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FY2025 Q1 Financial Results Briefing

August 15th,2024

Attendees:

Hideaki Wada, President and Representative Director

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■ Financial Results Briefing

P1

First, here is the annual average growth rate over the five-year period. The annual average growth rate for our own in-house products has been approximately 11% for recurring operating profit and about 10% for operating profit, demonstrating significant growth in both areas. Additionally, net income has increased by 24%, growing from 15.4 billion yen in the first quarter five years ago to 45.8 billion yen. Comprehensive income has also been steadily increasing.

P2

Net cash assets have grown from 146.1 billion yen five years ago to 837.5 billion yen, reflecting a 41% increase. Additionally, total assets have increased from 815.3 billion yen to 2,173.4 billion yen over the past five years, a 21% growth. The equity has also grown by 25%, with equity increasing from 271.3 billion yen five years ago to 857.1 billion yen, also a 25% growth. Furthermore, EPS has increased by 25%, and BPS by 26%, achieving an average rate of over 20% in these past five years on average.

P3

Regarding our performance, we have achieved record highs in all categories, including revenue, recurring operating profit, operating profit, income before tax, net income, and comprehensive income. Additionally, one-time gains and losses have been minor.

P4

This time, we have changed our reporting segments from three categories of "corporate services, individual services, and Commission-based sales" to more detailed segments.

P5

Regarding revenues, out of the 146.1 billion yen in the first quarter, electricity and gas accounted for 51.2 billion yen. Telecommunications saw a 2% decrease compared to last year, totaling 29.7

billion yen. The beverage segment, which includes water and beer server business, experienced a 9% drop due to the off-balance sheet of the mobile phone sales division by the publicly listed subsidiary, Premium Water Holdings, in the previous fiscal year.

Recurring operating profit amounted to 38.5 billion yen. In the electricity and gas segment, although the number of existing customers has significantly increased compared to the previous fiscal year, the price revision by change of terms and conditions led to a decrease in the unit price for the first quarter, resulting in a decline. However, fundamentally, the number of existing customers is steadily increasing. In telecommunications, recurring operating profit has decreased. The solutions segment, including businesses like EPARK, has shown stable growth due to ongoing business restructuring.

P6

Acquisition costs have decreased from 14.4 billion yen to 11.3 billion yen. Following the last earnings announcement, we received numerous questions regarding the reduced acquisition costs for electricity and gas, with concerns that "the pace of customer acquisition might be slowing down." However, this is not the case. We have been acquiring customers very efficiently, with the number of acquisitions increasing compared to last year, while the investment in acquisition costs has decreased, maintaining a very favorable situation. As for operating profit, the electricity and gas segment saw limited positive change this time because last year's results were exceptionally good. Telecommunications have seen a slight decrease. However, the profitability in beverages, insurance, finance, and solutions has improved compared to last year.

P7

We achieved an income before tax of 65.7 billion yen this time. To break it down, looking at the operating profit, the last year was 23.9 billion yen, which has increased to 27.2 billion yen, reflecting a 13% growth. Additionally, dividend income and interest income have significantly increased from 9.9 billion yen in the previous fiscal year to 16.5 billion yen this fiscal year. Additionally, the exchange rate at the end of June was 161.1 yen to the dollar, resulting in a positive foreign exchange gain of 21 billion yen. Conversely, if the rate reverses to 145 yen, this will result in a negative impact of 17 billion yen for the first half of the fiscal year.

P8

Our business cash flow is at 17.1 billion yen. Looking at EBITDA, it has grown from 27.6 billion yen last year to 30.7 billion yen, reflecting an 11% increase. However, regarding receivables and payables, we have recorded a negative 13.5 billion yen this quarter due to a significant increase in accounts receivable in the electricity business, resulting in an overall flat growth in business cash flow. Regarding the dividend income, as mentioned earlier, has grown significantly on a cash flow basis, increasing from 12.8 billion yen to 16.8 billion yen.

P9

The equity has increased from 622.9 billion yen last year to 857.1 billion yen this quarter. To break it down, net income attributable to owners of parent, gains on sales of securities, and fluctuations in unrealized gains on securities have led to a large increase in equity attributable to owners of parent. Five years ago, in the fiscal year ending March 2020, the equity was 285.7 billion yen, which has now increased to 857.1 billion yen.

P10

We operate our surplus funds through pure investments. As of the end of the first quarter, the book value of our investments was 636.4 billion yen. Additionally, unrealized gains amounted to 467.8 billion yen, bringing the market value to 1,104.2 billion yen. Look-through earnings (note: It is the operating income of investee company multiplied by the shareholding ratio and added up) amounted to 88.5 billion yen. When divided by the book value of 636.4 billion yen, these results in earnings yield (EY) of 14.8%. Our dividend yield (based on book value) has also increased from 2.6% five years ago to 4.5% due to increases in dividends from our investee companies. Regarding total returns including dividend income and gains on sale of securities, Gains on sales of securities for the previous full year amounted to 49.9 billion yen, while this quarter we recorded 5 billion yen gains on sales of securities. Our investments have been performing very well, with an IRR of 18%.

P11

We have provided details on the top 10 holdings within our 1.1 trillion-yen portfolio. Please refer to this information.

P12

Although this information can be found through research, we receive many questions about it, so we have decided to include it. As of the end of the first quarter, we have 32 publicly listed equity-method affiliates.

P13

We have resolved to implement a 10 billion yen share buyback this time. Given the recent volatility in stock prices and the fact that our stock price has declined compared to previous levels, alongside our robust performance, we believe that a share buyback is warranted. Although we cannot implement share buybacks without limits due to the issue of tradable share ratio of TSE, believe that the current share price is indeed too low, which is why we have resolved on the 10 billion yen share buyback.

P14

We have decided to increase the dividend by 3 yen to 156 yen this time, resulting in an annual dividend of 624 yen. The ordinary dividend increased 9% compared to last year. Moving forward, we plan to continue evaluating dividends on a quarterly basis, in conjunction with the growth of our recurring operating profits, to ensure that we provide appropriate returns to our shareholders.

P15
Including the share buyback and dividends, our total return ratio is expected to be 44%.

Appendices:
We have also included information on the topics related to electricity and gas in a separate document. Additionally, in Appendix 2, we have provided details on our new beer server business, which falls under the beverage segment and is showing significant growth. Furthermore, Appendix 3 contains information on our financial discipline, including the hypothetical consolidated profit and loss statement and balance sheet that incorporates the interests of minority shareholders. Please refer to Appendices 1 through 3 for more detailed information.

This concludes our brief explanation. Thank you for your attention.

■Questions and Answers

(1) At the briefing for domestic investors

[Question] Despite that the first quarter was originally planned to be weak due to the rate revision in the electricity business, operating profit has been increased. In other words, is it correct to assume that, as previously expected, electricity business will drive the recurring operating profit toward the fourth quarter along with the increase in the number of existing customers? Could we also expect operating income to be relatively brighter in the QoQ as well, due to more efficient customer acquisition? Could you give us a picture of the outlook for this QoQ by segment, if possible?

[Answer] Firstly, regarding electricity and gas, acquisitions have been growing significantly, existing customers have been increasing, and unit prices are stable. As you mentioned, acquisition costs are currently very favorable compared to previous years. Given this, we feel quite confident about our performance heading into the fourth quarter, including the current second quarter. Additionally, the telecommunications segment has finally stabilized. We are also seeing growth in recurring operating profit across nearly all segments, including beverages, insurance, finance, and solutions. In this sense, although I must remain cautious, I would say we are in an excellent condition. We stay vigilant and continue to monitor our progress closely, but so far, recurring operating profit has been grown steady. We have been able to keep acquisition costs within reasonable limits even as the number of acquisitions increases. Thus, we believe we can maintain a favorable situation without exceeding costs.

[Question] If that is the case, can we expect recurring operating profit to continue piling up on a QoQ basis, and can we maintain a relatively positive outlook on operating profit due to efficiency in acquisition? Additionally, the guidance does not seem to be particularly strong—does this imply that there are plans to invest in costs at some point in the future?

[Answer] Not specifically, but as you mentioned, if we continue at this pace, recurring operating profit is likely to exceed expectations significantly. Therefore, even if the acquisition pace increases, there is a substantial possibility that profits will also surpass expectations. Moving forward, we are considering potential investments in acquisition costs, including M&A opportunities in critical moments, as we still have quarters remaining. Hence, we are taking a conservative approach. At this moment, there are no plans for any significant cost expenditures.

[Question] How much should we consider the first quarter's recurring operating profit exceed compared to your internal plan?

[Answer] It was up by a few percent.

[Question] Regarding the share buyback, considering liquidity, it seems quite challenging. I have two questions: First, given the current liquidity situation, how much capacity do you have left for further buybacks? Second, are there any measures you can take to increase this capacity? Or was this an instance where the share price dropped, and you decided to proceed despite limited capacity? Please provide information about your capacity for additional share buybacks.

[Answer] One significant factor is the impact of the retirement of Director Tamamura at the last shareholders' meeting, which slightly increased the liquidity ratio. Additionally, the current stock price is exceptionally low, which also influenced our decision. At the current stock price, we still have approximately 80 billion yen worth of capacity remaining for share buybacks. To increase our capacity, one option is to cancel treasury stock, which is included into the numbers I mentioned. Beyond that, further measures are not possible by us alone. For now, we are enhancing IR activity now.

[Question] So, considering the situation before and after this share buyback, the capacity for further buybacks remains unchanged. Does this mean that the outlook for the future will continue to be a situation where there isn't much leeway in liquidity?

[Answer] Tradable share ratio can fluctuate due to buying and selling by other parties, which are factors beyond our control. Therefore, we plan to continuously assess our capacity and determine the extent of share buybacks accordingly. We will make decisions based on the available capacity at each point in time.

[Question] You have mentioned foreign exchange gains and losses. What are the assets that are in U.S. dollars?

[Answer] The foreign exchange gains and losses that are recorded in non-operating income arise from dollar deposits and dollar-denominated bonds. Foreign exchange fluctuations arising on the part of listed equities are recognized in comprehensive income; therefore, they are not recorded in non-operating income.

[Question] Could you provide us with the outlook for corporate bond issuance from this fiscal year to the next? Considering the current environment, will the approach be more restrained? Alternatively, given the increasing expectations for interest rate cuts in the U.S., would overseas financing become an option? We would appreciate it if you could share insights.

[Answer]Our stance remains unchanged. we will aim to secure long-term funding as much as possible without taking undue risks. If interest rates rise significantly or if funding becomes difficult, we will opt not to proceed with financing. We will continue to adapt our approach based on the circumstances. The same applies to issuing bonds overseas.

[Question] Can you give us some background on why the electricity business is becoming more efficient in acquiring customers and how this is sustainable? For example, you are competitive with the local power company so you can gain customers without spending costs.

[Answer] There are three points to consider. The first point is that our product's price competitiveness is still maintained at present, which has greatly improved our acquisition efficiency. The second point is that competitors, both new power companies and regional electric companies, are not investing as aggressively in marketing costs as they used to. The competitive environment has stabilized, which is beneficial for us. The third point is that we have established sales channels where contracts naturally flow to us without significant investment in acquisition costs. This has led to improved acquisition efficiency.

[Question] Regarding LPG (propane gas), I believe there are various potential growth opportunities nationwide. From the Appendix1, it seems that the current expansion is mainly in the Kanto region (nearly Tokyo). How are you achieving this expansion. Could you explain how you are successfully expanding? Typically, if we consider the major urban areas, after the Kanto region would come the Tokai region. How do you plan to expand into other regions, and what mechanisms or strategies are you currently employing? Could you please explain what you are doing now and your future plans for expansion?

[Answer] Regarding LPG, we do not handle the filling, delivery, and safety management ourselves. Instead, we have established partnerships with local LPG companies, focusing on sales and marketing while leveraging these partnerships at each area. This approach has allowed us to expand our supply area. As you mentioned, our next target regions are indeed Tokai and Kansai, followed by a nationwide rollout. We are currently in discussions with various companies in different regions to form partnerships and expand our area of operations accordingly.

[Question] If your company signs a contract with a local LPG company, does this mean that you then receive ongoing revenue by continually paying a certain margin, thus establishing a source of continuous income?

[Answer] Yes, basically, the LPG is marketed under our brand while the filling, delivery, and safety management are outsourced under contract. We handle customer relationships, including billing and collections. In this sense, our business model operates as a wholesale and recurring business.

[Question] Is the brand such that the company selling electricity also sells LPG, or do you have a dedicated entity that exclusively focuses on LPG sales?

[Answer]One of our electricity companies is operating LPG business. This subsidiary handle both the electricity and LPG business.

[Question] Regarding telecommunication segment, while it seems that the decline has bottomed out, since you are generating profits relative to revenue, it indicates that ancillary products are growing significantly—not just traditional telecom routers. Could you comment on what kinds of ancillary products are selling well and why this is happening?

[Answer] Generating revenue solely from telecommunications has become increasingly challenging due to heated competition and constant price reductions. To address this, we have been bundling our offerings with value-added ancillary services such as ad blockers and security measures and discount coupons that can be used at various stores. By doing so, we have been able to raise unit prices. Since the unit price for telecommunications services naturally tends to decline, we offset this by adding ancillary services and content to maintain profitability.

[Question] Despite the stock market experiencing volatility, looking at the performance over the year, it appears that even when the market fluctuates, you have generated considerable profits historically. Given the current significant market fluctuations, has your investment stance remained unchanged, or have there been any impacts?

[Answer] Firstly, our investment stance remains entirely unchanged. Our pure investments are primarily in businesses with strong financial foundations and significant growth in recurring business-based models, similar to our own. In this context, the recent market volatility hasn't impaired the businesses we have invested in. If this allows us to acquire assets at lower prices, we will proceed with acquisitions. Our investment approach will continue to be consistent. However, considering topics like funding and potential increases in interest rates, along with geopolitical risks abroad, we recognize that the future is uncertain. Therefore, given we are using surplus funds for these investments, we might not be able to maintain the same pace of investing as before. That said, there has been no impact on our overall investment stance or direction.

[Question] Regarding dividends, considering the recent stock price fluctuations, share buybacks are very effective. However, looking solely at the dividend yield, it is at the 2% level. Your investment targets have a dividend yield of 4%. What are your thoughts on increasing your own dividend yield?

[Answer] Considering our performance trends, as shown on pages 1 and 2, and the performance trends of our stock investments, we need to consider whether doubling the dividend to provide more immediate returns to shareholders is appropriate. Over a span of 10 or 20 years, given our current internal rate of return, we believe that, based on our current performance, we can return more money to shareholders in the long term. Thus, at present, doubling the dividend is not something we are considering. At our Board of Directors meetings, we consistently monitor our equity capital and ROE. If our operating performance and business results decline, we will certainly prioritize returning to shareholders. We have no intention of hoarding retained earnings at the expense of providing returns to shareholders, nor will we stubbornly cling to underperforming investments so, we ask for your long-term view and patience.

[Question] Should we understand that your focus on dividends is based on the confidence that there are currently substantial opportunities for investment in the business available?

[Answer] For instance, in our business operations, the annual return on our investments exceeds 20%. Therefore, we aim to reinvest as much as possible into areas like the electricity segment, provided we can maintain such high returns. Given the opportunity to invest in businesses with over 20% returns, we believe that continuing to allocate funds towards these acquisition costs will yield greater long-term benefits for our shareholders through the accumulation and effective utilization of our equity capital, rather than distributing this money as dividends now. This approach, while not universally acknowledged as correct, is the one we have chosen, and we currently maintain a shareholder return ratio of 37%. We hope you can understand our idea. As an additional note, the dividend yield shown on page 10 is 4.5% and this is based on book value. The stock price of Hikari Tsushin was around 10,000 yen, so it translates to approximately 5% yield in terms of Hikari Tsushin. Therefore, we hope you will hold our stock for a long time.

[Question] I would like to inquire about the financial business. In the first quarter, operating profit has significantly increased. Could you explain the background behind this growth? Specifically, can you detail the trends in the business environment and how your company is gaining market share? Additionally, could you provide more details on the growth in overseas markets such as Cambodia and Malaysia?

[Answer] The microfinance businesses in Cambodia and Malaysia are progressing smoothly as we build sales channels and manage outstanding receivables risk. Growth domestically has been limited, whereas overseas growth has been strong, resulting in the current situation. The remarkable growth in Cambodia and Malaysia is significant, and our staff and management on the ground are steadily building sales channels.

[Question] In your financial business, domestically, you benefit from a very strong sales network that helps in selling various products. However, I assume that this strength does not translate overseas. What advantages do you have over competitors when conducting this business in foreign markets?

[Answer] Certainly, many companies, including other non-bank financial institutions, have entered markets like Cambodia and Malaysia. One of our advantages has been our relatively early entry into these markets. Personally, I had some reservations about whether we would succeed, but we decided to take on the challenge. The hard work of our local staff and management on the ground has been a key factor in our success. In the financial business, I don't believe we've established a significant competitive advantage. Ultimately, it comes down to consistent and diligent efforts. Beyond that, we don't have any particularly unique strengths.

[Question] What are your views on the risks associated with the financial business? Given that you have likely been operating in this segment for about 10 years, you have experienced periods of economic downturn. How did your performance react during those times? Could you provide some insights into this?

[Answer]We assume various risks such as economic, politics and religion. We don’t think nothing happen after 10 through 20 years, but at the same time, it is difficult for us to determine when those happen and how much big those are. At least our micro finance business is scattered, not business taking huge risks, so we aim to nature this business steadily.

[Question] How much do you anticipate investing in stocks and bonds this fiscal year?

[Answer] We make investment decisions depending on the circumstances at the time. We don't operate with a pre-determined budget for how much more we will invest. If opportunities arise where prices are attractive, we invest. Conversely, if stock prices rise across the board, we might not invest a single yen. The same principle applies to bonds. We don't have a fixed investment plan that we follow; rather, we make investment decisions based on current market conditions.

[Question] Regarding electricity share and acquisitions, could you provide insights into whether most of the switches are coming from PPS or from the regional electric companies? If there are differences between high-voltage and low-voltage, could you explain those as well? Additionally, what do you consider the risk factors that could lead to a decline in your electricity market share at this time?

[Answer] Fundamentally, in terms of the overall market—including both low-voltage and high-voltage—the share of new power companies and regional electric companies is in alignment with the percentage of our acquired customers. There's no particular trend where we are acquiring more customers from new power companies or more from regional electric companies. Given that regional electric companies have a higher share in both high-voltage and low-voltage markets, our acquisitions reflect similar proportions. Regarding the risks of a decline in our market share, regional electric companies have significant capital and financial resources as well as strong brand credibility. If they decide to invest heavily in marketing costs or offer substantial discounts to regain customers, there's always a risk that they might reclaim some of our customers. Regional electric companies also manage power plants and other heavy assets, so they cannot easily afford to incur losses just to reclaim customers through aggressive discounting. Recently, many of them have struggled significantly with price increases and regulatory approvals. Thus, making a bold move to reclaim customers by steep discounting is not something they can do readily. However, if they do resort to such tactics at some point, there is indeed a risk that our market share could be impacted. To mitigate this, we are developing various strategies, such as bundling telecommunications, electricity, and gas services to create more comprehensive offerings for customers. Despite these efforts, competing against entities with significant capital resources is always a challenging endeavor.

[Question] How has the recent market decline affected your unrealized gains? Additionally, despite the downturn, you have conducted significant share buybacks. As mentioned in a previous question, was there an investment approach like "let's buy because the prices have dropped"? Could you explain your response to the stock price decline and the status of your unrealized gains?

[Answer] When stock prices decline, it often presents a buying opportunity for us. Our investment stance remains unchanged—we continue to make decisions based on current stock prices at the time. Regarding the impact on unrealized gains, there was a decline of about 50 billion yen. However, we have seen a recovery in prices recently. What most important to us is not the market value but the Earnings Yield (EY) and the fact that the businesses we invest in are performing well. Keeping this in mind, we intend to continue with our current approach without any changes.

[Question] Which of your financial indicators should we look at to approximately understand the financial capacity that you can allocate towards stock investments?

[Answer] Please refer to Appendix 3 for our financial discipline guidelines. We currently hold 600 billion yen in cash and bonds, and we have around 400 billion yen in interest-bearing debt maturing within the next three years. We consider the difference between these amounts—approximately 200 billion yen, as of the end of June—as the capacity that can be allocated towards stock investments. We will continue to adhere to this financial discipline as we make investments.

[Question] In the previous earnings announcement, you mentioned that your stock price is undervalued. I assume this assessment is based on a calculation that subtracts net cash assets and then evaluates the business assets. Could you reiterate how we should calculate or understand your stock's undervaluation?

[Answer] To understand our intrinsic enterprise value, you can start by subtracting our net cash assets (cash and deposits − Interest-bearing liabilities+ Listed investment securities excluding listed subsidiaries + Bonds) from our current market capitalization. This gives you a basic idea of our core corporate value. We generate approximately 100 billion yen in after-tax cash annually. How many years of this cash flow represent undervaluation is a matter of relative perspective, but I consider these fluctuations minor discrepancies. Fundamentally, I believe our stock price should be around 50,000 to 60,000 yen. Any changes in the current stock price are, in my view, marginal discrepancies.

This concludes today's earnings presentation. Thank you very much for your attention.

(2) At the briefing for overseas investors.
[Question] Does the level and direction of the Japanese yen against the US dollar influence your portfolio investment decisions?

[Answer] our answer is no. we hold it to diversify risk of currency. However, there is no influence from the currency rate fluctuation.

[Question] I understand that the telecommunications business continues to face difficult conditions in terms of sales and recurring operating profits. Can you tell us the details of this difficult situation, even though you are spending more on customer acquisition costs than before? Also, what plans do you have for recovery?

[Answer] It's because we got many new contracts during COVID times and in the recent one to two years, we are experiencing cancellation of the contract we newly got during COVID times. So that negatively impacted on recurring operating profit. However, the decline in the recurring operating profit in this telecommunications segment has calmed down, and we believe that we have experienced the whole round of the decrease, so it has almost stopped. However, we are not planning to have a regrowth. We also are not planning to add more acquisition costs. But we also would like to note that the other part of the telecommunication service, which is ancillary service, has currently expanding.

[Question] When I looked at the slide about the beverage business, I think there was an explanation about the impact of off-balance, but can you explain it in detail here?

[Answer] The telecommunications division within Premium Water, a consolidated subsidiary, was sold, which decreased sales by that amount. Recurring operating profits is little affected, but acquisition costs have improved.

[Question] This question concerns investments. Among Asian countries, I believe Japan's stock prices are growing. In this context, as your company continues to advance its investments, do you perceive further opportunities for investment in Japanese stocks? For instance, looking at page 8, we see a figure of 51 billion yen in securities purchases. Do you think the attractiveness of investing in stocks is diminishing, and are you shifting your focus more towards bonds? I would appreciate your thoughts on the opportunities for stock investments.

[Answer] We do admit that share price of the previously undervalued stocks in Japan their share price went up compared to two to three years ago.
To talk about how we see investment opportunities around, I would say that there are still some attractive opportunities left in the market, but the overall market condition itself is not very

attractive. But we do admit there are many undervalued stocks to invest in and when we manage and invest our additional or excess cash, we have been diversifying our portfolio, for example, through a shift to bonds. And if, as TSE indicates, If Japan is to have no stock with PBR of less than one, then we might or we probably think that we will not make new equity-based investments. At that time, we believe that we are probably going to return our excess capital as dividends.

[Question] On the finance business, I understand that you are effectively using acquisition costs in your finance business and are actually seeing good results, but what is your business model?

[Answer]
We provide financial services in countries such as Cambodia and Malaysia. And the services include motorbikes, mobile phones, and agricultural equipment.

[Question] I think there is a credit risk associated with financing, but how much is the default risk?

[Answer] It depends on the country, but we have been receiving enough interest rate to cover and offset such risk.

[Question] I believe that banks and others do financial services, but I believe that one of the most important aspects of the finance business is how much outstanding balance you have. Could you please tell us how much balance your company has in the finance business?

[Answer] In total, our book balance is about 130 billion yen, including both domestic and foreign service. The breakdown is about half overseas and half domestic. Since the Q1 operating profit of the finance business was 4.7 billion, if you multiply it by 4, you can see that the yield against to the balance is more than 10%.

[Question] what's caused the large swing on receivables and payables in the cash flow?

[Answer] In terms of cash flow, It's because of our growth in electricity business. In our electricity business, we first pay the cost and then after we receive revenue. So, the future growth in power business would indicate that it's connected with the decline.

[Question] You disclose the results of your investments including non-controlling share, but what do you think are the advantages of retaining such non-controlling share? Also, it seems that the market is increasingly valuing your off-balance sheet activities. How do you view this trend?

[Answer] First of all, regarding the concept of non-controlling shares, since you also own shares in Hikari Tsushin, you own a part of our company, and the profits we generate belong to you, the investors, whether it is 1%, 10%, or 50%, You own the cash flow that we generate, whether it is 1%, 10%, or 50%.

We believe that the same is true for us, and that if we own even 1% of the stock of a company in which we invest, we are simply expressing that we own 1% of the profits generated by that company, whether they are retained or distributed as dividends, and that is an intrinsic expression of our company. I just think that if it is more than 20%, it is taken up in equity gains of affiliated companies, and if it is less than 20%, it is not taken up in equity gains of affiliated companies, which is an accounting matter, and not an essential matter.

I think it is ridiculous to say that the value of the company will change if the accounting standard changes next month to require that more than 10% be taken into equity in earnings of investees instead of 20%. I believe this is the very rule of capitalism. I believe that Berkshire Hathaway is the company that has most practiced and embodied this in the world. My impression is that this essential way of perceiving our value is not so valued today. Because our stock price is about half as low as I think it should be, I am wondering if our valuation has caught up at all. I think that when investors really realize this value of ours, the share price will have doubled after all. Now is the time to buy shares of Hikari Tsushin.

[Question] How do you think about buybacks? I believe there are many excellent investment opportunities available, but wouldn't investing in your own company through a share buyback also be one of those opportunities?

[Answer] You are right, it is not the time to buy shares of other companies. However, the Japanese stock market is limited by the tradable share ratio, which means that there is a limit to the number of shares we can buy back. At the current share price, we have only 70 to 80 billion yen left to buy back our own shares. However, when the share price falls due to external factors, such as a major market crash, we would like to buy back our own shares immediately.

[Question] At the time of the year-end briefing, I believe that you stated that the appropriate share price was 56,000 yen, but I believe that the share price is currently around 28,000 yen. I understand that you are taking measures to reduce this discount, such as enhancing IR activities and disclosure. I believe that discounts to holding companies are occurring in all companies, but I would like to know what else your company can do.

[Answer] I believe that the only thing we can do is to strengthen IR and continue to generate overwhelming business results over the medium to long term.

[Question] What do you expect this portfolio to look like in five years? I think the portfolio will change, either in terms of the number of companies, the size of the portfolio, or in terms of shifting to other asset classes. What other factors could be considered, such as a shift in focus to shareholder returns if there are significantly fewer opportunities for undervalued investments?

[Answer] We do not have a plan or image of what our portfolio will look like in five years. As I mentioned earlier, we believe that the number of stocks that are undervalued will decrease in the future. In this sense, our investments have been doing well so far, but we believe that they will gradually decrease, and the surplus funds will be used for shareholders.

[Question] What do you think about investing in foreign countries?

[Answer] I don't feel that there are any undervalued stocks left overseas at all, so I don't think I will be doing much overseas at all.

That is all for now. We hope to see you next time. Thank you very much for your time today.