COMPANY RESEARCH AND ANALYSIS REPORT

SPARX Group Co., Ltd.

8739

Tokyo Stock Exchange Prime Market

22-Aug.-2025

FISCO Ltd. Analyst
Takuma Yoshibayashi

FISCO Ltd.
https://www.fisco.co.jp

Contents

Summary

An independent asset management company that combines traditional investment strategies with alternative strategies. Double-digit growth in average AUM in FY3/25 and strong shareholder returns also attracting attention

1. Company profile

SPARX Group Co., Ltd. <8739> (hereafter, also “the Company”) is a unique asset management company with the vision of “To Be the Most Trusted and Respected Investment Company in the World,” and it offers traditional investment strategies focused on listed equities as well as alternative strategies. The Company is a pioneer of independent active investment companies, founded in 1988. It has established unique investment methods, including being the first in Japan to introduce the “long-short investment strategy*” which has now become commonplace in the fund industry. It was listed on JASDAQ in 2001 and became the first Japanese independent active investment company to be listed on the Tokyo Stock Exchange (TSE) First Section in 2019. The Company continues to lead the industry as an active investment company. Following the revision of the market classifications in April 2022, it is currently listed on the Prime Market.

* A method for securing returns even when 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 (private-equity investment) and buyout investments. The revenue model for Japanese Equity and OneAsia consists not only of management fees based on assets under management (AUM), but also includes strategies that earn performance fees, such as the long-short investment strategy and the value creation investment strategy, enabling the Company to build a highly profitable business foundation. Listed equity investments are subject to inflows and redemptions in the short term and are susceptible to the ups and downs of the stock market. On the other hand, management fees for Real Assets and Private Equity are based on long-term contracts, making them less susceptible to short-term market fluctuations and allowing for the establishment of a highly stable earnings base. In addition, each of the funds under Real Assets and Private Equity is designed with performance fees tailored to the characteristics of the fund, thereby enabling even higher profitability. By having these four pillars, the Company has achieved a major strength—the ability to combine high profitability with stability.

2. Results trends

In the FY3/25 consolidated results, operating revenue increased 8.9% year on year (YoY) to ¥17,961mn, operating profit grew 3.2% to ¥7,717mn, ordinary profit declined by 3.9% to ¥7,778mn, and profit attributable to owners of parent decreased 19.4% to ¥5,252mn. Operating revenue increased due to a 14.2% YoY rise in average AUM to ¥19,122mn and a 9.7% increase in management fees (net of commissions) to ¥12,867mn. Meanwhile, although performance fees decreased 7.6% YoY, the Company earned its first performance fee (¥800mn) from the Mirai Creation Funds under the Private Equity strategy, and the overall level remained at a relatively high level compared to historical trends. On the profit side, while ordinary expenses rose 14.3% due to factors including higher personnel costs and office expansion, the effect of increased revenue helped absorb these costs and resulted in higher operating profit. Base earnings*, which the Company emphasizes as a key indicator of stable and ongoing profitability, increased 5.9% to ¥6,722mn and reached a new record high. Although ordinary profit and profit attributable to owners of parent both declined, this was primarily due to a decrease in non-operating income such as foreign exchange gains and gain on investments in investment partnerships, and a decline in extraordinary income due to a decrease in gain on the sale of investment securities.

> * 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.

Regarding results forecasts for FY3/26, in investment trust management, discretionary investment management and investment advisory businesses, 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. Although the business is seen as susceptible to the effects of an unstable market environment in the short term, stable earnings growth is expected thanks to the strengthening of the investment management structure and the steady accumulation of AUM.

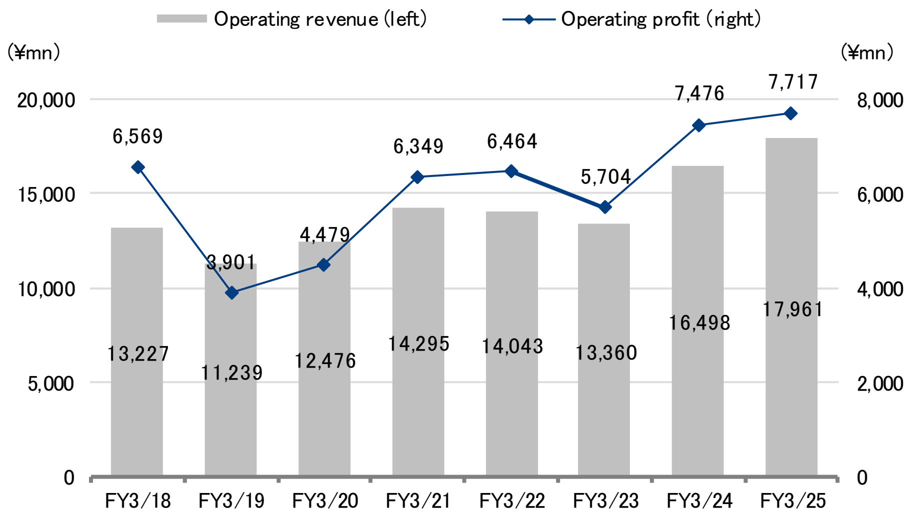
3. Medium- to long-term growth strategy

As its medium- to long-term growth strategy, the Company intends to steadily increase the AUM of its four pillars of Japanese Equity, OneAsia, Real Assets, and Private Equity. It has set the target of doubling AUM from ¥1.5356tn at the end of FY3/21 to ¥3tn by FY3/26. However, as of the end of March 2025, AUM stood at approximately ¥1.8720tn, still far from the target, so the Company has set a more immediate target. Over the past four fiscal years, the Company maintained gross inflows of around ¥300.0bn each year. However, due to factors such as profit-taking driven by strong fund performance and redemptions resulting from portfolio rebalancing by investors, outflows appear to have been roughly equal to inflows. Going forward, in order to continue expanding AUM, the Company intends to compensate for underperforming strategies with others, while also working to acquire new clients on an ongoing basis. Its goal is to reach its all-time high of ¥2.0241tn in AUM as early as possible.

Key Points

- Independent investment company focused on active Japanese equity management and offering alternative investment strategies
- Average AUM increased by double digits in FY3/25 with base earnings reaching a new record high
- Aiming to reach the all-time high AUM of ¥2.0241tn at an early stage by adhering to its unique investment philosophy

Results trends



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

Company profile

Pioneering active investment company with a unique investment philosophy of "Macro is the Aggregate of the Micro." Has established investment strategies in Real Assets and Private Equity

1. Company profile

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 putting this spirit into practice creates the Group's value.

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.

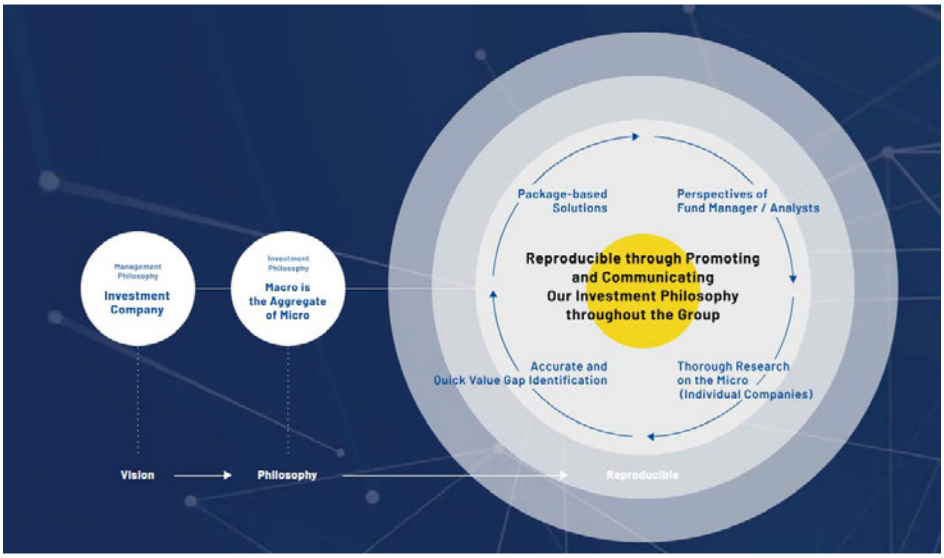
Source: Prepared by FISCO from materials provided by the Company

(2) Investment philosophy

What is notable about the Company and a source of its competitive advantage is its investment philosophy of "Macro is the 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" refers to predictable and understandable factors such as the daily business activities of each company and the qualities and policies of executive. 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, "Macro is the 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.

The Company's investment philosophy and approach



Source: The Company's website

In FISCO's view, the investment philosophy of "Macro is the 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 them. What determines the direction of corporate performance is the accumulation of corporate activities and qualities of executives, 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 maintained both stability and high earnings in financial markets that are fundamentally high risk with high return, and it continues to lead the industry. The Company's capital is ¥8,587mn (at the end of FY3/25), and it has 193 Group employees (as of the same date).

Examples of excess return at the end of FY3/25

Strategy	Annualized return	Reference index	Excess return
Japanese Equity Active Long Only Investment Strategy	10.8%	4.03% (TOPIX)	6.8%
Japanese Equity Mid & Small Cap Investment Strategy	8.4%	5.71%*	2.7%
Japanese Equity Long-Short Investment Strategy	4.5%	4.06% (TOPIX)	0.4%
Japanese Equity Strategic Investment Strategy	9.9%	4.23% (TOPIX)	5.6%

* Reference index: Russell/Nomura Japan Equity Style Index Mid and Small
Source: Prepared by FISCO from the Company's results briefing materials

History

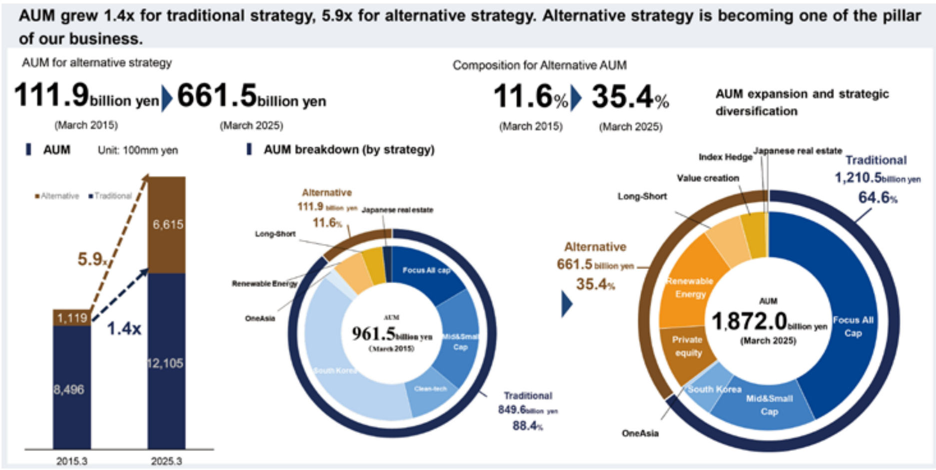
1989	Began investment advisory services in Minato-ku, Tokyo as SPARX Asset Management Co., Ltd.
1997	SPARX Asset Management Co., Ltd. licensed to provide discretionary investment management business
2000	SPARX Asset Management Co., Ltd. licensed to provide securities investment trust management business Changed the Japanese name of SPARX Asset Management Co., Ltd.
2001	SPARX Asset Management Co., Ltd. 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 Co., Ltd. changed its name to SPARX Group Co., Ltd.; SPARX Asset Management Co., Ltd., 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 the 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 website

2. Business description

The Group has four pillars that it has established as focus areas. Japanese Equity, which invests in Japanese equities; OneAsia, which invests in Korean and other Asian equities; Real Assets, which develops and invests in, and manages renewable energy power plants and other such assets; and Private Equity, which forms and manages funds for the purpose of investing in startup enterprises and buyout investments. On this basis, it provides investment trust management, discretionary investment management, investment advisory and other related services. A distinguishing feature of the Company is that it not only manages traditional assets, primarily through long positions in listed equities, but also has alternative investment strategies such as long-short strategies, value creation strategies, Real Assets, and Private Equity. At present, the AUM of its alternative investment strategies is steadily increasing.

Growth of alternative strategies



Source: The Company's results briefing materials

Stable earnings and high profitability through performance fees

(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 index hedge strategy, and Japanese Equity Value Creation Strategy. At the end of FY3/25, the AUM of Japanese Equity and OneAsia were ¥1,292.5bn and ¥104.3bn, respectively. While Japanese Equity AUM declined 1.6% compared to the end of the previous fiscal year, given that the Nikkei Stock Average (closing price) fell 11.8% YoY as of the end of FY3/25, the scale of the AUM decline was relatively limited, indicating resilient performance.

In March 2023, TSE requested that all listed companies in the Prime and Standard markets take action on cost of capital-conscious management and share price. Based on this request, each company has been implementing measures, such as improving the return on capital and increasing shareholder returns, and they have been focusing on increasing corporate value by allocating cash efficiently while being conscious of the cost of capital. However, even in this situation, although the percentage of companies with a P/B ratio (PBR) of less than 1 times is decreasing, the percentage of TOPIX 500 companies with PBR of less than 1 times was still 187 companies, or about 37.5%, as of March 2025 (cited from Bloomberg's data). Compared to other markets, such as in the US and Europe, the percentage of companies with PBR of below 1 times is relatively high. But to look at this in another way, it can be said that the corporate value of Japanese companies has significant potential for growth. As companies become increasingly aware of their cost of capital and share prices, going forward it is expected that they will continue to focus on increasing their corporate value through generating profits and other means. As companies pursue higher corporate value and PBR, the level of investor attention on Japanese equities is expected to trend at a stably high level. Therefore, FISCO thinks that the Company's Japanese Equity investment strategy is highly likely to generate a stable inflow of investment funds.

In addition, the Company's training of local fund managers and the establishment of a high quality management system are progressing well, and we at FISCO expect OneAsia's AUM to also trend steadily. In particular, we anticipate capital inflows to accelerate against the backdrop of Asia's high growth potential. According to the latest forecasts by the IMF, the Asia region's actual GDP growth rate is 4.5% in 2025 and will be 4.6% in 2026 and 4.8% in 2027 (hereafter in the same order). In particular, the growth rates of India, which the Company is focusing on, will be 6.2%, 6.3%, and 6.5% in 2025 to 2027, while the annual growth rates of Indonesia in the same years will be 4.7%, 4.7%, and 4.9%, so their high growth is expected to continue. Based on the Company's investment philosophy and its thorough company research, we can expect it to continue to discover companies with high potential in markets that are maintaining high growth, so we think it is highly likely that the inflow of capital will increase from investors responding to this strategy.

Strength lies in a long-term, stable management framework for diverse renewable energy assets

(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 and management 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 at the end of FY3/25 increased 5.8% from the end of FY3/24 to ¥302.1bn. In addition, there were 348 investment projects (approx. 725 MW), of which 346 are plants selling electricity (approx. 669 MW), and 2 are battery storage facilities (approx. 100 MW). These investments are steadily generating returns, and investments in renewable energy appear to be making steady progress. With the intensification of natural disasters and the global trends for controlling rising temperatures and decarbonization, there is a strong social need for solar power generation and other renewable energy sources. At the 28th Conference of the Parties to the United Nations Framework Convention on Climate Change (COP28) in 2023, the target was set to "triple the global renewable energy generation capacity by 2030." Japan is also focusing as a country on promoting renewable energy. Although the FIT (Feed-in Tariff) system introduced in 2012 has significantly increased the percentage of the power supply from renewable energy sources (from 10.4% in FY2011 to 21.8% in FY2022), it will be necessary to further promote renewable energy in order to achieve the target of around 40% to 50% by FY2040 (from The 7th Strategic Energy Plan (Outline) published by the Agency for Natural Resources and Energy). In addition to this favorable external environment, by utilizing the knowledge about renewable energy that the Company has accumulated so far in order to discover highly profitable investment targets, FISCO thinks that it can steadily raise funds from investors.

In addition, through SPARX Green Energy & Technology, the Company has fully launched a demonstration project in Tomakomai City, Hokkaido to build a supply chain for the production, storage, transportation, and utilization of green hydrogen derived from renewable energy. The project was selected for a public offering by the Ministry of the Environment in 2023. In February 2025, the Company completed the installation of hydrogen production facilities and began supplying hydrogen to multiple local consumers, including local businesses, in stages from March 2025. The project combines waste-to-energy generation in Tomakomai City with newly installed solar power generation on-site. By supplying electricity directly to the water electrolysis system via private power lines, the project avoids grid constraints while producing up to 1 million cubic meters of green hydrogen per year. The hydrogen produced is transported via high-pressure hydrogen trailers to municipal facilities and local companies, where it is expected to be used in fuel cells, heating equipment, and as an alternative to kerosene in cold regions. This initiative, known as the Tomakomai Model, has the potential to serve as a regional energy circulation and economic ripple-effect model, promoting the local production and consumption of hydrogen. Through this demonstration project, the Company is working to evaluate the viability of green hydrogen as an investment target.

Real assets generating stable revenue

Source: The Company's website

Deploying multiple investment strategies and steadily forming successor funds to drive continued AUM growth

(3) Private Equity

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

In Private Equity, the Company operates three distinct investment strategies, each focused on different growth domains: (1) the Mirai Creation Funds, which target advanced technologies and next-generation infrastructure; (2) the Space Frontier Funds, which specialize in the space-related industry; and (3) the Japan Monozukuri Mirai Fund, which supports the advancement and innovation of Japan's manufacturing sector. All of these strategies supply risk capital to high-growth potential fields from a medium- to long-term perspective. By managing multiple funds in parallel, the Company has diversified its investment strategies. It has built a management structure that enables continued AUM growth overall by smoothing and offsetting the risk of temporary AUM declines from fund exits with the steady formation of new funds. Through diversification of investment themes and the strategic alignment of fund life cycles, the Company is working to achieve stable expansion of AUM.

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 <7203> and Sumitomo Mitsui Banking <8316>. In April 2024, the Company established the Space Frontiers Fund II, and major companies participating in the fund as investors include TOYOTA MOTOR CORPORATION, MUFG Bank <8306>, Sumitomo Mitsui Banking Corporation, Mizuho Bank <8411>, Mitsubishi Heavy Industries <7011>, Sumitomo Mitsui Trust Bank, Limited, and Development Bank of Japan Inc. At FISCO, we highly evaluate these funds for realizing investment from major companies through thorough research of individual companies and excellent hypothesis-building capabilities. In fact, the Company ranks third in the ranking of venture capital fundraising in Japan. Moreover, the management period of these funds is 10 years and in practical terms there is no cancellation during this period, so stable revenue is expected, the same as from Real Assets. According to the Startup Development Five-Year Plan formulated by the current Japanese government in 2022, the target is to achieve a total investment amount in startup companies of ¥10tn by 2027, which is 10 times the amount of when the plan was formulated. Compared to overseas, the scale at the current time is still small, but in addition to the government's support for startups, the Company's strategy has high earnings potential, so it is anticipated that the level of interest in this investment strategy will rise. Particularly in the space field that the Company is focusing on, the government has established the Space Strategy Fund from the viewpoint of strengthening national security, and it is aiming to contribute around ¥1tn to companies and universities over 10 years. The government is creating various policies to develop startup companies, and in this situation, it is expected that that scope and scale of startup companies will expand and the market itself will grow even more. Based on this trend, FISCO thinks it is highly likely that the flow of funds from investors responding to the Company's strategy will accelerate.

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.

Achieving stable, high profitability across diverse strategies through the application of its investment philosophy based on thorough corporate research

3. The Group's strengths

The Group has the following five 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, and 5) Investment from a long-term standpoint.

(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, "Macro is the Aggregate of the Micro." As discussed above, "Macro is the 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's 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, investee companies generate outstanding returns, which allows high management fee rates to be set (0.69% in FY3/21, 0.69% in FY3/22, 0.73% in FY3/23, 0.70% in FY3/24, and 0.67% in FY3/25). 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 FY3/25 was high at 35.1%. As a result, the operating profit margin from the same period was also high level at 43.0%.

(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 insightful comments from experienced fund managers, personnel can learn about areas in need of improvement and different approaches to conducting research. Since research methods and hypothesis-building are difficult to standardize and tend to become highly individualized, the Company shares 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.

(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.

4. The Group's position in the market

In addition to the above-described strengths, among the listed, independent, active investment companies, the Company's characteristics include its wide range of investment targets, from Japanese domestic stocks to real assets such as solar power generation facilities, and also private equity. Within a single corporate group, it is rare to find companies advancing a wide range of strategies, from traditional investment strategies like selective investment in equities and long-term holdings, through to alternative investments, including in renewable energy and an engagement strategy. In addition to its traditional strategies, at FISCO we think the Company is able to steadily increase AUM through conducting alternative investments at the same time as realizing high levels of profitability. This is because in the Real Assets' investment strategy, which targets large-scale infrastructure like renewable energy power generation businesses, the investment amounts are large, which contribute corresponding amounts to the increase in AUM. In fact, its AUM of ¥131.6bn in the end of FY3/16 had grown, by 2.3 times, to ¥302.1bn by the end of FY3/25, and its percentage of total AUM had also grown to as high as 16.1%. A basic principle of asset management is risk diversification through diversifying investments. On this point, the Company minimizes the risk of excessive AUM fluctuations by investing in various assets within the Group, from listed shares that are highly volatile relatively speaking, through to real assets that are highly stable, and non-listed shares. Looking at the trends in the Company's AUM and AUM increase rate, we see that they are both trending stably.

Private Equity, which targets investments in startup companies, sets a high management fee rate compared to the Company's other investment strategies, and so is correspondingly highly profitable. Although it is difficult to make a general comparison due to differences in business models and main customers, at FISCO, we think that in addition to the high profitability of the Company's traditional investment strategies, its inclusion of alternative assets in its investment target portfolio is also a factor behind its performance. Profits are the basis for calculating the share price and are the source of dividends. In that sense, they are extremely important to investors, and the Company's investment portfolio and business model, which can generate profits efficiently and stably, can be said to be attractive to investors.

5. Competitive environment

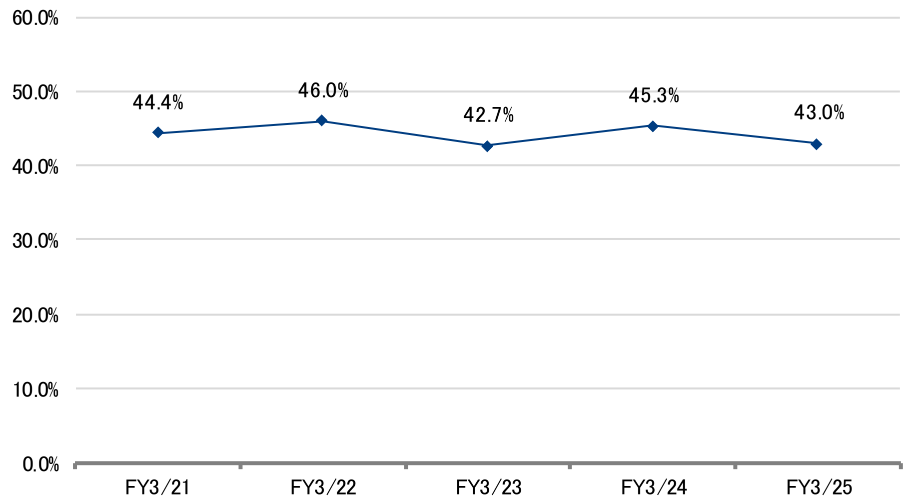
Looking at the competitive environment surrounding the Company, although there are many asset management companies in Japan, its effective competitors are considered to be SBI RHEOS HIFUMI <165A> (hereafter, SBI RHEOS) and SBI Global Asset Management <4765> (hereafter, SBIGAM), which are relatively similar in scale.

From a qualitative perspective, there are clear differences in strategy and positioning between the companies. The Company focuses on its four key pillars, aiming to diversify both risk and revenue sources. This approach has enabled the Company to build a sustainable and stable earnings structure that is less susceptible to economic fluctuations and capital market volatility. By contrast, SBI RHEOS develops its business primarily around the Hifumi series of Japanese equity funds targeted at individual investors. It promotes a brand strategy emphasizing visible asset management and dialogue with companies, creating an investment narrative that resonates with retail investors. This has earned strong support and trust from many individual investors and established the Hifumi series as a well-recognized product line. SBIGAM, backed by the comprehensive financial capabilities of the SBI Group, has built a structure that allows it to handle a broad range of investment assets both in Japan and overseas. Its strengths lie in product development and the diversity of its distribution channels, leveraging group synergies. Its investment products span passive and active strategies, as well as alternative investments, giving it a well-balanced and comprehensive asset management capability that is not overly reliant on any one area.

From a quantitative perspective, as of the end of FY3/25, the Company's AUM stood at ¥1.8720tn, compared to ¥1.2753tn for SBI RHEOS and ¥6.7008tn for SBIGAM. Comparing the average annual growth rates over the past three fiscal years (FY3/23 to FY3/25), the Company posted 6.4%, SBI RHEOS 4.8%, and SBIGAM 21.9%, indicating steady growth across all three companies. SBIGAM's high growth rate is mainly attributable to an increase in the AUM of publicly offered index funds. SBIGAM is expanding its AUM at a faster pace than the Company. Meanwhile, the Company continues to develop a broad range of investment strategies centered on active Japanese equity management and benefits from multiple growth drivers, which appears to be contributing to the expansion of its AUM. In terms of profitability, the Company reported an operating profit margin of 43.0% in FY3/25, an outstandingly high level compared to its peers. In contrast, the operating profit margins for SBI RHEOS and SBIGAM were 18.1% and 19.6%, respectively, showing a significant gap. This disparity is thought to stem from structural differences in the companies' revenue models. SBI RHEOS and SBIGAM rely primarily on management fees based on AUM, which provides stable revenue but limited upside in terms of profit margin improvement. The Company, on the other hand, generates revenue not only from management fees, but also from performance fees tied to listed equities, Real Assets, and Private Equity funds, allowing earnings to rise significantly depending on performance. As of the end of March 2025, 35.1% of the Company's total AUM was in funds that included performance fees, supporting a business model that contributes to a higher operating profit margin.

The Company has distinguishing characteristics in terms of AUM scale, profitability, and the breadth of its diversified investment strategies. In particular, its high profitability is an extremely important differentiating factor from competitors and highlights the strength of the Company's business model.

Trend in the operating profit margin



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

Results trends

Double-digit growth in average AUM, and base earnings reached a new record high

1. Overview of FY3/25 results

In the FY3/25 consolidated results, operating revenue increased 8.9% YoY to ¥17,961mn, operating profit rose 3.2% to ¥7,717mn, ordinary profit decreased 3.9% to ¥7,778mn, and profit attributable to owners of parent decreased 19.4% to ¥5,252mn.

Operating revenue increased as average AUM rose 14.2% YoY to ¥19,122mn, and management fees (net of commissions) expanded 9.7% to ¥12,867mn. Meanwhile, although performance fees declined 7.6% YoY, the Company earned its first performance fee (¥800mn) from the Mirai Creation Funds under the Private Equity strategy. Compared to past trends, the overall level of performance fees remained high.

On the profit side, while ordinary expenses increased 14.3% YoY due to factors such as higher personnel costs and office expansion, the effect of increased revenue offset these costs, resulting in higher operating profit. Base earnings, which the Company emphasizes as a key management indicator, rose 5.9% to ¥6,722mn, marking a new record high. Although ordinary profit and profit attributable to owners of parent declined, this was primarily due to a decrease in non-operating income, including foreign exchange gains and investment partnership gains, as well as a decline in extraordinary gains from the sale of investment securities.

FY3/25 consolidated results

(¥mn)

	FY3/24		FY3/25		
	Results	vs. operating revenue	Results	vs. operating revenue	YoY
Operating revenue	16,498	-	17,961	-	8.9%
Operating expenses and SG&A expenses	9,022	54.7%	10,244	57.0%	13.5%
Operating profit	7,476	45.3%	7,717	43.0%	3.2%
Ordinary profit	8,090	49.0%	7,778	43.3%	-3.9%
Profit attributable to owners of parent	6,519	39.5%	5,252	29.2%	-19.4%

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

Base earnings

	FY3/23	FY3/24	FY3/25	YoY
AUM (average balance) (¥100mn)	15,126	16,743	19,122	14.2%
Management fee rate (net of commissions)	0.73%	0.70%	0.67%	-0.03pp
Management fees (net of commissions) (¥mn)	11,077	11,727	12,867	9.7%
Ordinary expenses (¥mn)	5,071	5,378	6,144	14.3%
Base earnings (¥mn)	6,005	6,348	6,722	5.9%

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

The results in the Company's focus areas are as follows.

(1) Japanese Equity

At the end of FY3/25, AUM had decreased 1.6% from the end of FY3/24 to ¥1,2925tn. While AUM continued to grow steadily in the long-short investment strategy and the focus all cap investment strategy, there were outflows in strategies such as Japanese Equity Value Creation Strategy and Japanese Equity index hedge strategy, resulting in an overall slight decline. However, considering the challenging market environment, where the Nikkei Stock Average (closing price) dropped 11.8% YoY as of the end of FY3/25, the limited decline in AUM reflects solid performance. Additionally, under the long-short investment strategy, the Company established and launched its first UCITS fund (a fund set up under EU regulations that can be marketed across EU member states). Going forward, it aims to increase inflows by expanding distribution channels with a focus on institutional investors in Europe.

(2) OneAsia

At the end of FY3/25, AUM had decreased 17.3% from the end of FY3/24 to ¥104.3bn. The South Korean equity market faced challenging conditions, with the KOSPI falling 9.7% and the KOSDAQ plunging 25.7% YoY (both based on closing prices as of the end of FY3/25). Although the Company's investment performance remained relatively strong under these conditions, redemptions occurred due to profit-taking associated with portfolio rebalancing by major clients, which led to a decline in AUM. This is viewed as a temporary outflow, and the Company has indicated its intention to rebuild AUM by maintaining strong investment performance. Over the medium term, a recovery in client assets is anticipated based on its performance track record.

(3) Real Assets

At the end of FY3/25, AUM had increased 5.8% from the end of FY3/24 to ¥302.1bn. The Company progressed investments in solar power generation facilities and other renewable energy power generation businesses at 348 locations throughout Japan. Its investments in battery storage facilities, which started in 4Q, contributed to the increase in AUM.

On March 25, 2025, the Company announced its participation in a battery energy storage project in Sapporo City, Hokkaido. Battery storage facilities connect directly to the power grid and provide grid-balancing and supply capabilities through the market, serving an essential role in the energy system. In Europe, the US, and China, battery storage adoption is advancing rapidly against the backdrop of decarbonization efforts and the growing deployment of renewable energy. Battery storage is now seen as a key enabler of renewables becoming a primary power source. In Japan as well, as the country moves toward full-scale adoption of renewables such as wind and solar—which are subject to large fluctuations in output depending on weather and time of day—battery storage will be essential for stabilizing output and ensuring a reliable power supply. Currently, supply-demand balancing is mainly achieved by curbing renewable output and relying on thermal power plants for adjustment, but this approach is not economically viable or sustainable from a decarbonization perspective. In this context, the full-scale deployment of battery storage opens the way to making full use of renewable energy, while also serving as a highly effective means of stabilizing the grid, enhancing supply-demand flexibility, reducing reliance on thermal power, and achieving carbon neutrality. The Company is moving forward with a project targeting commercial operation in April 2028, in partnership with Kansai Electric Power <9503> and JA MITSUI LEASING, LTD., and further business expansion is expected in the future.

(4) Private Equity

At the end of FY3/25, AUM had increased 5.2% from the end of FY3/24 to ¥172.9bn mainly due to an increase in AUM of Space Frontier Funds. Although AUM for the Mirai Creation Funds declined as the base amount used to calculate management fees decreased following the end of the investment period for both Fund I and Fund II, Fund I progressed in distributing returns to investors and recorded its first performance fee of ¥800mn. In the Space Frontier Funds, Fund I reached full investment, prompting the establishment of Fund II in April 2024, and AUM increased with the commencement of its operations. Fund II executed two investments during the fourth quarter. In the Japan Monozukuri Mirai Fund, the Company successfully completed its second TOB. On March 3, 2025, it launched a tender offer for SNT CORPORATION, which manufactures and sells metal components for automobiles, construction machinery, and industrial machinery based on its forging technology. On April 14, 2025, the TOB was completed with approximately 91% of voting rights tendered. After delisting the company and increasing its corporate value, it intends to relist it, and its policy is to increase AUM through a TOB via this fund, and to actively consider accumulating profits through sales of shares at the time of relisting.

Preparing for earnings growth through a high equity ratio and strengthened investment capabilities

2. Financial position and management indicators

Total assets at the end of FY3/25 were ¥49,939mn, up ¥3,827mn on the end of the previous fiscal year. The main factors were a ¥2,362mn increase in tangible fixed assets within fixed assets due to the recognition of lease assets, and a ¥3,179mn increase in investment securities, primarily reflecting an increase in seed money investments. Total liabilities increased ¥1,740mn to ¥16,432mn. This was mainly due to a ¥1,441mn increase in current liabilities, including a rise in lease liabilities. Total net assets increased ¥2,088mn to ¥33,507mn. The main reason was a ¥2,537mn increase in retained earnings, driven by the recording of profit attributable to owners of parent for the period.

For the financial condition, the current ratio was 333.4%, the fixed ratio was 69.6%, and the capital adequacy ratio was 67.1%. Both the current ratio and fixed ratio are sound and we do not see any problem with the Company's long- or short-term liquidity. Its capital adequacy ratio is also high.

Consolidated balance sheets and financial indicators

(¥mn)

	End-FY3/23	End-FY3/24	End-FY3/25	Change
Current assets	26,594	27,130	26,631	-499
Cash and deposits	22,028	22,066	21,385	-681
Fixed assets	12,788	18,981	23,307	4,326
Property, plant and equipment	981	1,027	3,389	2,362
Investment securities	10,437	16,289	19,468	3,179
Total assets	39,382	46,112	49,939	3,827
Current liabilities	7,340	6,547	7,988	1,441
Short-term loans payable	2,000	2,000	2,000	0
Fixed liabilities	5,995	8,145	8,443	298
Long-term loans payable	5,000	7,000	7,000	0
Total liabilities	13,335	14,692	16,432	1,740
Interest-bearing debt	7,000	9,000	9,000	0
Total net assets	26,047	31,419	33,507	2,088
Retained earnings	16,886	20,960	23,497	2,537
<Main financial indicators>				
Current ratio	362.3%	414.4%	333.4%	-81.0pp
Fixed ratio	49.1%	60.5%	69.6%	9.1pp
Capital adequacy ratio	66.1%	68.2%	67.1%	-1.1pp

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

3. FY3/26 forecasts

The outlook for FY3/26 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.

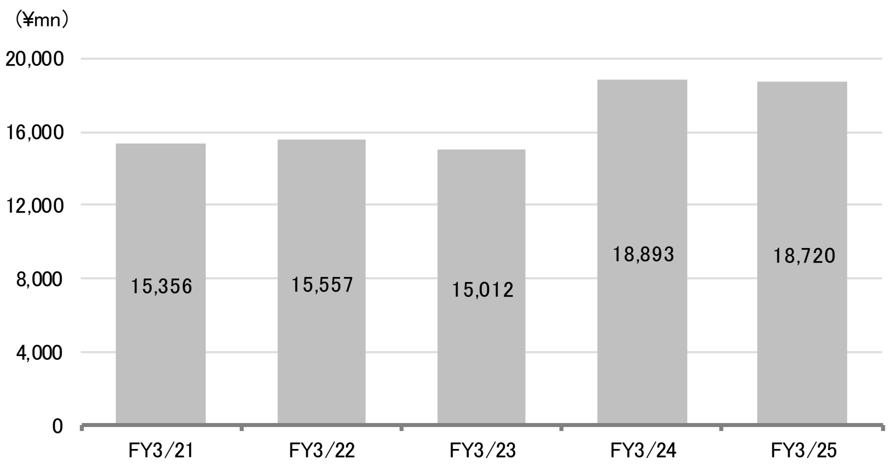
Regarding Japanese Equity, which accounts for the core of the Company's AUM, the market environment remains uncertain due to factors such as the introduction of Trump tariffs and global inflation trends. However, the Company is advancing the development of its marketing framework targeting overseas institutional investors—one of its key strengths—and is re-intensifying its approach to attract global investment capital, with expectations for further AUM growth. In Private Equity, the launch of new funds such as the Mirai Creation Fund IV and the Japan Monozukuri Mirai Fund II is planned, and the commencement of their operations is expected to contribute to increased AUM. Although the business remains susceptible to short-term market fluctuations, strengthened investment capabilities and continued AUM growth are expected to support stable earnings growth.

Medium- to long-term growth strategy

Pursuing a new all-time high in AUM by adhering to a unique investment philosophy

As its medium- to long-term growth strategy, the Company has set the target of reaching a record high of ¥2.0241tn in AUM at an early stage for its four pillars of growth: Japanese Equity, OneAsia, Real Assets, and Private Equity. At the same time, it is focusing on developing the new business areas. It has designated energy (including hydrogen), which is expected to have high growth potential, as a growth area, and its policy is to increase the return on capital, while developing new business areas, through the efficient allocation of management resources. While increasing the four pillars' AUM and pursuing improved ROE, in the medium- to long-term it is targeting the AUM of ¥3tn.

Trend in the AUM



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

(1) Strategy toward increasing the four pillars' AUM

(a) Japanese Equity

In the field of alternative investment strategies, where the Company demonstrates high profitability and expertise, it is strengthening its investment structure and expanding its product lineup, with a focus on strategies such as the Japanese Equity long-short investment strategy and the Japanese Equity value creation investment strategy. These strategies are less susceptible to market conditions compared to traditional long-only strategies and are well aligned with the needs of overseas institutional investors. By leveraging existing relationships and intensifying its approach to new client segments, the Company aims to drive inflows. Through a dual approach of offering differentiated investment strategies and strengthening relationships with overseas investors, the Company seeks steady AUM growth in Japanese Equity.

(b) OneAsia

The Company pursues a strategy aimed at capturing structural social changes and economic growth in the Asian region, with a focus on delivering long-term returns. It continues to strengthen the core investment structure of its fund operations. By promoting its investment philosophy globally, the Company aims to maintain and enhance its high-quality research capabilities, consistently identify attractive investment opportunities, and build a solid track record. The investment focus is on growth companies benefiting from social changes such as demographic shifts, technological advancement, and evolving consumption patterns. In particular, the Company is actively investing in companies operating in promising markets such as India and Indonesia, with the aim of developing these investments into core funds. It is also working to diversify its client base by strengthening marketing to overseas institutional investors, particularly in the US, to achieve stable capital inflows.

(c) Real Assets

The Company is steadily accumulating a track record of investments in renewable energy, and in this situation, it is also accumulating knowledge about the energy field. Utilizing this knowledge, its policy is to gradually shift the focus of development from solar to biomass, battery storage facilities and other types of energy. At the same time, the Company intends to accelerate the commercialization of new businesses by promoting the creation of funds for projects such as green hydrogen and battery storage.

(d) Private Equity

The Company continues to focus on investing in startup companies in Japan and overseas from entrance points such as "intelligent technologies," "robotics," "technologies contributing to the realization of a hydrogen society," "electrification," "new materials," and "carbon neutrality." It is accumulating performance fees and further increasing the profitability of Private Equity by investing in carefully selected targets. The Company also intends to leverage its track record and expertise from completing two TOBs of listed companies to actively pursue both AUM expansion through TOBs conducted via funds and profit accumulation through the sale of shares at the time of relisting. Furthermore, for the Mirai Creation Funds and the Japan Monozukuri Mirai Fund, the Company is considering capital inflows from overseas investors and plans to strengthen its global marketing efforts. By building a structure that attracts global capital, the Company aims to reinforce its fundraising capability, enhance the stability of fund operations, and achieve sustained growth across its Private Equity business.

(e) New areas

The Group has designated energy (including hydrogen) and other sectors as new growth areas to make further investments in them within the scope of a certain level of own seed capital and internal Group resources. In "energy," it is conducting various demonstration experiments on establishing a supply chain including producing, storing, transporting, and utilizing hydrogen energy, and realizing them in the form of a concrete business. It is also focusing on energy storage facilities as investment targets, as can be seen by the establishment of the SPARX Green Energy Storage System Fund. It is expanding the new energy areas with a focus on hydrogen and battery storage facilities.

(f) Summary

At this stage, it appears unlikely that the Company will reach its AUM target of ¥3tn by the end of FY3/26. As of the end of March 2025, AUM stood at approximately ¥1.8720tn, and the gap to the target remains significant. Although the Company maintained annual inflows of around ¥300.0bn over the past four fiscal years, redemptions driven by profit-taking following strong fund performance and portfolio rebalancing by investors appear to have largely offset those inflows. Going forward, the Company intends to continue working toward AUM expansion by offsetting underperforming strategies with stronger-performing ones, while also steadily acquiring new clients. Its policy is to reach the previous record high of ¥2.0241tn in AUM at an early stage.

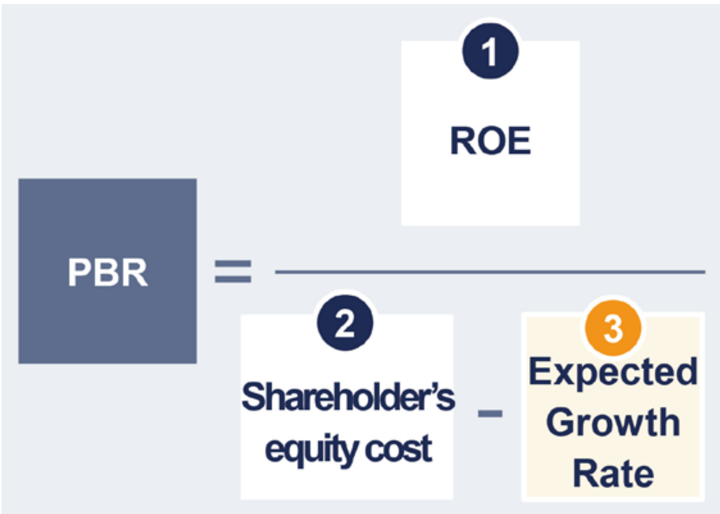
FISCO projects that the AUM will increase in Private Equity and Real Assets. As discussed above, this is because Private Equity is able to find appealing startups that have been overlooked by investors through thorough company research and outstanding hypothesizing. Private Equity is expected to be highly profitable and it can discover appealing investment targets, which is why we think it is able to steadily raise funds from investors. It plans to establish new funds such as the Mirai Creation Fund IV and the Japan Monozukuri Mirai Fund II, so AUM can be expected to further increase. For Real Assets, systematically supported by the strengthening of developments such as the SDGs and decarbonization, it is anticipated the societal needs will grow more and more for renewable energy like solar power, battery storage facilities, and hydrogen energy, which is expected to increase AUM.

Aiming to raise investor expectations through high ROE and enhanced shareholder returns

(2) Responses to realize management that is conscious of capital costs and the share price

Following a request from the TSE, the Company has been conducting management that is conscious of capital costs and the share price, and it has stated that it will continue to work to further improve its corporate value. After breaking down PBR into three elements of ROE, the cost of shareholders' equity, and the expected growth rate, the Company is working to further improve ROE by expanding its existing strategies, reduce the cost of shareholders' equity, and improve the expected growth rate by introducing new investment strategies.

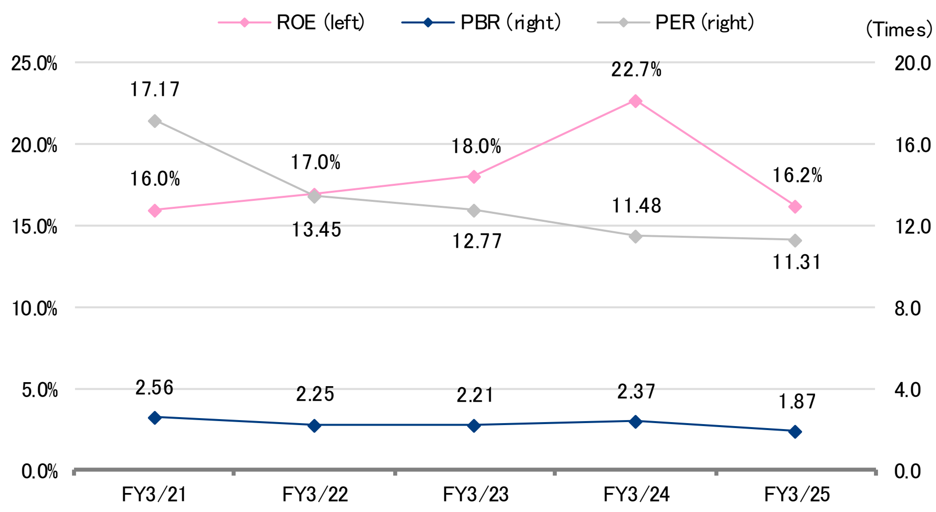
Breaking down PBR into three elements



Source: The Company's results briefing materials

Looking at the Company's ROE, PBR, and PER in the previous 5 periods, ROE has trended at a level above the earnings rate required by shareholders (the Company's awareness of this is a cost of shareholders' equity of 9% to 12%), while PBR has trended stably at a level above 1 times, and in FY3/25, ROE was 16.2% and PBR was 1.87 times. The ROE and PBR are already at acceptable levels, and it is aiming to further improve them by progressing the basic strategies mentioned above. Conversely, its PER of 11.31 times (FY3/25) is below the average of the TSE Prime Market (16.2 times). To improve its PER, the Company is strengthening efforts to take on challenges in new areas, so investors' expectations for profit growth in the future are rising. Also, it is thought it will pursue a growth strategy and further highlight its appeal to investors, including by further enhancing its information disclosure and holding briefings with investors. By further enhancing these IR activities, if it not only improves PER but also reduces investors' awareness of risk with regard to the Company, the cost of shareholders' equity can also be expected to decrease. In addition to these efforts to decrease the cost of shareholders' equity, by carefully explaining to investors aspects such as its high-level governance structure that utilizes the Company's independence, which is one of its strengths, and its business model that generates both stable and high levels of revenue, it intends to remove any uncertainties that investors feel about the Company.

Trends in ROE, PBR, and PER



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

Toward further improving corporate value, the Company has announced its Capital Allocation Plan (FY3/26 to FY3/28). With regard to investment in new businesses and seed investment in its existing strategies, the plan is to implement growth investment based on the amount of operating cash flow. It anticipates investing approximately ¥11.0bn (net amount based on investment recovery; calculated based on previous results). Investments from within the operating cash flow will maintain financial soundness while raising investors' level of expectation for profit growth. For shareholder returns, its policy is to continue to return profits to shareholders while considering financial stability and sustainability. The dividend total amount includes acquisitions of treasury shares, and it allocates a total of approximately ¥10.0bn to shareholder returns (calculated based on the recent shareholder returns' results). It is also further increasing ROE, PBR, and PER by actively conducting growth investment at the same time as aiming to enhance shareholder returns.

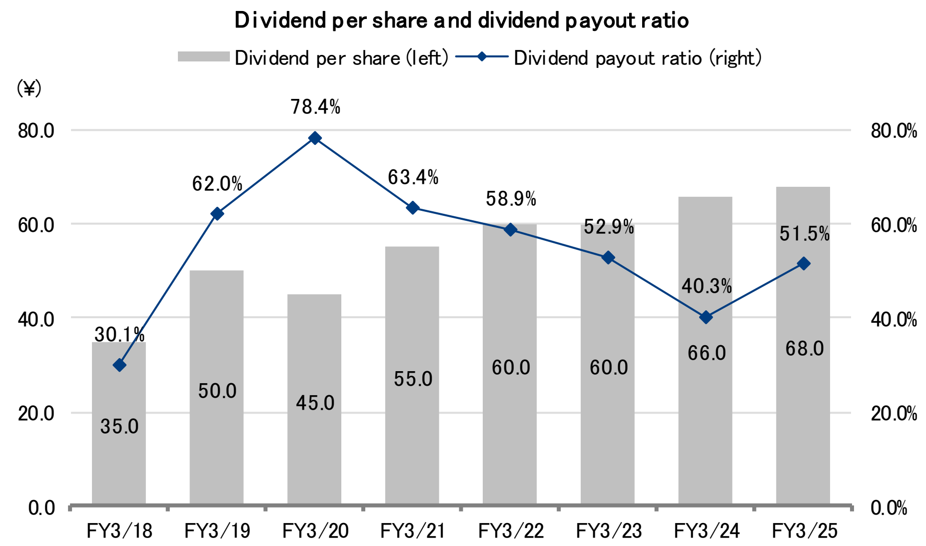
Shareholder return policy

In addition to dividend increases, share buybacks also announced, while actively returning profits to shareholders with a focus on capital cost

The Company considers that returning profits, etc., to shareholders through an appropriate capital allocation, while also aiming for sustainable growth and the medium- to long-term improvement of corporate value, to be one of its important management issues. With regard to this, the Company has a basic policy to take a medium- to long-term perspective and place emphasis on stability and continuity, while comprehensively considering factors such as earnings trends, financial position, payout ratio, timing, and methods of implementation. Specifically, the Company intends to return profits from base earnings, which represent the stable and sustainable foundation of its business, through dividends. For more volatile and uncertain earnings such as performance fees, which vary in timing and amount, the Company plans to return profits through measures that improve capital efficiency, such as share buybacks.

For FY3/25, based on this policy, the Company increased the dividend by ¥2.0 YoY for a record high dividend per share of ¥68.0 (dividend payout ratio, 51.5%). It is also actively acquiring treasury shares. In FY3/25, the Company completed the acquisition of 210,000 treasury shares (¥292mn) in November 2024 and cancelled all of the acquired shares in January 2025. In addition, on May 7, 2025, the Company announced another share buyback program with an upper limit of 200,000 shares (¥300mn), and that all of the shares acquired under this program would also be cancelled. The acquisition period was set from May 8 to June 30, 2025, with the cancellation scheduled for July 31. These actions reflect the Company's proactive stance on returning profits to shareholders and improving capital efficiency.

The FY3/26 dividend forecast has not yet been confirmed, as the Company has not disclosed results forecasts. But FISCO thinks it will continue to be at a stable level as it has maintained a high dividend payout ratio in the past and also as results are forecast to trend strongly.



Note: Due to the implementation of a share merger in October 2022, figures before this time have been adjusted to reflect the effects of the share merger.
Source: Prepared by FISCO from the Company's financial results

FISCO

Disclaimer

■ For inquiries, please contact: ■

FISCO Ltd.

5-13-3 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062

Phone: 03-5774-2443 (IR Consulting Business Division)

Email: support@fisco.co.jp