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FY2024 Annual Financial Results Briefing

May 16th, 2024

Attendees:

Hideaki Wada, President and Representative Director

Akihiro Sueyoshi, Financial Department, Executive Officer

■ Financial Results Briefing

P1

This is the total shareholder return since listing. The CAGR from 1996 to 2024 was 3.8% for TOPIX and 9.1% for Hikari Tsushin. The total growth rate was 287% for TOPIX and 1,148% for Hikari Tsushin.

P2

This is the CAGR over the past 10 years. We would appreciate your attention on our In-house products. Revenue have been growing strongly at an annual average of 20%. Recurring profits have been growing at 22%, and operating profits at 26%. The profitability of our In-house products is higher than that of other companies' products. As a result of focusing on these In-house products over the past 10 years, we have achieved nearly 20% annual growth. Net income has recorded an CAGR of 15%.

P3

Net cash assets have grown at an annual average of 21%, from ¥114.9 billion 10 years ago to the current ¥774 billion. Total assets have increased from ¥338.8 billion to about ¥2.789 trillion, and net assets before shareholder return have gone from ¥108.5 billion to about ¥1 trillion. Our own equity has also grown at an annual average of 19%, from ¥130 billion to ¥790 billion. EPS and BPS per share have also grown at an annual average of 16% to 20%, and dividends have also increased at an annual average of 16%. We believe that by checking these numbers, you will be able to understand the trajectory of Hikari Tsushin over the past 10 years.

P4

The number of employees, which was 11,200 ten years ago, has now become about 5,000. Looking ahead to the future aging society with fewer children, we have promoted the strengthening of web marketing channels and the off balancing of sales networks rather than being labor-intensive. As a result, revenue and operating profits per person have significantly improved.

P5

Here are the earnings. Revenue was ¥601.9 billion. Recurring profits recorded a record high of ¥151 billion, an increase of 18% from the previous term. Operating profits reached a record high of ¥94.5 billion, an increase of 9% from the previous term, and income before tax also reached a record high of ¥168 billion, an increase of 41% from the previous term. Net income this term also reached a record high of ¥122.2 billion, a 33% increase from the previous term. Comprehensive income reached a record high of ¥265.8 billion, with additions such as ¥49.9 billion in gains from the revenue of marketable securities and ¥88.7 billion increases in unrealized profits. One-time profits and losses were about ¥500 million due to gains on business sale, etc.

P6

We are highlighting income before tax as a major topic this time. Compared to five years ago, income before tax has grown to nearly double, from ¥80 billion to ¥168 billion. Breaking it down, operating profits have increased from ¥73 billion to ¥94.5 billion, an increase of ¥21.5 billion. Dividends income and interest income have grown from ¥7.1 billion five years ago to ¥30.5 billion, demonstrating that our fund management performance is steadily improving. The operating profits forecast for the 25/3 term is ¥100 billion, but dividends income and interest income are projected to be about ¥38 billion, given that our current investments are growing smoothly, and they are also increasing their dividends. We had a foreign exchange gain of ¥28 billion in the 24/3 term, but we expect it to be zero in the 25/3 term. We are expecting the income before tax for the 25/3 term to be around ¥140 billion.

P7

Let's talk about the cash flow. The business cash flow is about ¥124.3 billion, steadily growing from ¥98.7 billion five years ago. Also, we included EBITDA this time, it was ¥109 billion in the 24/3 term. As mentioned earlier, dividends income and interest income are steadily increasing, and they have increased from ¥9.1 billion to ¥33.8 billion in terms of cash flow over the past five years.

P8

Let's talk about own equity. Own equity was ¥285.7 billion five years ago, but it has increased to ¥790.4 billion in the 24/3 term. The increase in own equity in the 24/3 term was ¥219.4 billion. Breaking it down, net income was ¥122.2 billion, gain on sale of securities was ¥49.9 billion after tax, and increase in comprehensive income was ¥88.7 billion after tax. Own equity has increased by nearly ¥530 billion compared to five years ago.

P9

The performance forecast for this term is an increase of 3% to ¥620 billion in revenue, a record increase of 7% to ¥162 billion in recurring profits, and an increase of 6% to ¥100 billion in operating profits. Internally, we have set a slightly higher goal, and we are off to a smooth start. The current term profits are projected at ¥90 billion, assuming zero in foreign exchange gains and losses. We

are committed to improving our performance.

P10

This time, we are disclosing the profit and loss of each business, not by divisions such as corporate services, individual services, and commission-based sales. In terms of revenue, the energy business is leading. It was ¥210.9 billion in the previous term's financial results, and we are forecasting about ¥240 billion for this term as well. Of the ¥620 billion in revenue of Hikari Tsushin, the energy business accounts for about ¥240 billion, and the average growth rate over these three periods has reached 16.9%. Also, if you look at the bottom line of recurring profits, the energy business occupies ¥58.3 billion out of the forecasted ¥162 billion for this term. The operating profits, ¥33 billion out of the forecasted ¥100 billion for this term, are generated from the energy business. Even in terms of profit growth, the situation has improved significantly from being negative over three years, and currently, the energy business is leading the entire group's revenue, recurring profits, and operating profits. Water Delivery and insurance & finance are also growing smoothly. The telecommunication business shows signs of bottoming out and is just one step away from recovery.

P11

We believe that these three cores are the most appropriate way to describe Hikari Tsushin. First, in terms of business core, we will generate ¥162 billion in recurring profits and ¥100 billion in operating profits. For pure investment, the investment book value is ¥590 billion while the market value at the time of holding is ¥1 trillion, thereby realizing an unrealized profits of about ¥410 billion. With a received dividend of ¥18.6 billion and received interest of ¥11.8 billion, the EY (Look-through earnings ÷ investment book value) is 14.1%. In M&A, it basically involves selling businesses with low returns and acquiring undervalued businesses. We want to continue to grow through these three cores in the future.

P12

This is our outlook for future recurring profits. Basically, we would like to maintain a 10% recurring profit growth rate every year for about the next 10 years through business expansion and M&A. Our internal goal is a growth rate of 15%, but there are not necessarily M&A cases every year, so we are listing it as 10% here. We aim to increase recurring profits to over ¥200 billion three years from now.

P13

We often receive questions about our new ventures, so we'll share some insight on them. Our company started with the commission-based sales of OA (Office Automated) equipment, expanding it to mobile phones, communication lines, and insurance, and as mentioned earlier, we started in the electricity business about 7 years ago, which now generates about ¥30 billion of our profits. We also started our water delivery business about 9 years ago through M&A, which has grown to about ¥80 billion in revenue and nearly ¥10 billion in operating profits. Although we

engage in various high yield businesses, what they all have in common is that they are all "stock businesses". Our strength lies within our large customer base, having about 1.3 million corporate customers and about 4 million individual customers. When we release a new product, we are able to cross-sell it to our existing customers in telecommunications, OA equipment, electricity, etc., which allows us to accelerate the growth of our new ventures. Regarding our sales network, we have an alumni network and a system to support independence, and currently, around 1,000 dealerships are operational, with nearly 20,000 sales staff representatives as partners. Our company also owns various sales channels including website, and we have expertise in growing new products and businesses rapidly. Currently, our propane gas business has been trading for about 2 years now and is doing well. While it has not yet reached a scale large enough to be made public as a single segment, our recurring profits are steadily increasing. Also, the beer server business led by the Premium Water Group has been growing rapidly recently, achieving excellent results. In the future, we would like to disclose information about this venture in some way. We are always taking on new business challenges, using small-scale test marketing to confirm returns and the scale of business expansion. In line with our future recurring profit goals of ¥200 billion and ¥300 billion, we intend to continue aggressively challenging new businesses. Of course, we will continue to grow our existing businesses –energy, water, and communications.

P14

This shows about dividends per share. We not only announced an increased dividend of ¥6 per share but also a special dividend of ¥50 per share. This corresponds to an annual dividend of ¥638 per share, an increase of 17% compared to the previous term. The forecast for the 25/3 term is a dividend of ¥153 per quarter, totaling ¥612 for the year. Excluding this special dividend, this would be the 14th consecutive term of dividend increase, and it is expected that there will be no cuts in dividends for the 22nd consecutive term.

P15

This is about the trend of shareholder returns. The dividend reflects the amount paid out. The total return ratio was 31% in the previous term, and it is expected to be 32% for this term. Additionally, the total return ratio over the last 10 years is 36%.

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Regarding market evaluation, the current share price of Hikari Tsushin gives it a market cap of about ¥1.1 trillion. On the other hand, the net cash assets (cash and cash equivalents - interests-bearing liabilities + listed investment securities + bonds) amount to about ¥700 billion. The enterprise value, calculated by subtracting this ¥700 billion net cash assets from the market cap of ¥1.1 trillion, is about ¥400 billion. The PER on the enterprise value basis was estimated at 3 times. Over the past 5 years, Hikari Tsushin has recorded a net income growth rate of 16.3%, compared to the Tokyo Stock Exchange's average of 3%. We believe that Hikari Tsushin has a value above the average PER of the market cap on the Tokyo Stock Exchange.

P17

This is the page we have dared to post this time. The business value is ¥1.8 trillion, which is 20 times the forecasted net income of ¥90 billion. Adding this to the net cash assets of ¥700 billion, we calculate an enterprise value of ¥2.5 trillion for Hikari Tsushin.

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The appropriate value per share we consider is around ¥56,000. The share price is not something that we can directly control, but we aim to continue to improve our performance and achieve long-term growth, and from this fiscal year, we plan to further enhance our IR activities.

In addition, we continue to return profits to shareholders through increased dividends and special dividends, and we plan to consider further shareholder returns while carefully considering capital efficiency. As a result, we will continue to make effort as much as we can, to achieve an appropriate share price.

We conclude our brief explanation of the financial results. Thank you for your attention.

We have disclosed an Integrated Report this time. It includes a message from the top management, a diagram of our value creation process, efforts related to materiality (important issues), business overview, pure investment policy, investment performance, our initiatives for ESG, an overview of the results of the Board of Directors' effectiveness evaluation, interviews with independent directors about governance, and so on. Please take a look at them.

■ Questions and Answers

(1) At a presentation for domestic investors

[Question] The growth of our recurring profits for this term is approximately 7%, which may feel a bit slower considering our long-term forecast of the CAGR of 10%. Are you planning to catch up in the next term or was it set conservatively from the start?

[Answer] Both our recurring profit and operating profit forecasts have been set conservatively, with the intention of exceeding them.

[Question] Could you specify what you see as conservative? I would like to get more detailed information about things like segment-specific revenue or the number of cases acquired.

[Answer] We have made conservative projections across all sections, and the most conservative segment is the electricity. Since it's a business that is subject to market price volatility, we input numbers conservatively.

[Question] The total return ratio over the last 10 years is 36%, as you mentioned. It seems to have fallen short of this level in the previous fiscal year and seems likely to do so in the current fiscal year as well. Is it your company's policy to aim for this level? Could you please explain your thinking on the total return ratio?

[Answer] In principle, we do not focus on the total shareholder return ratio. Instead, we aim to retain earnings and reinvest them if we are confident that we can appropriately grow or manage the capital entrusted to us by our shareholders. However, as there are aspects that we cannot evaluate objectively ourselves, we have decided to return a certain amount to shareholders stably every quarter. Since our recurring profits are steadily growing, we aim to return the dividend amount to our shareholders in conjunction with the growth in recurring profits.

[Question] You mentioned a long-term recurring target of ¥400 billion. Could you let us know what your vision for your business portfolio would look like once you reach ¥400 billion?

[Answer] We are not limited by industry and generally aim to expand our stock business. We want to accumulate recurring profits with a longer lifetime value and lower churn rate. We have not predetermined our business portfolio for 10 years from now. While always targeting areas with stable recurring profits, we are considering various options, including M&A and entry into new ventures.

[Question] I would like to inquire about each business. Let me start with the electricity business. I'm interested in how much the number of contracts and the amount of electricity supply has grown. For example, I would like to know about the number of contracts with individuals and corporations

in the low-voltage category, and about the amount of supply in the high-voltage category. I would also like to know the current scale of the gas business. In your integrated report, you state that your share of electricity supply is 7.7%, but I can only confirm Haluene, and I am looking for a more detailed explanation regarding the actual condition, such as the number of contracts and amount of electricity supply by brand, and this year's targets in those things.

[Answer] Our company operates about 7 electricity retailing brands. Those retailing companies are listed on our corporate website under the major subsidiaries. We are considering enhancing the disclosure of information such as the total supply amount of all brands combined.

[Question] Regarding the energy business, it has become the business with the largest proportion of recurring profits. Could you explain how the recurring profits are growing and any measures to increase growth this fiscal year?

[Answer] Essentially, we are seeing growth across all sections, including low-voltage in both corporations and individuals, and high-voltage customers. We are also expanding our city gas business and propane gas business that is under-development. There isn't a specific department within the energy sections that is outperforming others in terms of growth - we are seeing overall growth across the board.

[Question] This time, segment-specific profits and losses were disclosed, and we re-recognized the large size of the increase effect of recurring profits and operating profits in insurance and finance. In the insurance business, I believe that the repair insurance for mobile phones, household insurance, and short-term, low-cost insurance have a considerable impact. However, as with electricity, I may not have detailed information, such as which brands offer repair insurance for mobile phones, which channels they are sold through, and whether mobile carriers or manufacturers themselves provide it. I would appreciate if you could explain in more detail about where you have strengths in this segment and what the secret to your growth is.

[Answer] We plan to highlight our strengths in the insurance business in our future disclosures. For instance, one of the growth factors for our mobile insurance business is that our pricing is competitive compared with the mobile insurance offered by carriers. This affordability is one of the main reasons why our insurance business has been growing.

[Question] I see. Which sales channels are growing?

[Answer] We have seen significant growth in sales channels such as mobile phone shops and mass retailers.

[Question] Since the last quarter, you have disclosed about the leasing business in places such as

Cambodia and Malaysia. Is there a certain scale for the loan size and profit scale of the finance business as well? Combined figures are mentioned, but could you tell us more about the details? Also, this business seems to have appeared suddenly, what is the background to this?

[Answer] We have been developing this business for a long time and it has been growing steadily, but recently, its scale has been expanding rapidly, and it is achieving significant growth. We have been nurturing this business for nearly 10 years, and it is currently consolidated in the insurance and financial segments, but we are considering separating it into larger segments as it grows, and explaining the strengths of each business in each topic.

[Question] Is gas included in the other businesses?

[Answer] Gas is included in energy. It's propane gas. Other businesses include subscription for beer server as well. Among other businesses, EPARK contributes significantly to recurring profit and operating profit. Beer servers and propane gas have not yet generated solid profits or cash flow. While recurring profits are growing, it is negative in terms of operating profits and is still under development.

[Question] If I look only at the increase in other recurring profits, the growth in recurring profits this term is quite large, but this growth is mainly driven by EPARK, isn't it?

[Answer] Yes, EPARK has optimized various business types and industries after the pandemic, and the channel development is almost complete. Recurring profits' growth has just accelerated again, and we look forward to watching EPARK continue to grow.

[Question] As for the propane gas and beer servers you mentioned, I believe that they are actually growing, just not on an operating income basis, because we are investing in acquisition costs in anticipation of growth. Am I correct in my understanding?

[Answer] Yes, you're correct. In new businesses, the recurring profits are growing rapidly. We are still investing in acquisition costs, and we believe it will take some time before this investment and the accumulation of recurring profits crossover and contribute to profits. We view this as still being in the initial stage of cost investment.

[Question] Regarding the telecommunication segment, I believe you offer a wide range of services such as Wi-Fi routers, SIM cards such as MVNO, and collaborations with optical providers. May I ask where these costs are being invested and why we believe we have a good chance of winning?

[Answer] As for the products, Wi-Fi routers, SIM cards, and fiber collaborations are the mains. These business elements have a solid yield and are stable. In particular, we have stopped the decline

in the recurring profits of Wi-Fi routers and are thinking of reversing the situation and expanding it. We don't expect rapid growth, but we would like to invest in acquisition costs this fiscal year and turn it into a segment where stable recurring profits can be accumulated.

[Question] Regarding the energy segment, it appears that the plan is not to incur acquisition costs. Does this mean that the sales efficiency has improved significantly?

[Answer] That's correct. We have been strengthening our alliances with various companies, which has led to improved sales efficiency.

[Question] Could you provide us with a disclosure that shows the trading situation, such as a list of your investment destinations? For example, can you tell us information such as how many equity-method affiliates you have?

[Answer] We are carefully considering the potential adverse effects on our shareholders due to disclosure of the information. The number of listed equity method affiliates as of the end of March 2024 is 30 as stated on page 33 of the integrated report.

[Question] I would like you to explain the current competition environment in the electricity business, such as by area and for industrial and household use, and areas you would like to focus on. In addition, if there are any risk factors in the electricity business, I would appreciate your guidance. Also, if there are any comments you can make about the impact on your company due to recent power system reforms and domestic and foreign indifference, please let me know.

[Answer] Firstly, we do not operate for the industrial use in our electricity business, so we are running our business nationwide in all areas with only general low and high voltage electricity.

The current competition environment is favorable as we can offer competitive quotes that won't lose in competitive bidding, so we view our position as advantageous. Especially in high-voltage electricity, the effect of cost reduction is large, so we receive inquiries from many customers.

As risk factors, there are possible intensifications of competition due to price cuts by competing companies and surges in market prices. In preparation for such cases, we are in the process of building our business, including releasing new plans that hedge market price fluctuation risks. While we cannot eliminate all risks, we aim to solidify our business.

[Question] Did the foreign exchange gains and losses for the fiscal year ending March 2024 mainly arise from investments in U.S. stocks?

[Answer] The foreign exchange gains and losses in profits before tax are due to exchange rate

fluctuations in foreign currency deposits and foreign currency-denominated bonds that our company holds. Exchange gains and losses on U.S. stocks are recorded in comprehensive income.

[Question] Could you inform us of the breakdown of the investment amount in securities as of the end of March 2024 (domestic stocks, foreign stocks, bonds)?

[Answer] There was a slight overselling of stocks. The negative figures for investment securities are mainly due to investments in bonds.

[Question] You seem to have been expanding your investment amount by issuing corporate bonds and utilizing external funds as investment capital. Do you plan to continue using external funds and increasing the total amount of assets under management going forward?

[Answer] We are considering it based on the daily situation. We are not raising funds with a specific investment amount set for this fiscal year, and we intend to continue if we can make good fundraising conditions, but we do feel that the fundraising environment has become tough and has changed a lot compared to 2-3 years ago.

[Question] Could you please explain about business growth and M&A on page 12? If you have a breakdown of the 10% annual growth in business and M&A, please let me know. I estimate your company has financial resources, so if you were to carry out M&A, I think you could acquire quite large companies. However, considering your past investment style, I understand that you tend to purchase relatively small but attractive companies. Will this style remain unchanged in the medium to long term? Could you please explain your thoughts on M&A?

[Answer] Basically, we aim to achieve the 10% of bottom line through our business activities, and wish to exceed that through M&A. In the past, we acquired HTB Energy, and now it is contributing to the current profits of the energy business. In some parts, M&A is very difficult to calculate, but we recognize that M&A can be an effective method for achieving growth of more than 10% in future recurring profits. We would like to achieve 10% growth in each business. The 10% is just a guideline but internally, our target is to grow by 15% to 20% while also conducting M&A.

We would like to conclude today's financial results briefing here. Thank you very much for attending.

(2) At the presentation for overseas investors

[Question] Do you intend to disclose more detailed indicators in the future so that we can understand the actual situation of your main businesses in more detail? Regarding electricity, could you consider disclosing the number of contracts, churn rate, ARPU, etc.?

[Answer] We are carefully considering the disclosure because there may be negative effects on our shareholders, such as intensification of competition. However, we are considering disclosing some things like the total amount of electricity supplied.

[Question] I could not understand why revenue and recurring profits in the communications business are decreasing, can you explain the background? I guess the pandemic is one of the reasons, but is it a high churn rate or other reasons, and how much is the churn rate in the first place? I also want to hear about the outlook.

[Answer] As you mentioned, special demand in the pandemic led to a large volume of income for mobile Wi-Fi routers, as stable internet was necessary for remote work. The churn rate is not increasing, rather we have signs of stopping the increase in cancellation numbers, so we expect to be able to grow revenue from existing customers. Due to the increase in acquisition costs, we believe that recurring profits can be increased from the next term.

[Question] I have a question about new ventures. Your company continues to introduce new services and has been able to grow its results to this point. However, recent new products have given the impression that power has been deployed seven years ago. I heard that you are working on new projects like gas. How are their progresses going? Also, is it possible to estimate the points when these new ventures will start contributing to revenue visibly?

[Answer] We plan to turn propane gas into a big business over the next four to five years. Propane gas is now in its third year. It has grown very well this year. The beer server business is now in its fifth year. Although it is still small, it is growing amazingly. We aim to grow it to the same size as the current water delivery business in about five years. The company that operates the beer server business is our premium water holdings, a water delivery company.

[Question] The company's appropriate share price is ¥56,000, how do you understand this? Also, if the market's assessment of your company is low, would you consider buying back your own shares? We would also like to hear your comments about why you have not repurchased your own shares recently.

[Answer] The company plans to be profitable by about 100 billion from its business and about 40 billion from pure investments. We intend to strengthen IR in the future to ensure a fair evaluation. The issue of the ratio of freely tradable shares is that we have only about 60 billion left even at the current price. Our plan is to keep it as potential ammunition in case our share price falls significantly due to market factors, etc. Actually, we did consider the buy back our own shares this time too. However, we have issued a special dividend instead. We plan to continue to implement share buybacks and special dividends in the future depending on our share price or while looking at the ROE for our own capital.

[Question] This is a medium-to-long-term perspective question, but you hold many investment securities. If the prices of these stocks continue to rise in the future, what options are you likely to consider? Are you likely to sell some of them and pass on the gains from the sale to shareholders, or if you do sell them, will you redirect them to the company's new growth investments?

[Answer] First of all, if the investment becomes too expensive compared to its essential value, we will sell it. Money that has been sold and returned to us will be invested if there are things that we believe are undervalued, but if not, we will principally return it to our shareholders.

[Question] Speaking of borrowing, what kind of action will you respond to if you assume that Japan's interest rates will rise over the next few years?

[Answer] We think the speed of fundraising will decrease. Until now, we have been borrowing money because of low-interest rates, but we don't think that the same strategy would be viable in the future, therefore, we are entering a phase where repayment will increase.

[Question] Do you plan to issue an English version of the annual report?

[Answer] We have issued an integrated report this time, so please check it. In the future, we would like to improve the content of the report.

[Question] I have two questions about LP gas. There are 11 wholesale operators, about 1,100 retail operators, and about 16,000 retail operators in the LP gas industry, how is your company going to change this structure?

[Answer] As a follower, we believe we should offer cheaper services to acquire customers than existing operators. Looking back, we entered the power business seven years ago, but we sold a little cheaper than the existing power companies and grew up to ¥240 billion in revenue in seven years. In addition, we believe there are chances for M&A as the propane gas industry is being restructured.

[Question] The Liquefied Petroleum Gas Act was revised in April, requiring restrictions on excessive business activities and a thorough tripartite fee system. How will this move affect your company?

[Answer] We believe this is an opportunity for us to enter the market later.

This concludes today's financial results briefing. Thank you very much.