

SPARX Group Co., Ltd.

8739

Tokyo Stock Exchange Prime Market

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Summary

A pioneering, independent active investment company that balances stability with high earnings by selecting investee companies through thorough corporate research and an outstanding ability to create hypotheses

1. Company overview

SPARX Group Co., Ltd. <8739> (hereinafter, “the Company”) is a pioneering, independent active investment company founded in 1988 under the vision of “To Be the Most Trusted and Respected Investment Company in the World.” It has established unique investment methods, such as introducing the “long-short investment strategy*,” which has now become commonplace in the fund industry, for the first time in Japan. It was listed on JASDAQ in 2001, and became the first Japanese independent active investment company to be listed on the Tokyo Stock Exchange First Section in 2019. The Company continues to lead the industry as an active investment company.

* A method for securing returns even when with the stock market is down by buying undervalued stocks whose prices can be expected to increase and short selling overvalued stocks whose prices are projected to go down.

The Group has four pillars that it is focusing on to achieve growth. These pillars are Japanese Equity, which invests in Japanese equities; OneAsia, which invests in Korean and other Asian equities; Real Assets, which invests in renewable energy power plants and other such assets; and Private Equity, which forms and manages funds for the purpose of investing in startup enterprises. It has set the goal of increasing assets under management to ¥3 trillion by 2026, which would be double the amount at the end of FY3/21. In accordance with its in-house investment philosophy of “the Macro is an Aggregate of the Micro,” the Company performs highly detailed research on individual companies to select its targets for investment, which has made it an unparalleled investment company that can balance stability with high earnings, and consistently leads the industry.

2. Results trends

In 1H FY3/23 consolidated results, operating revenue decreased 1.1% year-on-year (YoY) to ¥6,710mn, operating profit decreased 5.6% to ¥2,907mn, ordinary profit increased 16.0% to ¥3,450mn, and profit attributable to owners of parent increased 1.5% to ¥2,275mn. Management fees showed steady growth thanks to the additional inflow of Mirai Creation Fund III and other factors, but performance fees declined due in part to falling stock prices, and, as a result, operating revenue fell just short of the previous year. Operating profit declined due to the above factors and also because of an increase in ordinary expenses. At the same time, base earnings*, an indicator of sustained, stable profitability, increased by 5.3% YoY to ¥3,221mn. Along with the increase in management fees, appropriately controlling ordinary expenses also contributed. Regarding ordinary expenses, sales activities picked up as border control measures for COVID-19 were relaxed, and this resulted in an increase in travel and other expenses, but the increase in ordinary expenses overall was limited to 7.9%. Base earnings remained solid despite the downturn in the stock market, and it can be said that the Company continues to generate high earnings in a stable and efficient manner.

* Base earnings are defined as management fees net of commissions paid minus fixed expenses and other ordinary expenses. Highly variable factors like performance fees are not included, so base earnings are an important indicator for assessing the earnings stability of an investment company.

Summary

Regarding results forecasts for FY3/23, in investment trust management, discretionary investment management and investment advisory services, which is the Company's primary business, the Company does not disclose forecasts because it acknowledges the difficulty of making projections of future results given the fact that the business is greatly affected by economic situations and market conditions. However, growth in performance fees is expected as the stock market recovers, and FISCO's view is that management fees will also perform well driven by the Private Equity business.

3. Medium-term management strategy

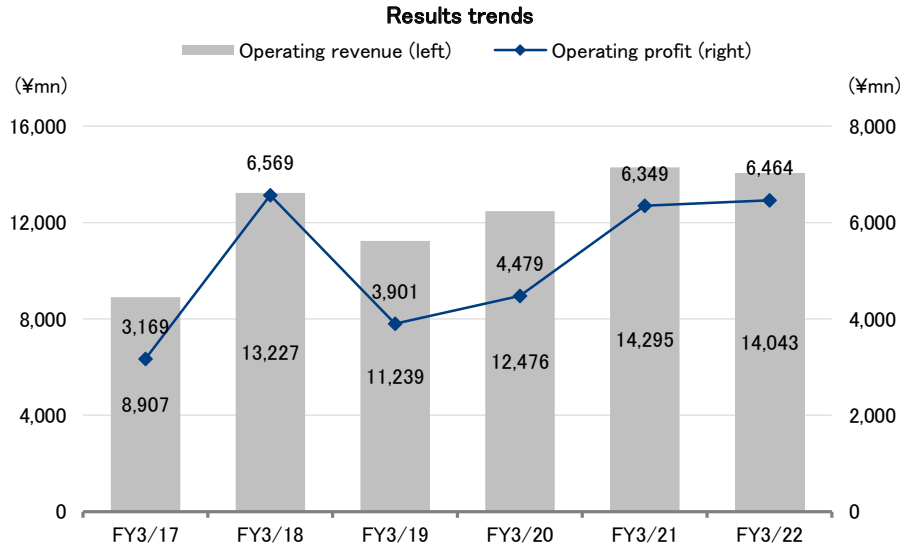
In its medium-term management strategy, the Company has set a target of increasing assets under management in Japanese Equity, OneAsia, Real Assets and Private Equity, the four pillars of its growth strategy, to ¥3 trillion by 2026 (¥1,571.9bn at the end of FY3/22). Specifically, the plan to double AUM is in part a response to the rampant demand of overseas institutional investors with respect to the Company's sustainable investment strategy, one of the strategies of Japanese Equity. It also is seeking to accelerate the inflow of investment capital by forming new funds in Private Equity. Along with these initiatives, it has designated energy (including hydrogen), medicine, fintech and quantum computing as new growth areas for a new era premised on the use of AI, and plans to make further investments in these areas within the scope of a certain level of shareholder's equity and internal Group resources.

FISCO thinks that the Company will be able to find new areas with investment value that have been overlooked by investors through its cycle of thorough corporate research, outstanding investment hypothesizing, and rigorous, hypothesis-based research on investment targets, which is the strength of the Group. In addition, the hypotheses it derives from its thorough company research are novel and convincing, so the Company is likely to be able to adequately attract capital from investors. Given these reasons, FISCO believes that the Company's target of increasing AUM to ¥3 trillion by 2026 is sufficiently achievable.

Key Points

- Independent active investment company with an investment philosophy of "the Macro is an Aggregate of the Micro"
- In 1H FY3/23, base earnings steadily increased despite the impact of falling stock prices as the Company recorded management fees related to its Mirai Creation Fund III and controlled ordinary expenses
- Seeking to increase AUM to ¥3 trillion by 2026, double the level of end-FY3/21

Summary



Source: Prepared by FISCO from the Company's financial results

Company overview

Pioneering active investment company with multiple competitive advantages; unique investment strategy of “the Macro is an Aggregate of the Micro”

1. Company overview

The Group is a pioneering, independent active investment company founded in 1988 by Shuhei Abe, the current President and CEO, under the vision of “To Be the Most Trusted and Respected Investment Company in the World.” Taught by world-famous investor George Soros, Abe’s investment method is unique and strategic, and the Company was the first in Japan to introduce the “long-short investment strategy,” which is now commonplace in the fund industry. The company name SPARX comes from a comment made by Soros when Abe explained his strategy to him, saying, “I felt a spark in what you had to say.”

(1) The “ARTS Spirit”

The Group also has a strong sense of mission as an independent investment company, and it is oriented to establishing funds and developing investment trusts for the benefit of investors. Its “ARTS Spirit” is put forth as a basic starting point, and it is thought that putting this spirit into practice creates the Group’s value.

Company overview

The “ARTS Spirit”

The Principles of SPARX	We will always strive to achieve bigger goals in an ever-changing environment through our innovation, dedication and flexibility. However, our principles will always be the same. These core principles are represented by what we call the “ARTS Spirit,” which each employee realizes on an advanced level. In this way, we believe we can become an investment company that is trusted and respected by society and investors.
Arigato	We will act with respect and a sense of gratitude toward the people with whom we work and all people with whom we interact.
Responsiveness	We will value agility as our main approach to change and will always respond quickly.
Thoroughness	We believe that activities with discernment and care generate innovative knowledge, and we will constantly keep on perfecting them.
Sympathy	We will interact with clients and colleagues in a harmonious and contributory manner. We believe that humility and sincerity lead to mutual growth and will act with a sense of propriety. We will be open-hearted and accepting of diversity in a flexible manner and will create opportunities for free debate and discussion.

Source: Prepared by FISCO from materials provided by the Company

(2) Investment philosophy

What is notable about the Company and a source of its competitive advantage is its investment philosophy of “the Macro is an Aggregate of the Micro.” Abe puts a great deal of emphasis on this concept and ensures that it penetrates the entire company. “Macro” in this context refers to major trends that are difficult to predict with accuracy; for example, how the Japanese economy will trend going forward and which industries will experience growth. On the other hand, “micro” here means companies’ daily business activities, and the qualities and policies of its executives—those things that can be understood and are easy to predict. In other words, by rigorously researching the activities of companies and the qualities of their executives and by accumulating this information, the macro (major trends) comes into view. This thinking is expressed in the phrase, “the Macro is an Aggregate of the Micro.” Based on this thinking, when actually making investments, discussions on the direction of the Nikkei Stock Average or how portfolio company stock prices will trend are not emphasized; rather, fund managers visit individual companies based on their own hypotheses and engage in dialogue with executives—this is the emphasis.

Another major characteristic of the Company’s investment philosophy is that investment hypotheses are made at the stage prior to selection of companies targeted for investment. An example would be hypothesizing, amid calls for an emphasis on ESG, that there will be increasing societal need with respect to carbon-free companies. Thorough corporate research is conducted based on investment hypotheses, which makes it possible to verify the validity of the hypotheses and discover undervalued companies with healthy growth prospects.

In FISCO’s view, the investment philosophy of “the Macro is an Aggregate of the Micro” will become increasingly important in order for the Company to have a competitive advantage. This is because of the penetration of artificial intelligence (AI) into financial markets and the accelerating trend to leave investment up to AI. Investment via AI involves training AI with an enormous amount of data on past stock price trends and having it predict future stock prices statistically. However, corporate activities and the qualities and thinking of executives cannot be perceived and understood without visiting the actual site and meeting with management. What determines the direction of corporate performance is the accumulation of corporate activities and qualities of the management team, etc., and this is not something that can be predicted from past data using statistical methods. FISCO is in agreement with the Company’s thinking.

In this way, by performing rigorous research on individual companies to select investment targets, the Company has been able to maintain both stability and high earnings in financial markets that are fundamentally high risk with high return. It is an unparalleled investment company in this sense, and it continues to lead the industry. The Company’s capital is ¥8,587mn (as of September 30, 2022), and it has 170 Group employees (as of the same date).

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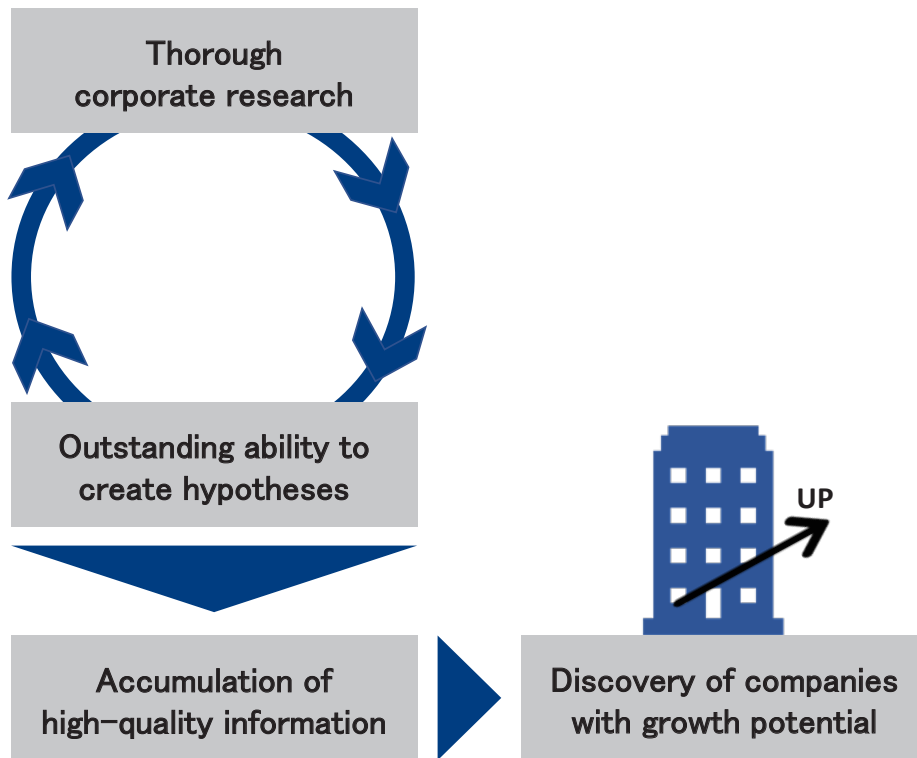
Company overview

Examples of excess return as of September 30, 2022

Strategy	(Annualized return)	Reference index	Excess return
Japanese Equity active long only investment strategy	10.35%	2.67% (TOPIX)	7.68%
Japanese Equity mid & small cap strategy	7.66%	4.50%	3.16%
Japanese Equity long-short strategy	4.24%	2.52% (TOPIX)	1.72%
Japanese Equity strategic investment strategy	9.43%	2.77% (TOPIX)	6.66%

Note: The reference index for the Japanese equity mid & small cap strategy is the Russell/Nomura Small Mid Cap Index.
 Source: Prepared by FISCO from the Company's results briefing materials.

The Group's Positive Investment Cycle



Source: Prepared by FISCO through interviews

Company overview

History

1989	Began investment advisory services in Minato-ku, Tokyo as SPARX Investment Advisory Co., Ltd.
1997	SPARX Investment Advisory Co., Ltd. licensed to provide discretionary investment management business
2000	SPARX Investment Advisory Co., Ltd. licensed to provide securities investment trust management business Changed name to SPARX Asset Management Co., Ltd.
2001	SPARX Asset Management listed on the JASDAQ Market
2005	Acquired a majority stake in Cosmo Investment Management Co., Ltd. (now SPARX Asset Management Korea Co., Ltd.), a Korea-based asset management company, in order to develop investment activities in the Asian region
2006	Transitioned to a holding company structure, and SPARX Asset Management changed its name to SPARX Group Co., Ltd.; SPARX Asset Management, a subsidiary, took over the asset management business
2012	SPARX Green Energy & Technology Co., Ltd. established to enter the renewable energy power generation business
2014	Acquired a 100% stake in Japan Asset Trust Corporation in order to further expand the investment business for real assets, including renewable energy power plants and real estate, and changed its name to SPARX Asset Trust & Management Co., Ltd.
2019	Assigned to the Tokyo Stock Exchange First Section Invested in Sigma-i Co., Ltd., which provides solutions for quantum annealing technology research and development, and began participating in its management
2020	Established SPARX Innovation for Future Co., Ltd. to administer and manage Space Frontier Investment Limited Partnership, which is aimed at fostering globally competitive, Japan-based space companies
2021	Established Nomura SPARX Investment, Inc. with Nomura Holdings <8604> to manage investment corporations that invest in non-listed companies
2022	Transferred to the Prime Market through a reclassification of Tokyo Stock Exchange categories

Source: Prepared by FISCO from the Company's homepage

2. Business description

The Group has four pillars that it is focusing on to achieve growth. These pillars are Japanese Equity, which invests in Japanese equities; OneAsia, which invests in Korean and other Asian equities; Real Assets, which invests in renewable energy power plants and other such assets; and Private Equity, which forms and manages funds for the purpose of investing in startup enterprises. On this basis, it provides investment trust management, discretionary investment management, investment advisory and other related services.

(1) Japanese Equity and OneAsia

SPARX Asset Management Co., Ltd. handles Japanese Equity, and SPARX Asset Management Korea Co., Ltd. and SPARX Asia Investment Advisors Limited primarily handle OneAsia. Equity investment is conducted based on strategies that include the Japanese Equity long-short strategy, Japanese Equity focus all cap strategy, Japanese Equity mid & small cap strategy, Japanese Equity market neutral strategy, and Japanese Equity sustainable strategy. The AUM of Japanese Equity and OneAsia combined as of the end of September 2022 was ¥1,032.3bn, an 8.3% decrease from the previous term-end due to the impact of the stock market. However, the Japanese Equity mid & small cap strategy saw an influx of funds and trended positively.

(2) Real Assets

Within Real Assets, development, management, and operation of renewable energy power plants, including solar power plants, is handled by SPARX Green Energy & Technology Co., Ltd. Investment in the phase from power plant development to the start of operations (called "green field" investment) is handled by SPARX Asset Management. Further, "brown field" investment in power plants already up and running is handled by SPARX Asset & Trust Management Co., Ltd. The main investments have been made in solar, wind, and biomass power plants. When knowledge regarding the investment target is insufficient, experienced partners are enlisted and investment is conducted with them, which makes it possible to invest in high-quality real assets and generate high earnings. AUM as of the end of September 2022 was ¥262.7 bn, of which ¥257.3 bn was invested in renewable energy power facilities. The number of investments increased by 10 YoY to 41 (approx. 623 MW), and the number of plants selling electricity increased by 12 YoY to 38 (approx. 543 MW). These investments are steadily generating returns, and investments in renewable energy appear to be making steady progress.

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Company overview

Real assets generating stable revenue



Source: Published from the Company's homepage

(3) Private Equity

SPARX Asset Management, SPARX AI & Technologies Investment Co., Ltd. and SPARX Innovation for Future Co., Ltd. invest in foreign and domestic startups on the themes of intelligent technologies, robotics, technologies for a hydrogen-based society, electrification, new materials, carbon neutrality, and the SDGs. For investments in startup companies to bear fruit takes a considerable amount of time, but investments have been made in Sansan, Inc. <4443> (listed June 2019), MEDLEY, INC. <4480> (listed December 2019), freee K.K. <4478> (listed December 2019), FIXER Inc. <5129> (listed September 2022) and other startups that have reached the IPO stage.

Private Equity is characterized by funds being formed jointly with major companies. One example is Mirai Creation Fund III, which started in October 2021. Its investors include major companies like TOYOTA MOTOR CORPORATION <7203> and Sumitomo Mitsui Banking Corporation. In FISCO's view, the Group is able to draw investment from major companies because of its rigorous research on individual companies and its outstanding ability to form hypotheses. This is because by knowing as much as possible about the "Micro," the Group is able not only to create funds related to appealing fields that have been overlooked by investors themselves but also to attract funds from investors because its hypotheses are appropriate and convincing. Further, since the investment period is ten years and, effectively, there are no cancellations over that period, like with Real Assets, stable earnings can be expected.

Private Equity is a field where the Group is able to exhibit its strengths, and also a field that the Group intends to grow. FISCO believes that Private Equity is an area that embodies the essence of the Group, which has achieved growth by creating new investment domains overlooked by clients.

3. The Group's strengths

The Group has the following six strengths: 1) Bottom-up corporate research and outstanding ability to make hypotheses, 2) Outstanding ability to ask questions, 3) High earnings rate, 4) Human resources development through an open corporate culture, 5) Investment from a long-term standpoint, and 6) Department directly under the CEO.

Company overview

(1) Bottom-up corporate research and outstanding ability to make hypotheses

Thorough, bottom-up corporate research and an outstanding ability to make hypotheses are based on the investment philosophy, “The Macro is an Aggregate of the Micro,” that has been instilled throughout the Company. As discussed above, “the Macro is an Aggregate of the Micro” is the thinking that large trends come into view through the accumulation of rigorous company research. Because the Group performs detailed research on many companies, it is able to form appropriate hypotheses, and it can be said that based on these hypotheses, it is able to find companies needed by society, that is to say, companies with high growth potential. In addition, from the perspective of establishing new funds and developing new investment trusts, it is able to find areas with investment value that have been overlooked by investors themselves. At investment companies, it is often the case that work is split between analysts who research companies and fund managers who manage the investments, but the Group emphasizes bottom-up corporate research, so fund managers also research companies based on their own hypotheses.

(2) Outstanding ability to ask questions

Thorough corporate research is tied to an outstanding ability to ask questions, which is also a strength. Through this rigorous research, the Company is able to ask more essential questions to investee companies and engage in deeper discussions, which go beyond the surface level of short-term stock price changes and the next term's results. Asking essential questions allows the Company to acquire more important information, and this in turn allows it to conduct appropriate discussions for improving the performance of investee companies, which is then connected to an engagement strategy that is outstanding, in FISCO's view.

(3) High earnings rate

The Group high earnings rate, which is one of its strengths, is expressed in its management fee rates and percentage of AUM eligible to earn performance fees. Management fee rates and whether or not performance fees can be attached to funds are determined through negotiations with clients, but in the case of investment trusts, these are negotiated with the companies that sell the trusts, which include securities companies and banks. With the Group's funds, thanks to rigorous company research, investee companies generate outstanding returns, which allows high management fee rates to be set (0.78% in 1H FY3/20, 0.71% in 1H FY3/21, 0.69% in 1H FY3/22, and 0.75% in 1H FY3/23). With regard to the percentage of AUM eligible to earn performance fees as well, investments generate excellent returns, which allows funds to be set with performance fees. The rate in 1H FY3/23 was high at 38.7%. As a result, the operating profit from the same period was also high at 43.3%.

(4) Human resources development through an open corporate culture

In the Group's investment research division for Japanese Equity, meetings are held every morning to share progress made on company research. Weekly meetings are held apart from this as well to share and discuss hypotheses and investment behavior. FISCO believes that this is extremely significant for human resources development. Through sharp feedback from experienced fund managers, personnel are able to learn about areas in need of improvement and effective points of entry when performing research. Making manuals for research methods and how to hypothesize is difficult, and these abilities tend to be internalized, but the Company succeeds in sharing them through discussion and debate. This serves to raise the level of fund managers and makes it possible to accumulate highly talented human resources. The Group puts a great deal of emphasis on human resource development, and taking time to develop its human resources is a company credo, so long service length is another characteristic. In the asset management industry, in which fund manager ability determines a company's earnings, human resources development through an open corporate culture and information sharing is a strength and generates positive results, in FISCO's view.

Company overview

(5) Investment from a long-term standpoint

The Group makes investments from a long-term perspective, so it is able to build trust with investee companies and raise corporate value. Even when impacted by temporary events like stock market declines, the impact is mitigated by investing long-term, which allows, as a result, returns to be provided to investors. In addition, with long-term funds with an investment period of 20 years, AUM and management fees increase in a stable manner, which lends stability to earnings.

(6) Department directly under the CEO

The Group is also characterized by having a department, the CEO Division at SPARX Asset management, which is directly under the CEO. It mainly handles newly launched businesses and similar projects. With the business environment undergoing rapid change, the division was established to make decisions quickly so that business opportunities are not missed.

Results trends

Even with the impact of falling stock prices, steady growth achieved in base earnings thanks to recording management fees on Mirai Creation Fund III and controlling ordinary expenses

1. 1H FY3/23 results overview

In 1H FY3/23 consolidated results, operating revenue decreased 1.1% YoY to ¥6,710mn, operating profit decreased 5.6% to ¥2,907mn, ordinary profit increased 16.0% to ¥3,450mn, and profit attributable to owners of parent increased 1.5% to ¥2,275mn. As a result of adding Mirai Creation Fund III and other factors, management fees net of commissions paid saw solid growth, rising 6.4% to ¥5,687mn, but due to falling stock prices and other developments, performance fees fell 82.0% to ¥91 mn. As a result, operating revenue fell just short of the previous year. Operating profit declined due to the above factors and because of an increase in ordinary expenses. At the same time, as a result of recording a gain on investment in investment partnerships and foreign exchange gain, etc., ordinary profit and profit attributable to owners of parent increased.

1H FY3/23 consolidated results

	1H FY3/22		1H FY3/23		YoY
	Results	Vs. operating revenue	Results	Vs. operating revenue	
	(¥mn)				
Operating revenue	6,783	100.0%	6,710	100.0%	-1.1%
Operating expenses and SG&A expenses	3,701	54.6%	3,803	56.7%	2.7%
Operating profit	3,081	45.4%	2,907	43.3%	-5.6%
Ordinary profit	2,974	43.8%	3,450	51.4%	16.0%
Profit attributable to owners of parent	2,241	33.0%	2,275	33.9%	1.5%

Source: Prepared by FISCO from the Company's financial results

Results trends

Base earnings, which are an indicator of ongoing, stable profitability, increased 5.3% YoY to ¥3,221mn. Appropriately controlling ordinary expenses made a contribution, along with the increase in management fees. Regarding ordinary expenses, sales activities picked up as border control measures for COVID-19 were relaxed, and this resulted in an increase in travel and other expenses, but the increase in ordinary expenses overall was limited to ¥2,466mn (up 7.9% YoY). In FISCO's view, the Company's performance was solid despite the impact of falling stock prices. In fact, regarding stock price declines at the end of 1H FY3/23, the TOPIX declined by 9.6%, the Nikkei average, by 11.9%, and KOSPI, by 29.8%, but the Company's AUM (end of 1H FY3/23) was down just 4.3%.

Base earnings

	1H FY3/22	1H FY3/23	YoY
AUM (average balance) (¥100mn)	15,566	15,182	-2.5%
Management fee rate (net of commissions)	0.69%	0.75%	0.06pt
Management fees (net of commissions) (¥mn)	5,345	5,687	6.4%
Ordinary expenses (¥mn)	2,285	2,466	7.9%
Base earnings (¥mn)	3,060	3,221	5.3%

Source: Prepared by FISCO from results briefing materials

(1) Japanese Equity

Average AUM (six-month average; same applies below) in 1H FY3/23 declined 7.6% YoY to ¥9,747mn. Capital from individual investors in Japan steadily flowed in, but falling stock prices had an impact. At the same time, with the Japanese Equity mid & small cap strategy performing well, additional funds from European institutional investors were taken under management. Money from overseas institutional investors had been flowing out, but the Group will seek to receive funds from them through direct appeals.

(2) OneAsia

Average AUM in 1H FY3/23 declined by 29.2% YoY to ¥931mn. With stock prices falling, Korean market prices declined, but the Group continues to conduct marketing in the Asian region. Anticipating the end of the COVID-19 pandemic, the Group will recommence training in Japan for fund managers from Hong Kong and Korea, and will pursue performance built upon Japanese equity investment strategies.

(3) Real Assets

Average AUM in 1H FY3/23 increased 1.4% YoY to ¥2,574mn. In August 2022, the Group acquired nine secondary solar power plant projects. In addition, it continues to make active approaches to projects other than solar power plants.

(4) Private Equity

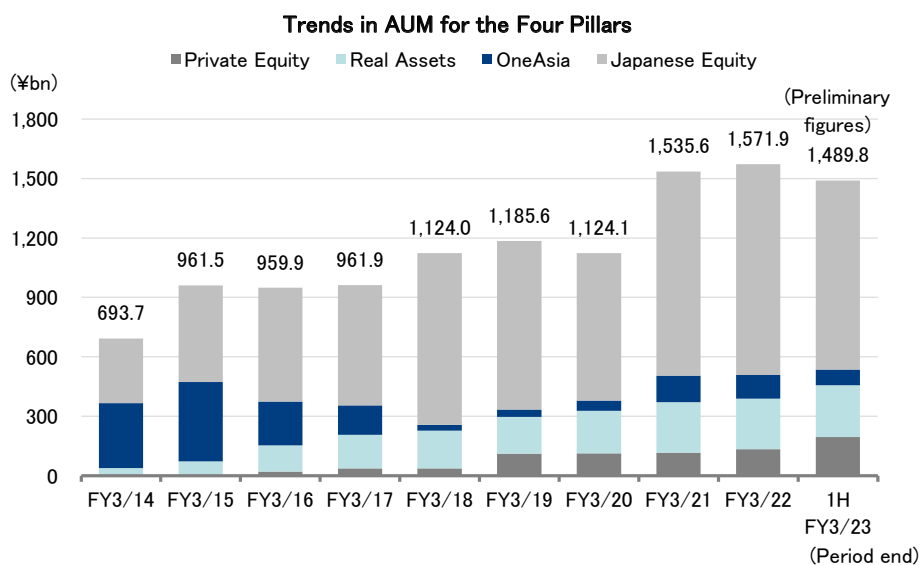
Average AUM in 1H FY3/23 increased 65.2% YoY to ¥1,928mn. Mirai Creation Fund III, which began investing in October 2021, made a major contribution. Highlights included investing in STANDARD Inc. in November 2022, a company that supports digital transformation and in-house manufacturing in a wide range of industries. The Group is also currently preparing a second Space Frontier fund.

Results trends

2. Past results trends

(1) Assets under management

Term-end AUM has been increasing over the past several years, despite a temporary major decline from OneAsia. Japanese Equity has been soft recently due to the stock market, but Real Assets and Private Equity have been increasing steadily. In particular, Private Equity has been buoyant thanks to the contribution of Mirai Creation Fund III, which started investing in October 2021. Overall, AUM is maintained at a high level, so, in FISCO's view, the Company's investment philosophy of "the Macro is an Aggregate of the Micro" is outstanding as an investment method, and it has earned the support of investors.

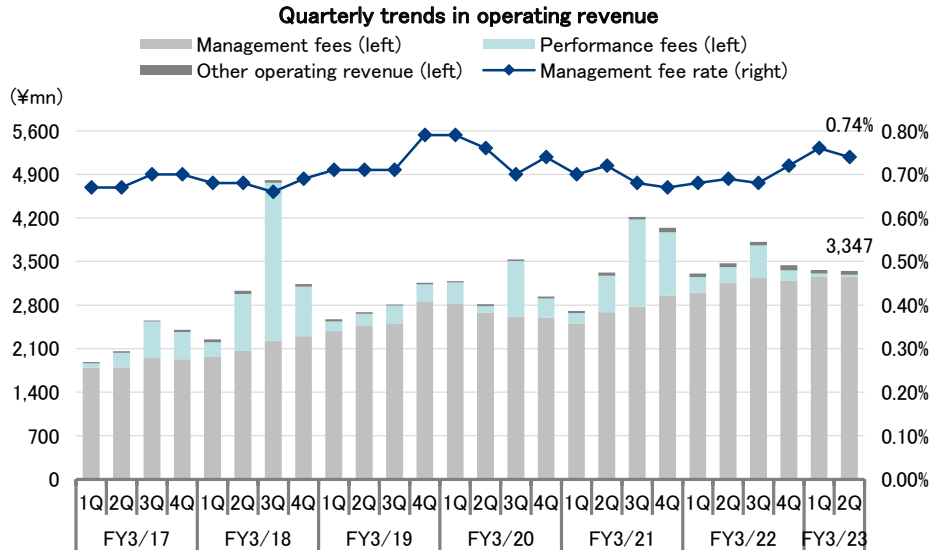


Source: Prepared by FISCO from the Company's results briefing materials and financial results

(2) Operating revenue

Regarding operating revenue, management fees have performed well thanks to high returns achieved through rigorous company research and the ability to set relatively high fee rates on funds. Funds managed in line with the investment philosophy of "the Macro is an Aggregate of the Micro" will be able to maintain high returns going forward as well, so FISCO believes that management fees will also continue to be high as a result.

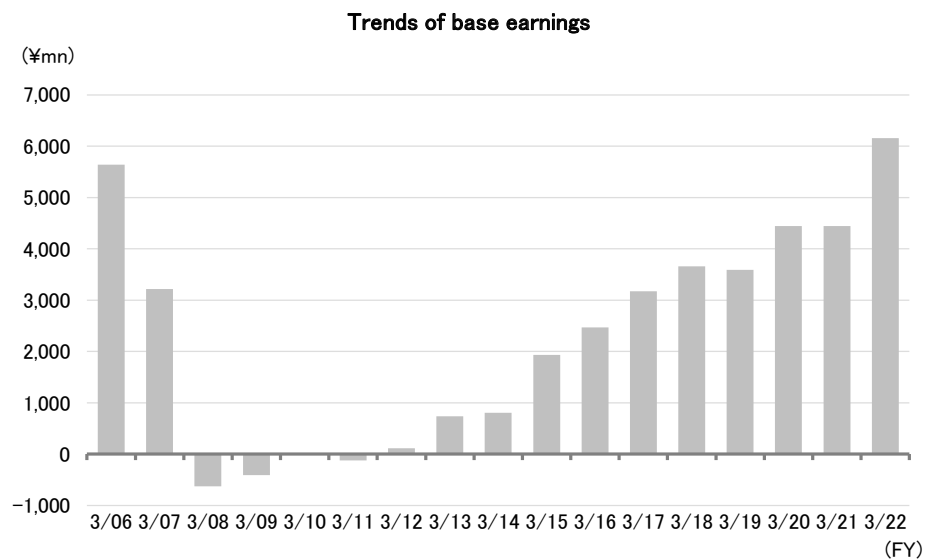
Results trends



Source: Prepared by FISCO from results briefing materials and financial results

(3) Base earnings

Base earnings, an indicator of ongoing, stable profitability (management fees net of commissions paid – (minus) fixed expenses and other ordinary expenses), had been negative temporarily in FY3/08 due to the global financial crisis, but have been trending upward ever since. It is worth noting that the Company's base earnings have steadily increased amid an extremely high level of uncertainty in the financial market outlook due in particular to the impact of COVID-19, the Ukraine situation, and central bank fiscal policies in various countries on corporate earnings. FISCO believes that base earnings will continue to be strong going forward.



Source: Prepared by FISCO from results briefing materials

Results trends

3. Financial condition and management indicators

Total assets at end-1H FY3/23 amounted to ¥37,142mn, an increase of ¥1mn from the end of the previous fiscal year. Current assets increased ¥472mn to ¥23,195mn for the same period, but this was primarily attributable to a decrease in cash and deposits of ¥1,048mn and increases in income taxes receivable of ¥663mn and accounts receivable-other of ¥456mn. Total liabilities increased ¥238mn to ¥13,055mn. Current liabilities increased ¥360mn to ¥4,931mn, but this was mainly attributable to a decrease in accounts payable of ¥1,089mn that was offset by increases in income taxes payable of ¥524mn and provision for bonuses of ¥451mn. Total net assets decreased ¥237mn to ¥24,087mn. This was largely due to decreases in capital surplus of ¥303mn, retained earnings of ¥147mn, and valuation difference on available-for-sale securities of ¥286mn.

The Company's financial position can be said to be sound: it has a current ratio of 470.4%, a fixed ratio of 57.9%, and an equity ratio of 64.9%.

Consolidated balance sheets and management indicators

	(¥mn)		
	end-FY3/22	end-1H FY3/23	Change
Current assets	22,723	23,195	472
Cash and deposits	19,199	18,151	-1,048
Fixed assets	14,418	13,946	-471
Investment securities	12,155	11,952	-203
Total assets	37,141	37,142	1
Current liabilities	4,571	4,931	360
Short-term loans payable, etc.	2,000	2,000	-
Provision for bonuses	-	451	451
Fixed liabilities	8,245	8,123	-122
Long-term loans payable	7,000	7,000	-
Total liabilities	12,816	13,055	238
Total net assets	24,324	24,087	-237
Retained earnings	14,787	14,640	-147

Source: Prepared by FISCO from the Company's financial results

4. Outlook for FY3/23

The outlook for FY3/23 is as follows. In investment trust management, discretionary investment management and investment advisory services, the Company's main business, results are substantially impacted by economic conditions and the market environment, so results forecasts are recognized as difficult and are therefore not disclosed. However, performance fees are expected to grow as the stock market recovers. In addition, in FISCO's view, management fees will continue to be steady, driven by Private Equity.

■ Medium-term growth strategy

Goal of increasing AUM to ¥3 trillion by 2026, double the level of end-FY3/21

In its medium-term management strategy, the Group has set a target of increasing AUM in Japanese Equity, OneAsia, Real Assets and Private Equity, the four pillars of its growth strategy, to ¥3 trillion by 2026 (it was ¥1,535.6bn at the end of FY3/21). Specific measures are as follows.

(1) Japanese Equity

With an initial goal of AUM at around ¥100.0bn, the Group will strengthen initiatives for alternative products with high profitability, including its long-short strategy, which is again experiencing growth, and its engagement strategy. In addition, in its sustainable strategy, which is of high interest among overseas institutional investors, the Group is continuing to make high-quality investments and plans to double AUM by increasing fund inflows and returns.

(2) OneAsia

The Group will take time to build a high-quality, multi-tier investment system in order to achieve growth on at least the same scale as the Japanese Equity strategy.

(3) Real Assets

The Group will shift priority from solar power to power plants like biomass and geothermal plants for which high investment returns can be expected, and will actively carry out an investment strategy for generating stable revenue such as green hydrogen and corporate PPA while anticipating the end of the feed-in-tariff scheme.

(4) Private Equity

Regarding the Mirai Creation Fund III and Japan Monozukuri Mirai Fund, the Group aims to steadily make good investments and create new funds.

(5) New areas

The Group has designated energy (including hydrogen), medicine, fintech and quantum computing as new growth areas for a new era premised on the use of AI, and plans to make further investments in these areas within the scope of a certain level of shareholder's equity and internal Group resources. In energy, the Group will expand new energy fields where it has carried out small-scale demonstration experiments on ways of using hydrogen energy. In medicine, it will draw on knowledge accumulated through investment to contribute to the development of better medicine. In fintech, the Group will accumulate small discoveries and projects in fields that combine digital and finance and integrate them into a business unit. In quantum computing, the Group will seek to build a concrete business with Sigma-i Co., Ltd. leveraging Japan's first quantum annealing technology.

(6) Summary

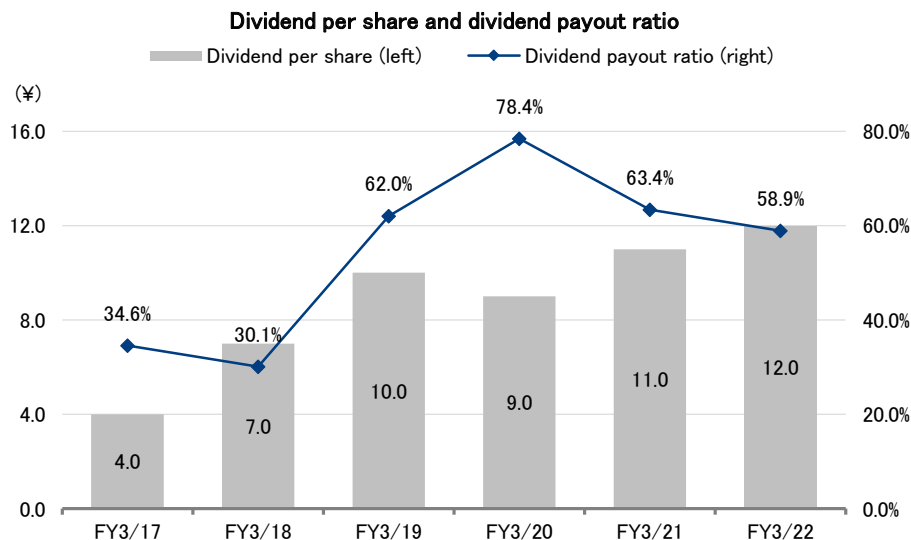
Going forward, FISCO projects that Japanese Equity AUM will steadily increase and that it will also increase particularly in Private Equity and Real Assets. As discussed above, Private Equity is able to find appealing startups that have been overlooked by investors through thorough company research and outstanding hypothesizing, and, with SDGs and carbon-free gaining momentum, there is likely to be increasing societal need for Real Assets like solar, wind, and geothermal power plants. Regarding the promotion of decarbonization, government support can be fully expected, so FISCO believes related investment targets will generate even higher returns.

Shareholder return policy

Has maintained high payout ratio; expected to continue shareholder return policy

The Group works for sustained growth and to raise corporate value over the medium to long term, and has positioned shareholder returns as an important task of management. With regard to this, the Company has a policy of comprehensively considering performance trends, financial position, payout ratios, and the timing and method of returns while taking into account stability and continuity from a medium- to long-term perspective. Based on its policy, the Company paid a per-share dividend for FY3/22 of ¥12.0 (payout ratio of 58.9%). For FY3/23, the dividend is yet to be determined because the Company does not disclose results forecasts, but past dividend payout ratios have maintained a high level, so if results are solid, FISCO believes a stable level will continue.

The Company conducts share buybacks to enhance shareholder returns, raise capital efficiency and execute a flexible capital policy in line with the management environment. Recently, the Company announced a share buyback of up to 200,000 shares (¥300mn) between November 1, 2022 and January 31, 2023, and has acquired 66,000 shares (¥111mn) as of November 30, 2022.



Note: The ¥10.0 dividend in FY3/19 included a ¥3.0 commemorative dividend
 Source: Prepared by FISCO from the Company's financial results



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