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The Earnings Call for the First Quarter of the Fiscal Year Ending March 2026

August 14th, 2025

Speakers:

Masao Sugita, Senior Executive Officer, Finance, Head of M&A

Naomi Imoto, Head of Financial Strategy, Investor and Public Relations

■ Financial Results Presentation

P1

Five-year average growth rate

Over the past five fiscal years, we have achieved average growth rates of 5% in revenue, 6% in recurring operating profit, and 4% in operating profit. Notably, interest and dividend income from pure investments recorded a robust growth rate of 35%.

P2

Five-year average growth rate

In terms of balance sheet indicators, the five-year average growth rate has remained at around 20%. Furthermore, in the first quarter of the current fiscal year, our equity ratio was 40.9%, maintaining a stable level.

P3

Performance

Revenue amounted to 167.1 billion yen, and recurring operating profit was 43.5 billion yen, both marking record highs for the first quarter. Notably, both revenue and recurring operating profit grew by more than 10%, driven by strong customer acquisitions in the electricity and insurance businesses. Operating profit was 27.5 billion yen, representing a 1% increase. However, profit before tax declined by 45% year-on-year to 35.5 billion yen, mainly due to foreign exchange losses. Net income was 28.1 billion yen, while comprehensive income came to 51.5 billion yen. Excluding one-time gains of 1.0 billion yen, operating profit stood at 26.4 billion yen, reflecting a 2% growth rate.

P4

Performance by Segment

Both revenue and recurring operating profit have been performing strongly, and as you can see, all segments—including electricity & gas, telecommunications, beverages, and insurance—have shown

growth. Our finance and solutions businesses have also continued to perform steadily.

P5

Revenue and recurring operating profit are shown separately for organic growth and M&A. Organic growth exceeded 10%, while M&A contributed an additional 2%. This demonstrates that, alongside strong organic expansion, M&A activities have also played a solid supporting role.

P6

Income Before Tax

As mentioned earlier, income before tax declined due to foreign exchange losses. However, excluding the impact of these foreign exchange losses, income before tax increased by 5%.

P7

Cash Flow

Business cash flow decreased by 27% year on year. As noted in the remarks, this was mainly due to an increase in receivables in the finance business. Meanwhile, dividend and interest income from pure investments grew steadily, rising by 13%.

P8

Equity

Equity rose by 43.7 billion yen from the previous fiscal year-end, as detailed in the breakdown. Over the past five years, the growth in equity has been supported not only by net income but also by realized and unrealized gains on securities.

P9

Pure investment

As of the end of the first quarter, the book value of investments stood at 766.6 billion yen, while the market value was 1 trillion 255.9 billion yen, resulting in unrealized gains of 489.3 billion yen. The performance of the companies we invest in has also been strong, with look-through earnings reaching a high level of 122.5 billion yen. The earnings yield (look-through earnings / investment book value) came to 15.9%, marking a record high in recent periods. The dividend yield stood at 4.0%.

P10

Publicly listed equity-method affiliates

Compared with the previous fiscal year-end, the number of equity-method affiliates increased by one, with two companies removed and three newly added.

P11

Dividend Forecast

We have increased the dividend by 4 yen, bringing the full-year forecast to 724 yen, which represents a 9% increase.

P12

Shareholder Returns

The total payout ratio has averaged 35% over the past ten years. Most recently, it stands at 31%.

P13

Summary

Revenue increased by 14% year on year, and recurring operating profit rose by 12%, both showing significant growth. In pure investments, the earnings yield reached a record high of 15.9%, while look-through earnings remained at a high level of 122.5 billion yen. Dividend and interest income also grew by 9%. As for shareholder returns, as mentioned earlier, we raised the dividend by 4 yen, resulting in the highest dividend per share in our history. This also marks the 15th consecutive year of dividend increases.

Appendix

We would like to highlight DREAMBEER, our new business. In April, we introduced our new server, “Smart Tap.” Later this month (August), we will also launch a new non-alcoholic brand, further broadening our product lineup. We invite those who are interested to sign up and experience it for themselves.

That concludes my brief explanation. I would like to open the floor to questions.

■ Q&A Session

(1) Earnings call for Japanese investors

[Question] Customer Acquisition in the First Quarter

In the electricity and gas business, customer acquisition costs have risen by 27%, and on a consolidated basis, they have increased by 39%. How much does this translate into in terms of the number of acquisitions? What are the main reasons behind this increase? Could we expect this strong acquisition trend to continue throughout the current fiscal year? Please comment on the number of acquisitions, the momentum, and the sustainability.

[Answer] First of all, the number of acquisitions has increased year on year, particularly showing steady growth among the high-voltage and individual customers in the low-voltage segment. The number of acquisitions has risen by approximately 40%.

That said, what is more important than the number of acquisitions itself is the growth in recurring operating profit. Recurring operating profit has been expanding steadily, and we have been able to maintain the pace of that growth. At the same time, we are making the necessary investments in customer acquisition costs appropriately, without disrupting the balance—in fact, we believe the trend is moving in a positive direction.

As for whether this will continue throughout the fiscal year, it is difficult to predict with certainty based on our long years of experience. However, at present we see no signs of deterioration, and we hope the current momentum will be sustained.

[Question] Could you please provide some background on this? Also, is it correct to understand your comment as an intention to continue the current trend in the electricity and gas business, namely a 16% increase in recurring operating profit and a 27% increase in customer acquisition costs?

[Answer] Our objective is not simply to increase customer acquisition costs themselves, but rather to expand recurring operating profit, which we regard as our core source of value. As Mr. Wada, our CEO, also explained, while growth in operating profit is certainly important, the true foundation of our value lies in recurring operating profit. To support that growth, we invest in customer acquisition costs within a balanced range. Customer acquisition costs may fluctuate in efficiency depending on timing—sometimes becoming less efficient, sometimes more efficient—but at present, my understanding is that efficiency has not deteriorated significantly. When the market environment remains stable, our sales channels, including agencies, can operate steadily, which allows for efficient acquisitions with minimal losses.

The background of the solid growth we are seeing this time is not the result of any single measure, but rather the outcome of continuous efforts that we have built up over time. In addition, the effects of M&A executed in the previous fiscal year have also contributed, leading to overall very steady growth.

[Question] M&A

The breakdown chart of organic and M&A growth on page 5 of the financial results material was very clear and extremely helpful. You mentioned that M&A contributed a 2% uplift to recurring operating profit. In relation to Mr. Wada's stated target of 5% growth for the full year, how would you evaluate the progress of M&A in the first quarter? Furthermore, what measures or pipelines do you have in place to achieve the medium- to long-term target of 5% growth?

[Answer] While we do have targets of 10% from organic growth and 5% from M&A, what truly matters is not the numbers themselves, but whether recurring operating profit is steadily expanding. From that perspective, the current 2% contribution from M&A is by no means a negative result; rather, it is a level that we consider sufficiently favorable.

As for the pipeline, M&A opportunities continue to come in on a regular basis. In particular, when it comes to deals in the same or adjacent industries, information will always reach us. From there, we carefully evaluate the opportunities—including pricing—before deciding whether or not to proceed. From the standpoint of our business model, the difference is simply whether we acquire customers one by one organically or in bulk through M&A. Therefore, in times when organic growth is strong, there is no need for us to place particular emphasis on M&A. Conversely, in periods when organic growth is more difficult, we may rely on M&A within the appropriate parameters. Ultimately, as long as recurring operating profit continues to grow solidly overall, we believe there is no issue.

The 5% target should be viewed as a medium- to long-term goal, and therefore the current 2% should not be seen pessimistically. In fact, the contribution is already materializing. Moreover, the 2% from the current M&A will be incorporated into organic growth from the next fiscal year onward. By applying our expertise in cost reductions and other areas, we expect to further improve returns. In other words, the current 2% contribution is likely to evolve into even greater growth going forward.

[Question] If I recall correctly, Mr. Wada has previously spoken with the tone of being confident that organic growth can be maintained at over 10% for the next several years. Based on that premise, is it correct to understand that M&A is not indispensable but rather a “plus-on”—in other words, that organic growth will remain the main driver over the coming years, while M&A will play only a supplementary role?

[Answer] Even when organic growth is strong, that does not mean there is no need for M&A. Our stance is to actively pursue attractive opportunities as they arise. However, by nature, M&A is difficult to predict, and it cannot be forced into the budget. While we believe it is desirable to execute M&A, it is not something pre-built into the budget. Our fundamental objective is to steadily grow recurring operating profit, regardless of whether M&A takes place or not.

[Question] As for M&A targets, are they mainly in the areas of electricity & gas, telecommunications, beverages, insurance, finance, and solutions, with a focus on private companies? In addition, could you share some qualitative color on the level of activity in each segment—for example, whether there are many opportunities available in electricity & gas but fewer in insurance—and provide your views on the strength and characteristics of the pipeline across these sectors?

[Answer] The areas we target for M&A are primarily those in which we are already engaged as business, or adjacent business. In insurance, our current focus is mainly on non-life insurance, so an adjacent area, for example, is small-amount, short-term insurance products related to life insurance. Likewise, since one of our listed subsidiaries is engaged in the water dispenser business, we have extended into the beer server business as an extension. In this way, our policy is to gradually expand into adjacent domains alongside our existing businesses.

As for whether there are currently any particularly “hot” areas for M&A, to be frank, no single field stands out. We do not see much difference in terms of which areas present more or fewer opportunities, and in reality, it is difficult to predict from which field new opportunities will emerge. For instance, some time ago there were many sell-side opportunities in the electricity sector, but at present no specific area is particularly prominent. That said, the M&A market itself remains very active, with many sellers present. In that sense, opportunities have been abundant over the past several years, and we believe that this vigorous environment continues today.

[Question] At present, is one of the reasons why M&A activity at your company is not particularly active that the economy has not deteriorated significantly and the valuations of target companies have not declined substantially?

[Answer] At present, it is not the case that there is an abundance of attractive opportunities. Unlike what is often seen in the broader M&A industry—where companies are purchased simply by applying a multiple to EBITDA—we do not take that approach. Instead, we assess corporate value in much the same way we evaluate our own company, analyzing factors such as recurring operating profit and its growth potential, and then setting the valuation accordingly. When our perspective aligns with that of the seller, we can demonstrate strong competitiveness as a buyer. However, the actual number of deals is not large. In practice, most of the recent M&A transactions we have completed have been relatively small in scale.

[Question] While there are many opportunities available in the market, is it correct to understand that you carefully screen them and focus only on smaller-scale transactions that meet your criteria? Also, if the valuation matches your standards, is there a possibility that you would pursue larger-scale deals as well?

[Answer] The fact that recent transactions have been relatively small is merely the result, not because we are deliberately aiming for smaller deals.

[Question] The status of each business

Looking at the trends in recurring operating profit, I understand that electricity & gas grew by 16%, roughly the same level as in the fourth quarter; telecommunications is showing signs of recovery; beverages have grown significantly; insurance has expanded even more; and solutions have also increased. Overall, it appears that growth has been equal to or greater than that of the fourth quarter. Within that context, you mentioned that customer acquisition costs have been allocated to growth areas: a similar level of investment has been made in electricity & gas, greater investment has been directed to the strong-performing beverage and insurance businesses, and, although smaller in scale, some investment has also been made in solutions. In other words, I understand that costs are being appropriately allocated to those segments where recurring operating profit is steadily expanding. Could you please provide further detail or additional comments on the current status of each business—in terms of recurring operating profit trends and the corresponding allocation of customer acquisition costs?

[Answer] Basically, we have continued with the same initiatives as before and have not implemented any particularly new or standout measures. To reiterate, in the electricity and gas business we operate across three segments: high-voltage, low-voltage corporate, and low-voltage individual. While we once exited the high-voltage segment, we have since resumed operations, and it is now showing steady growth. We are making solid progress in each segment. There is nothing especially noteworthy to highlight, but we believe that the relative stability in products and market conditions has actually been one factor supporting the strong performance. While sales in electricity have been boosted by the high-voltage segment, from the perspective of steady growth in recurring operating profit, it is often during periods without significant changes that growth comes more easily. We are now in a phase where the seeds we have planted over time are steadily bearing fruit. On the other hand, when we launch new products or expand into new areas, efficiency can decline in the short term, which may weigh on the figures. This time, such factors were relatively limited, which we believe also contributed to the results. Over the past few years, we have also streamlined and sold off unprofitable businesses, thereby strengthening our earnings structure. Overall, rather than being the result of any special new measures, the current performance reflects the steady accumulation of our ongoing initiatives, supplemented in part by the effects of M&A.

[Question] Just a quick clarification. In electricity and gas, both the high-voltage and low-voltage segments are growing, and I understand that you are particularly focusing on the low-voltage electricity segment. Regarding telecommunications, I recognize that the IT businesses—such as

coverage, data backup, and security—are showing steady growth. As for beverages, should I understand that growth is mainly coming from water dispensers, or is it being driven by beer as you mentioned earlier?

[Answer] Our water dispenser business has been expanding.

[Question] Regarding insurance, is it correct to understand that growth is coming from areas such as mobile device coverage and small-amount household insurance?

[Answer] Growth has been achieved overall, including the adjacent areas.

[Question] Regarding solutions, my understanding is that you are focusing on selected industries and concentrating on highly profitable areas. Given that we are already in August and there appear to be no major changes in the market or product lineup at this point, is it fair to assume that there will be no significant shift in trends in the second quarter, and that the situation will remain largely the same?

[Answer] That is correct. We expect that the costs we have been investing since last year will steadily translate into growth of recurring operating profit going forward.

[Question] In the first quarter, recurring operating profit grew by 12%, so my understanding is that if this trend continues, that portion can be sufficiently secured as an accumulation. As for customer acquisition costs, is it reasonable to assume that you could spend somewhat more than in the first quarter? Of course, I understand there may be some fluctuations, but overall, would that be the right way to view the situation?

[Answer] Yes, that is correct. To add clarification, you may notice that recurring operating profit is shown as blank in the finance business. This is because, under our definition, we do not include the finance business in the businesses that generate recurring operating profit. That said, the finance business is inherently generating steady, recurring-like earnings, and these results are fully reflected in operating profit. From an IR disclosure standpoint, we do not categorize the finance business under “recurring operating profit,” which may make it a bit less intuitive. However, in reality, profits from the finance business are steadily accumulating and making a significant contribution to the consolidated results. Furthermore, HIKARI TSUSHIN has also been increasing equity through factors other than operating profit. Therefore, in addition to looking at growth in operating profit, we believe it is important to also examine how much book value per share (BPS) has been increasing in order to accurately assess the company’s current performance. We would very much appreciate your evaluation from that perspective as well.

[Question] Regarding equity, my understanding is that in the first quarter, in addition to after-tax profit, both unrealized and realized gains increased, resulting in considerable profit. On the other hand, in the cash flow section, financial assets classified as current assets have increased, which I interpret as an expansion of safe and secure bond investments. In this regard, should I understand that, taking into account current market conditions, your focus has relatively shifted from equities toward bonds at present?

[Answer] We are not making investment decisions based on a simple choice between stocks and bonds. As we have consistently stated, our fundamental approach is to invest in stocks—in other words, in businesses and productive assets. Accordingly, bond investments are positioned only as a secondary option.

More accurately, the decision is not between stocks and bonds, but rather between holding assets in cash/currency or in bonds. Within that framework, we select the optimal approach at any given time, taking into account market conditions, interest rate trends, and our own funding situation.

[Question] Could you please provide me with an overview of the bond issuance and borrowing plan?

[Answer] We have a redemption of 40 billion yen scheduled for next February, so I believe the question is related to that. With regard to bonds, we intend to respond appropriately at the right timing, depending on the market environment. That said, it has become difficult to issue bonds with long-term maturities in the domestic market, so our policy is to take whatever measures are feasible at the time in light of changes in the business environment. As for refinancing, we plan to proceed with it as steadily as possible. The same applies to bank borrowings; we intend to roll over the repayments. Since interest rates have been rising recently, we want to proceed with caution in this respect.

(Comments from the Senior Executive Officer of Finance:)

Going forward, I expect the shareholders' equity portion of the balance sheet to expand. Generally speaking, in order to maintain the equity ratio, it is not possible to increase debt at a pace that exceeds the growth of shareholders' equity. Therefore, we would like to expand our financing appropriately and build an efficient balance sheet. We do not set specific targets or upper/lower limits for the equity ratio, but we believe that by making appropriate decisions over time, a natural balance will be achieved. In this context, as the finance department, we consider it necessary to steadily refinance existing debt first, and then gradually increase the balance on top of that. We believe that the current financial market environment is not necessarily bad, but rather that the conditions in recent years may have been exceptionally favorable. Accordingly, we need to carefully consider the financial approach of HIKARI TSUSHIN, taking into account that things may not proceed in the same way as before. Fundamentally, our policy is to expand the balance sheet steadily and gradually.

[Question] Could you explain the reasons for the decline in profit in the finance business?

[Answer] Overseas operations have continued to perform strongly. However, the better the performance, the more provisions we are inevitably required to record for the following fiscal year, which tends to cause quarterly profits to fluctuate. As a result, this quarter showed a slight year-on-year decline in profit, but overall the business is growing steadily.

With regard to the finance business, the disclosure may appear somewhat difficult to interpret, but in reality it is performing well and growing steadily. The impact is not due to actual credit losses, but rather to provision entries required under accounting standards. On an underlying basis, the business is showing stable growth.

[Question] Which areas have contributed to the increase in electricity customer acquisitions? Also, with regard to high-voltage customers, could you share what types of customers you have been acquiring—for example, commercial facilities, office buildings, and so on?

[Answer] Our company is essentially operating on a nationwide basis. We are not focusing on any specific region, so there is no single area that is showing particularly strong growth. That said, with respect to high-voltage, our current activities are mainly centered in the Kanto area, so when we refer to growth in high-voltage, it is primarily in reference to companies located there. However, if such companies also have branches or factories in regional areas, those are naturally included within our target scope. As for customers, they include not only commercial facilities, hospitals, and nursing care facilities as you mentioned, but also a wide range of other facilities that require high-voltage electricity, such as cubicle-type substations.

[Question] Could you please explain once again your policy and approach for selecting investment targets in pure investments? How does this differ from the way you select M&A targets, and could you also share the background and reasons why you have adopted this particular approach?

[Answer] With regard to pure investments, there has been no change from what we have previously disclosed. There is a somewhat philosophical aspect to what we define as “recurring operating profit,” but essentially, if a company possesses recurring-like characteristics—meaning it generates stable revenues and profits—and its shares are trading at an undervalued level in the market, we see that as an opportunity for profit through pure investment and proceed accordingly. Importantly, what we call “recurring” must be something we ourselves can fully understand. Even if, from an outside perspective, a company may appear to have recurring-like qualities, if we cannot understand it, we will not invest. Our investments are limited to recurring businesses we can clearly comprehend.

In the case of M&A, for example, when acquiring 100% of a private company and taking over the entire business, the scope of potential targets is limited to businesses we already operate or adjacent fields. This is because it is a prerequisite that we can take full responsibility for managing the business. By contrast, in pure investments—particularly in listed companies—the management structure and know-how are already established, and the business can operate successfully without our involvement. As such, unlike in the case of subsidiarization, pure investments allow us to target a much broader universe of companies. While it remains essential that we understand the business, it is not a requirement that we ourselves be able to manage it. In this sense, the investment universe for pure investments is broader.

That said, the fundamental approach remains the same. In both cases, we apply a consistent philosophy when evaluating corporate value.

[Question] You have mentioned that the investment universe for pure investments in listed companies is broad. In that context, is it correct to understand that, through the process of making pure investments, your understanding of certain businesses could deepen, and that there may be a possibility of eventually developing them as your own businesses? In other words, should we understand that you are actively considering the possibility that businesses initially pursued as pure investments could later be incorporated and positioned as part of your consolidated operations, thereby expanding your business domains?

[Answer] Our basic stance is that we will not invest in a company unless we could envision wanting to make it a subsidiary. As you have pointed out, this is indeed an area where there is potential, and one in which I personally also have expectations. However, as for how many cases or results may materialize over the next one to two years, this is completely uncertain at this stage. As I mentioned earlier, in our view we must essentially be able to acquire the management itself. For example, when I joined the company involved in managing mobile phone shops, it was relatively straightforward—almost anyone could take over such a business simply by acquiring the store. By contrast, with listed companies such as those we are currently investing in, it is of course not so simple. We must engage in thorough discussions with the management and gain their acceptance to join our group in a friendly and cooperative manner. That said, whether or not a company joins our group does not change our own stance. Still, the willingness of the partner's management team is a prerequisite. Therefore, regarding the extent of results that may be achieved, our approach is to take a long-term perspective while also moving forward proactively whenever opportunities arise. In this sense, compared with M&A—where opportunities are initially presented to us as sell-side deals and we then decide whether to buy—I would say there is a somewhat greater distance.

[Question] Regarding your M&A, for example in the case of T-Gaia, when Bain Capital came in, your company exited the investment. This gives the impression that your company has often been

on the selling side. On the other hand, with respect to the deals you are currently acquiring, are they less of the so-called sell-side opportunities and more of relatively direct engagements?

[Answer] It is a combination of both. In some cases, we take part in a process, while in others, the engagement takes place on a more direct, one-on-one basis.

[Question] Is it correct to understand that it is case by case, and that you decide whether to participate depending on differences in valuation or perspective, rather than having a particular preference for a specific type of process?

[Answer] That is correct. However, once a process is involved, valuations do tend to become elevated. That said, we can also be competitive as a buyer in certain situations, so there are cases where we are able to succeed even in process-driven deals. As a result, both forms exist.

[Question] As reported in the Nikkei, I understand that the Ministry of Economy, Trade and Industry is discussing the direction of requiring retail electricity providers to take on mid- to long-term responsibility. At this point, how should we view this matter?

[Answer] At this point, the details of the regulatory framework design remain unclear, so we are not yet in a position to discuss how we would respond specifically. Going forward, we intend to closely monitor the discussions taking place within the Ministry of Economy, Trade and Industry and the working groups at the Agency for Natural Resources and Energy, and respond appropriately as needed. To be candid, the outlook for how the regulatory framework will ultimately be structured is still uncertain, but at present we do not view it as a major source of concern.

In terms of the electricity market overall, supply and demand will always exist. While demand may gradually decline over time due to demographic trends, it does not move in a single direction, as extreme heat waves, for example, can drive demand upward. In any case, there will continue to be a certain level of electricity distribution in Japan. What truly matters is how we position ourselves within that framework. Even if the new regulatory framework design were to be extremely unfavorable to us, other players in the market would likewise be unable to adapt. In that sense, we believe we are relatively well positioned in the electricity business. From the outset of our entry into the sector, we have focused on acquiring customer segments that are structurally more profitable, so if we were to face difficulties, it would be even more challenging for our competitors. Therefore, we see no need for excessive concern and, on the contrary, are watching developments with confidence. Of course, we cannot rule out the possibility that regulatory framework changes could cause major disruption in the market, but in such a case, we also believe new business opportunities may emerge. In any scenario, we do not expect to be at a disadvantage compared with our peers.

[Question] If, under the new regulatory framework, expanding your business into the supply side—such as electricity procurement or power generation—were to put your company in a more advantageous position, would there be a possibility of entering those areas? At the same time, such businesses may not necessarily be considered “recurring” in nature and may be more difficult to fully understand. Is it correct to assume that your company does not take the stance of venturing into such fields?

[Answer] This is a difficult issue, and it is something I myself think about every day. Since the electricity business became our core business, procurement—that is, how to secure electricity—has been a challenge that every retail operator must address. This is a fundamental responsibility of a retailer: to secure what we are selling. Because electricity is an invisible commodity, it is inherently difficult, but nevertheless it is something we must always deal with.

On the other hand, I see electricity procurement and actually owning power plants as somewhat separate matters. A power plant guarantees a constant supply of electricity, and sometimes strengthening access to such supply is referred to as procurement, while in other cases the generation business itself is described as procurement.

As a retailer, we are always in a short position with respect to electricity, whereas power producers are in a long position. The question is whether we should move to take a long position—and whether that would be in a form without owning facilities or by actually holding facilities. This is a very difficult issue, but fundamentally, we prefer not to own facilities. It is hard to imagine a scenario in which HIKARI TSUSHIN’s consolidated balance sheet would include power plants at this point in time. Moreover, we do not have the know-how required for power generation. From my own research, generation is by no means simple—it is not as if electricity can be produced just by pressing a switch. We do not see this as a business we could operate, and therefore owning generation facilities on balance sheet is, at present, not a realistic option. That said, as I mentioned earlier, the question of how clearly we should establish our position in procurement is, and will remain, an ongoing issue.

[Question] In June of this year, your company received a new rating from S&P. Could you please explain the background behind obtaining a rating from S&P, in addition to the existing ratings from R&I and JCR?

[Answer] The purpose was to diversify our financing sources and increase our options. Since credit ratings cannot be obtained immediately, we decided to secure one in advance so that we can make use of it when necessary in the future.

[Question] Earlier, I heard from the Senior Executive Officer of Finance that along with the growth of equity, the company also intends to gradually increase its interest-bearing debt. My

understanding is that the increase in liabilities will be matched on the asset side by expanding pure investments—is this correct? In addition, will the targets for pure investment remain primarily focused on Japan as before, or, although still limited at this stage, will they also begin to include overseas equities where higher growth potential is expected?

[Answer] Whether or not to expand pure investments is a very difficult question. At present, our pure investments are performing well, and as a general policy, our philosophy is that for any business that is successful, we want to expand it further—growing it many times over. However, in the case of pure investments, it is not quite that simple. For example, if we were asked whether our goal is to expand our balance sheet to tens of trillions of yen, I would say that is not necessarily the vision we are aiming for. Even if growth does occur, it would take time, and if not, we may need to rethink the role of pure investments from a different perspective.

That said, we believe our past track record reflects the strength of our know-how, and in some form, we do intend to pursue further growth going forward. However, our recognition is that this will not simply take the form of continually expanding the balance sheet. Therefore, at present, we do not have a clear internal target or policy to definitively expand or increase pure investments. Our basic stance is to pursue opportunities when they are undervalued, but without forcing growth.

With respect to overseas investments, the first consideration is whether we can truly understand them. If it is something we cannot fully comprehend, then even if it shows high growth rates or is evaluated by others as having recurring characteristics, we will not invest. Conversely, if it is something we can understand at the same level as we do in the Japanese market, then it would naturally become an investment target. I am not the one personally deciding each investment, but based on HIKARI TSUSHIN's fundamental philosophy, that is the approach we would take. That said, there is no fact at present that our overseas investment ratio has been increasing. We feel there is a difference compared with the Japanese market in terms of undervaluation. In Japan, there are relatively many undervalued companies, whereas overseas that is not always the case. Therefore, we do not have a policy of actively increasing the overseas ratio; rather, the key point is whether an opportunity aligns with our investment philosophy. That being said, overseas investment is not zero—at present, we are making certain investments on a limited scale.

That concludes today's earnings call. Thank you very much.

(2) Earnings call for overseas investors

Speakers:

Seiya Owada, Managing Executive Officer

Naomi Imoto, Head of Financial Strategy, Investor and Public Relations

[Question] Looking at page 4 of the financial results presentation, customer acquisition costs have increased significantly. Could you please explain the factors behind this increase?

[Answer] Rather than any specific business showing remarkable growth, each business has been steadily establishing a structure to generate stable recurring operating profit. Given the favorable returns, we were able to allocate customer acquisition costs in a well-balanced manner across the businesses to support future recurring operating profit expansion.

[Question] Looking at page 9 of the financial results presentation, look-through earnings for 12 months ending Q1 2026 are much higher than the increase in investments. Is this mainly attributable to Japanese portfolio, or is international portfolio contributing more to this result?

[Answer] Approximately 80% of the stocks we hold are Japanese companies. Therefore, we recognize that the growth in look-through earnings has been largely driven by Japanese portfolio.

[Question] Looking at page 9 of the financial results presentation, the book value of investments increased by 41.2 billion yen. Was there room to further increase investments?

[Answer] Our policy is to acquire opportunities whenever we judge they are undervalued, and we do not set specific investment targets or allocate funds toward predetermined amounts. Accordingly, we will continue to invest as long as undervalued opportunities exist, while refraining from new investments if attractive targets cannot be found. At present, there continues to be a certain number of compelling opportunities, and therefore we are maintaining our investment activities.

[Question] In relation to page 10 of the financial results presentation, have you analyzed the proportion of revenue from your equity-method affiliates that comes from exports versus domestic sales?

[Answer] Fundamentally, the revenue of our equity-method affiliates comes from the Japanese domestic market.

[Question] Could you please discuss what you are seeing regarding customer acquisition costs across your various business segments? Have they been increasing? Is competition intensifying? And are you still achieving your target return?

[Answer] Our company does not set goals such as market share expansion or revenue growth. Instead, we have established a clear hurdle rate and allocate costs as much as possible within that range.

Compared with the previous fiscal year, customer acquisition costs have increased across the board in areas such as electricity, telecommunications, beverages, and insurance. This is the result of proactively investing in profitable opportunities, and we believe it demonstrates that future recurring operating profit is being built up efficiently.

[Question] Regarding the US dollar exposure of your investment portfolio, FX volatility is causing significant fluctuations in your reported earnings and book value. Have you considered hedging your investments?

[Answer] First, with regard to foreign equities, foreign exchange does not impact on the profit and loss statement (P&L); instead, they are recorded under comprehensive income.

On the other hand, what is recorded in the P&L as foreign exchange gains or losses mainly comes from U.S. dollar-denominated deposits and foreign currency-denominated bonds. We hold U.S. dollar deposits and bonds for the purpose of diversifying risk so as not to be overly concentrated in yen-denominated assets, and we do not adopt a policy of further hedging against those positions.

[Question] Finance income and finance costs are converging rapidly – could you clarify the drivers (lower yields, higher funding cost, asset mix changes)?

[Answer] Last fiscal year, foreign exchange gains were recorded under finance income, whereas this fiscal year foreign exchange losses have been recorded under finance costs, which is the main factor.

As detailed under income before tax on page 6 of the financial results presentation, in the first quarter of last year, foreign exchange gains of 22.4 billion yen were included in finance income, while in the first quarter of this year, foreign exchange losses of 10.2 billion yen were included in finance costs.

[Question] With the Japanese equity market reaching new high levels, do you continue to see the same opportunities to invest capital in the stock market? If not, where do you think you will deploy the surplus capital going forward?

[Answer] Our investment policy is to acquire financially solid companies with stable businesses at undervalued prices. Therefore, if we do not identify investment targets that we deem undervalued, our basic approach is to suspend new investments.

At the same time, with domestic interest rates rising, our funding costs have also increased. Going

forward, we expect the pace of growth in interest-bearing debt to level off rather than continue at the same rate as before. Consequently, we anticipate that surplus capital will also show a relative decline.

Our fundamental policy is to prioritize investment in our operating businesses where returns are the highest, followed by allocating surplus capital to investment portfolio, and then directing a portion to shareholder returns. If no new opportunities for pure investment are found, surplus funds will be retained internally as cash and deposits.

[Question] There was a recent press release regarding a joint venture with Fullcast Holdings in the investment fund sector. Could you explain what that is?

[Answer] This initiative is positioned as Fullcast starting pure investments on a small scale and on a trial basis, drawing on our track record and investment expertise as a reference.

[Question] How do you expect your businesses to perform in a higher inflation environment?

[Answer] Amid the inflationary environment, we have been making appropriate price adjustments across our businesses, enabling us to respond flexibly and swiftly to cost increases. We currently view the impact of inflation as limited.

[Question] Could you discuss the M&A pipeline and the rationale for the acquisition of Zappallas?

[Answer] Zappallas is a company engaged in a content business centered on fortune-telling. Our company also has a content sales channel through mobile phone shops, handling approximately 100,000 transactions per month, and we determined that there is strong potential for business synergies between the two companies. This led to the current collaboration.

As for the details of our ongoing M&A pipeline, we do not disclose them individually, but there were no noteworthy deals in the first quarter.

[Question] Could you discuss the progress of your cross-selling collaboration with property management companies?

[Answer] At present, cross-selling in the electricity business is showing strong growth and delivering very favorable results. In addition, sales of water dispensers are also progressing steadily, and through collaborations with property management companies, the rollout of various services is steadily expanding.

[Question] Will Leoplace21 be treated as an equity method affiliate as a result of its buyback? Is this factored into this year's guidance?

[Answer] We are currently reviewing the latest figures to determine whether the company will qualify as an equity-method affiliate, and therefore we will only be able to comment once the second-quarter results are finalized. That said, this has not been incorporated into our current fiscal year guidance.

[Question] You mentioned that the acquired companies will make a full contribution next fiscal year. Could you provide more details on which business areas they operate in and what potential synergies you expect?

[Answer] As shown on page 5 of the financial results presentation, both revenue and recurring operating profit grew by 2% through M&A. This effect was mainly seen in the electricity and telecommunications segments, with each contributing roughly half.

Although these are classified as M&A in the current fiscal year, from the next fiscal year onward they will be treated as organic growth. After the acquisitions, we intend to leverage the operational expertise we have accumulated to date to further enhance business returns through cost reductions and strengthening the cross-selling initiatives. Accordingly, while the impact is reflected as 2% growth at this stage, from the next fiscal year onward we expect to achieve higher growth as these are incorporated into organic growth.

[Question] Regarding the increase in customer acquisition costs, does this suggest that you see an opportunity to deploy more capital into organic growth?

[Answer] Yes, that is correct. Customer acquisition has been progressing well.

[Question] Do you have a target payout policy for dividends or share buybacks, given that you have maintained a total payout ratio of around 30–35% in the past? With your net debt continuing to increase, is there a leverage level you aim to maintain?

[Answer] With regard to dividends, our policy is to return to shareholders in line with the growth of recurring operating profit. We have continued to increase dividends consecutively, and we will remain mindful of maintaining a progressive dividend policy going forward. As for share buybacks, our policy is to execute them flexibly if there is a significant decline in the share price.

In terms of interest-bearing debt, we do not have a specific leverage ratio formally defined internally. However, having recently obtained a rating from S&P, their view was that in a downside scenario where our net debt-to-EBITDA ratio consistently exceeds 4x, there could be a risk of downgrade. Therefore, we intend to maintain our financial soundness with awareness of this 4x level as one reference indicator.

[Question] Could you provide the churn rate for our electricity segment in the latest quarter versus the same period last year?

[Answer] The average monthly churn rate in the first quarter of the fiscal year ending March 2026 was 3.0%. This represents a slight increase compared with 2.4% in the same period of the previous year.

[Question] Could you provide more information about the trend of customer acquisition cost per subscriber across each business? How much has it decreased over the past few years?

[Answer] In the electricity business, overall customer acquisition costs have been declining. In contrast, in the telecommunications business, the increase in online advertisement expenses has led to somewhat higher acquisition costs per subscriber. In the beverage business, costs have been gradually decreasing as the utilization rate of our new plant has increased. In the insurance business, acquisition costs per customer have also been trending downward due to the increase in the number of acquisitions. In the solutions business—particularly in EPARK—our strategy of focusing on high-performing stores has been successful, resulting in higher returns and steadily declining acquisition costs.

These are the trends in customer acquisition costs across each business. By way of supplement, I would note that we set a clear hurdle rate for the acquisition costs we are willing to invest. For example, in the electricity business, when selling long-term contracts, we can justify spending higher costs because of the assumption that sufficient future cash flow can be secured. This is not a matter of rising costs due to intensifying competition, but rather a rational decision based on future profitability. Please understand that our policy is not to make customer acquisitions in a way that sacrifices returns.

[Question] The cost of sales increased at a faster pace than revenue and SG&A. Is this structural, such as utilities or telecom pass-through costs, or more temporary in nature? Can this be offset through pricing actions or bundling initiatives?

[Answer] We recognize that the primary driver has been the growth of the electricity business, particularly the expansion of high-voltage electricity. When sales of high-voltage electricity increase, costs also rise, and as a result, the recurring operating profit to revenue ratio tends to be lower compared with low-voltage electricity.

With regard to price revisions, our policy is to implement them flexibly at appropriate times. However, since it is also necessary to assess the impact on churn rates, we make decisions carefully while maintaining balance. Rather than price revisions, we are focusing more on strengthening cross-selling and supplementary services.

[Question] What are the biggest challenges in 2026?

[Answer] We recognize that maintaining returns while expanding recurring operating profit is a highly challenging endeavor. With our long-term targets set at 10% growth through organic business expansion and 5% growth through M&A, it is essential that we steadily advance customer acquisition to ensure solid profitability. In addition, reducing the churn rate is also one of our key priorities.

[Question] Could you share an update on your AI initiatives? In addition, could you also elaborate on the extent of cost savings you expect to achieve?

[Answer] Rather than launching entirely new businesses using AI, we are advancing AI implementation within our existing businesses with the aim of improving operational efficiency and reducing costs. Each business division has set clear targets and is working on operational improvements through AI, with the goal of optimizing headcount and increasing profit per employee. At present, we are proceeding with phased pilot programs.

As a specific example, in call center operations, we are shifting customer verification calls to AI-based responses, which we expect will contribute to cost reductions in the future. While this will not have a major short-term impact, we anticipate that the benefits will become more evident over the coming years. We will continue to provide updates on our progress.

[Question] In the U.S. market, AI-related stocks have been driving share prices. Does your investment portfolio include any AI-related companies?

[Answer] Our investments are focused on undervalued companies that have recurring businesses and a stable financial foundation. Therefore, we do not invest in highly volatile, cutting-edge AI-related companies.

This concludes our earnings call. Thank you very much for your attendance today.