9µg formoterol bid and placebo completed (results expected in 2011). LABA.
PF00610355	Pfizer	DPI	380-pt Phase II study (results: March 2010). LABA.
Budesonide + formoterol	Orion Corp	DPI (Easyhaler)	Phase III studies for asthma/COPD (results expected 2010). Same combination as Symbicort. ICS/LABA.
Fluticasone + salmeterol	Meda/ Almirall	DPI (Novolizer)	Phase III. Europe only. Same combination as Advair.
GSK573719+GW642444	GSK	DPI	100-pt Phase II placebo controlled (results: May 2010). LAMA/LABA.
PT003 (glycopyrrolate + formoterol)	Pearl Therapeutics	MDI	84-pt Phase IIb trial bid vs glycopyrrolate, formoterol, placebo and two active comparators (Spiriva and Foradil) (results: March 2011).
LAS100977 + ICS	Forest/ Almirall	DPI (Genuair)	Combination of once-daily LABA with undisclosed ICS. Development plans not yet disclosed.

Source: Edison Investment Research

Sensitivities

Sosei is subject to the usual biotech-associated risks, ie clinical or regulatory failure or delay, patent litigation and commercial risks (eg pricing and reimbursement – which may positively or negatively impact sales). Sensitivities specific to our model assumptions, both on the up and the down side, include: high single product risk (clinical and regulatory progress of NVA237/QVA149), SOH-075 commercialisation (pricing/reimbursement likely to influence uptake of this first-in-class), upside from partnering activity (economics derived from existing or future deals on divested/non-core assets are not included in our model), FX fluctuations and accounting standards (Sosei reports in Japanese yen to Japanese GAAP, but the bulk of expected milestones are denominated in US dollars).

Valuation

Our Sosei valuation of ¥16.53bn (£119m assuming ¥138.5/£), compares with a current market cap of ¥10.3bn (£74m) and current EV (incorporating period-end cash plus the QVA149 milestone) of ¥7.75bn (£56m). Our valuation comprises a risk-adjusted net present value (rNPV) of key assets (calculated at ¥14.6bn, or £105m), a ¥390m (£3m) or three times sales value to Australian Norlevo sales and forecast net cash of ¥1,573m (£11m) for the year ending March 2011.

The risk-adjusted NPV (rNPV) is the most important component of our valuation, and includes Sosei's three key clinical programmes (NVA237, QVA149 and SOH-075), using our revenue forecasts, probabilities of success and assumptions regarding partnership economics with Novartis and Aska respectively. (NB We use the same rationale and assumptions to value the COPD programmes for both Vectura and Sosei.) The rNPV also includes a 'base' cost of running the business and uses a 12.5% weighted average cost of capital. As with our Vectura model, our Sosei valuation model does not capture the value of potential milestones (\$70m in connection with NVA237/QVA149 pre-launch), as there is little visibility on their breakdown and payment schedules. We have made a number of changes to our valuation. We have: 1) updated our FX assumptions (the pound has weakened against the yen); 2) revised our base cost assumption downwards to reflect the progress in cost cutting Sosei has made since restructuring; and 3) rolled forward our model to incorporate the March 2011 forecast net cash. Exhibit 4 summarises our assumptions and rNPV model output.

Exhibit 4: Sosei Group core business valuation model

Notes: Assumes FX rates of ¥138.5/£ and ¥93.0/\$.

Product(s)	Status	Probability of success	Est launch year	Est peak market share	Current market value	Est maximum royalty	Est peak sales
NVA237 and QVA149	Phase II/III	65%	2012/2013	15%	\$7,000m	6%	\$2,079m
SOH-075 (Japan)	NDA filed	90%	2011	100%	\$30m	30%	\$48m

Total rNPV	¥14,566m	£105m
Marketed products (Norlevo Australia)	¥390m	£3m
FY10/11 forecast net cash	¥1,573m	£11m
Total valuation	¥16,529m	£119m

Source: Edison Investment Research

Receipt of Novartis milestones and better than expected NVA237/QVA149 market share post-launch could represent significant upside. Assuming pre-launch milestones are split equally between both assets and will be paid in the 2011-13 period (on Phase III results, regulatory filing

and US/EU approvals) applying a 75% risk-weighting generates an NPV of c ¥3.96bn (£28m). Given the anticipated product profiles (NVA237: potential best-in-class LAMA [once-daily dosing and speed of onset], and QVA149: potential first-in-class LAMA/LABA combo), 15% market share may be conservative. However, as these programmes account for the bulk of our valuation (and Sosei bears no costs in relation to them), doubling the market share broadly doubles the valuation.

Financials

Revenues of ¥919m for the year ending March 2010 were six-times higher than in 2008/09 (¥153m), due to the \$7.5m NVA237 Phase III-related milestone from Novartis (under Japanese GAAP, milestones are recognised in full on receipt). Sosei's strategic restructuring decreased operating expenses over the previous period (¥2.6bn vs ¥3.7bn), with significant progress made in cutting both R&D (by 57%) and SG&A (by 46%); translating into a pre-tax loss of ¥1,767m (2008/09: ¥4,038m).

Sosei's P&L guidance for the year ending March 2011 is summarised in Exhibit 5.

Exhibit 5: Sosei Group's financial guidance for 2010/11

	2010/11 forecast (¥m)	Comment
Net sales	800	QVA149 milestone and Norlevo sales in Australia
Operating expenses:	2,520	
R&D costs	300	Novartis funds development of NVA237/QVA149
SG&A costs	632	Actively pursuing further reductions
Goodwill amortisation	1,588	Relates to 2005 acquisition of Arakis
Operating income/(loss)	(1,840)	
Ordinary income/(loss)	(1,840)	
Net income/(loss)	(1,845)	

Source: Edison Investment Research

Sosei reported net cash of ¥1,857m for the year ending March 2010 (vs ¥1,769m at end-2008/09), which will be supplemented by the \$7.5m milestone received on the initiation of QVA149 Phase III trials in May. We expect Sosei to end 2010/11 with cash of ¥1,573m, in the absence of any further milestones from either Novartis or Aska Pharma. However, substantial milestones are likely to be triggered by successful development of NVA237 and QVA149, and approval of SOH-075 – all of which may occur during 2011-12. Japanese stock market regulations prevent Edison publishing 2011/12 estimates at this stage. Our financial forecasts are consistent with Sosei's published guidance and are presented in Exhibit 6.

Exhibit 6: Financial results and forecasts

Year end 31 March	¥m	2007/08 JPN GAAP	2008/09 JPN GAAP	2009/10 JPN GAAP	2010/11e JPN GAAP
PROFIT & LOSS					
Revenue		709	153	919	810
Cost of Sales		(122)	(122)	(128)	(130)
Gross Profit		587	31	791	680
EBITDA		(4,700)	(2,106)	(292)	(284)
Operating Profit (before GW and except.)		(4,663)	(2,079)	(266)	(257)
Intangible Amortisation		(1,607)	(1,588)	(1,588)	(1,588)
Exceptionals		(556)	127	0	0
Other		(47)	(510)	0	0
Operating Profit		(6,872)	(4,051)	(1,854)	(1,845)
Net Interest		93	13	87	5
Profit Before Tax (norm)		(4,569)	(2,067)	(179)	(252)
Profit Before Tax (FRS 3)		(6,779)	(4,038)	(1,767)	(1,840)
Tax		275	99	(2)	(5)
Profit After Tax (norm)		(4,897)	(2,351)	(181)	(257)
Profit After Tax (FRS 3)		(6,503)	(3,939)	(1,769)	(1,845)
Average Number of Shares Outstanding (000)		117.9	117.9	117.9	117.9
EPS - normalised (¥'000)		(41.5)	(19.9)	(1.5)	(2.2)
EPS - FRS 3 (¥'000)		(55.2)	(33.4)	(15.0)	(15.6)
Dividend per share (¥)		0.0	0.0	0.0	0.0
Gross Margin (%)		82.7	20.5	86.1	83.9
EBITDA Margin (%)		(663)	(1,377)	(32)	(35)
Operating Margin (before GW and except.) (%)		(658)	(1,360)	(29)	(32)
BALANCE SHEET					
Fixed Assets		11,934	10,319	8,694	7,106
Intangible Assets		11,785	10,196	8,612	7,024
Tangible Assets		112	45	42	42
Investments		38	79	39	39
Current Assets		5,470	2,048	1,977	1,693
Stocks		0	0	0	0
Debtors		562	279	120	120
Cash		4,908	1,769	1,857	1,573
Current Liabilities		(1,621)	(229)	(296)	(296)
Creditors		(1,621)	(229)	(296)	(296)
Short term borrowings		0	0	0	0
Long Term Liabilities		0	0	0	0
Long term borrowings		0	0	0	0
Other long term liabilities		0	0	0	0
Net Assets		15,782	12,138	10,375	8,503
CASH FLOW					
Operating Cash Flow		(3,950)	(2,986)	(63)	(284)
Net Interest		93	13	87	5
Tax		287	47	(2)	(5)
Capex		(62)	(1)	0	0
Acquisitions/disposals		13	0	0	0
Financing		(335)	(97)	0	0
Dividends		0	0	0	0
Net Cash Flow		(3,954)	(3,025)	22	(284)
Opening net debt/(cash)		(8,955)	(4,908)	(1,769)	(1,857)
HP finance leases initiated		0	0	0	0
Other		(93)	(114)	67	0
Closing net debt/(cash)		(4,908)	(1,769)	(1,857)	(1,573)

Source: Edison Investment Research, Sosei Group Corporation accounts

EDISON INVESTMENT RESEARCH LIMITED

Edison is Europe's leading investment research company. It has won industry recognition, with awards in both the UK and internationally. The team of more than 50 includes over 30 analysts supported by a department of supervisory analysts, editors and assistants. Edison writes on more than 250 companies across every sector and works directly with corporates, investment banks, brokers and fund managers. Edison's research is read by major institutional investors in the UK and abroad, as well as by the private client broker and international investor communities. Edison was founded in 2003 and is authorised and regulated by the Financial Services Authority (www.fsa.gov.uk/register/firmBasicDetails.do?sid=181584).

DISCLAIMER

Copyright 2010 Edison Investment Research Limited. All rights reserved. This report has been commissioned by Sosei Group Corporation and prepared and issued by Edison Investment Research Limited for publication in the United Kingdom. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison Investment Research Limited at the time of publication. The research in this document is intended for professional advisers in the United Kingdom for use in their roles as advisers. It is not intended for retail investors. This is not a solicitation or inducement to buy, sell, subscribe, or underwrite securities or units. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment. A marketing communication under FSA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Edison Investment Research Limited has a restrictive policy relating to personal dealing. Edison Investment Research Limited is authorised and regulated by the Financial Services Authority for the conduct of investment business. The company does not hold any positions in the securities mentioned in this report. However, its directors, officers, employees and contractors may have a position in any or related securities mentioned in this report. Edison Investment Research Limited or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. This communication is intended for professional clients as defined in the FSA's Conduct of Business rules (COBs 3.5).

Edison Investment Research

Lincoln House, 296-302 High Holborn, London, WC1V 7JH ■ tel: +44 (0)20 3077 5700 ■ fax: +44 (0)20 3077 5750 ■ www.edisoninvestmentresearch.co.uk
Registered in England, number 4794244. Edison Investment Research is authorised and regulated by the Financial Services Authority.