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FYE March 2026 Q3 Earnings Call

February 12, 2026

Attendees :
Seiya Owada, Managing Executive Officer
Naomi Imoto, Head of Financial Strategy, Investor Relations and Public Relations

■ Financial Results Presentation

P1
We have revised our earnings forecast. Net income for the period has increased from 115 billion yen to 120 billion yen. This revision reflects a change in the assumed USD/JPY exchange rate from 146 yen at the beginning of the period to 150 yen. Accordingly, we have made an upward revision of 5 billion yen.

P2
This is the five-year average growth rate. Operating profit, shown outside the orange frame, has been steadily increasing, achieving an average growth rate of 10% over five periods. As can be seen in the figure at the top, 18.3 billion yen for the third quarter of the fiscal year ended March 2021, has grown to 30.9 billion yen for the current fiscal year, demonstrating steady expansion. The five-year average growth rates are 32% for equity-method investment income and 37% for interest and dividend income. As a result, net income has also grown steadily at 25%.

P3
Shareholders' equity has also achieved a five-year average growth rate of 26%. In the third quarter of the current fiscal year, it reached 1 trillion 131.9 billion yen, showing steady growth. The equity ratio has also risen by approximately 10 percentage points, from 31.9% in the third quarter of the fiscal year ended March 2021 to 41.6% this quarter. Earnings per share increased from 298 yen in the third quarter of the fiscal year ended March 2021 to 964 yen in the most recent third quarter, with a strong five-year average growth rate of 26%.

P4
All performance indicators have reached record-high levels. In particular, recurring operating profit increased by 10%, while operating profit rose by 2%. Although there was an impact from foreign exchange gains, profit before tax excluding such gains also grew steadily by 8%. Comprehensive income amounted to 240.2 billion yen; while this is not reflected in operating profit or profit before tax, unrealized gains also increased significantly, rising by 88.6 billion yen. Furthermore, as mentioned at the outset, we have made an upward revision driven by the impact of foreign exchange, and we are projecting net income of 120.0 billion yen for the period.

P5
This is profit and loss by business segment. Overall revenue increased by 8%. As

shown in the breakdown, the insurance segment grew by 29% and the finance segment by 31%. recurring operating profit, an important indicator, increased by 10% overall. Looking at the breakdown for recurring operating profit, the insurance segment again showed strong growth, increasing by 35%.

P6
Sales performance has been very strong. First, in the electricity business, the number of contracts acquired increased by a total of 33% year-on-year. As shown in the breakdown, high-voltage declined, but this was more than offset by a significant increase in low-voltage contracts. In telecommunications, while communication lines declined, IT increased by 55%. The insurance business also recorded substantial growth.

P7
Profit before tax increased by 8% year-on-year. Looking at the breakdown, as mentioned earlier, equity-method investment income as well as dividend and interest income have grown significantly.

P8
Cash flow was negative overall, while EBITDA stood at 101 billion yen. The primary factors were changes in receivables and payables, particularly a decrease of 88.5 billion yen mainly due to an increase in receivables in the finance business.

P9
This shows changes in shareholders' equity. Shareholders' equity reached 1 trillion 131.9 billion yen in the third quarter, representing a 24% increase year-on-year. As shown in the breakdown, the previously mentioned unrealized gains of 88.6 billion yen made a significant contribution.

P10
This is investment holdings performance. Against an acquisition amount of 831.9 billion yen, unrealized gains were 615 billion yen, bringing the market value to 1 trillion 446.9 billion yen. Earnings Yield (EY) was 16.4%, up from 12.5% in the fiscal year ended March 2021. We believe this reflects the strong performance of our investee companies. The dividend yield stands at 4.1%.

P11
The number of listed equity-method affiliates increased by two to a total of 43 companies. Media Do Co., Ltd. and Yuasa Funashoku Co., Ltd. have been newly added.

P12
For the dividend forecast, we have announced an increase of 5 yen from the second quarter result of 185 yen. This marks a projected 15th consecutive annual dividend increase and 23 consecutive periods without a dividend reduction.

P13

Regarding total shareholder returns, the payout ratio for this fiscal year is 31%, and the cumulative payout ratio over the past ten years is 35%. We intend to continue managing the company with a strong focus on shareholder returns.

P14

In summary, our businesses are performing very well, with recurring operating profit increasing by 10.5% year-on-year, and revenue, recuring operating profit, and operating profit all reaching record highs. As explained, investment holdings have also grown, with an EY of 16.4% and look-through earnings of 136.7 billion yen. To reiterate, dividend and interest income have also shown strong growth. Regarding shareholder returns, we have announced a 5 yen dividend increase. Additionally, of the total 10 billion yen share buyback resolution announced on November 11, 2025, we expect to acquire 6.0 billion yen worth in the current fiscal year.

■ Q&A Session
(1) Earnings call for Japanese investors

【Question】I have two questions. First, regarding the electricity segment in the third quarter. Recurring operating profit has declined and operating profit appears somewhat weak, which gives the impression that conditions are quite challenging. While low-voltage is performing well, competition in high-voltage seems to be intensifying. Could you explain the current state of the electricity business, whether it is reasonable to expect a recovery from the fourth quarter onward, and the reasons behind the weakness in the third quarter?

【Answer】Regarding the electricity segment, the reality is that competition has become quite intense. As a standard practice across all our businesses, we do not operate with the sole objective of expanding market share. Rather, our management approach is to adhere to our defined hurdle rate and prioritize returns. As a result, amid intensifying competition, we recognize that it has become more difficult to secure the same level of returns compared to the previous fiscal year. We are not pursuing a simple price-driven approach for high-voltage services; instead, we are shifting to a proposal-based sales strategy that combines multiple solutions. As for recurring operating profit in the third quarter, there are seasonal factors that have resulted in a slight decline compared to the previous quarter. On the other hand, in low-voltage, the number of contracts increased by 34%. Regarding the decline in operating profit, our customer acquisition costs correspond to agency commissions, so the impact from significantly increased acquisition activity is being accounted for ahead of the associated returns. At this point in time, we are forecasting positive operating profit in the electricity business, and recurring operating profit is expected to increase by more than 10% in the fourth quarter.

【Question】What specifically is the reasoning behind the expected recovery in electricity and gas in the fourth quarter?

【Answer】Due to seasonal factors in the third quarter, the total recurring operating profit declined; however, based on past trends, in the fourth quarter recurring operating profit tends to increase. We attribute this to seasonality, which we believe to be the primary factor. The number of contracts is steadily increasing, and our holdings are also growing, particularly in low-voltage, so we are not overly concerned. That said, as you pointed out, it is also true that competition for customer acquisition has intensified.

【Question】This relates to my second question. You have indicated that you aim to continue growing recurring operating profit at 10%, and 15% including M&A over the long term. However. from an external perspective, it seems that unless recurring operating profit from electricity and gas continues to grow, achieving this may be difficult. Given the increasingly competitive environment in high-voltage, is it still possible to achieve 10% organic growth and 15% including M&A? If so, do you intend to drive growth through low-voltage and gas within the electricity and gas segment, or is the view that other businesses are growing and electricity and gas will remain stable? Please explain your medium-to-long-term thinking on recurring operating profit.

【Answer】Even when looking at the number of contracts, high-voltage has not historically been a particularly large business in terms of volume. Therefore, even if competition intensifies in high-voltage, it does not immediately lead to a situation where organic growth cannot be sustained. In addition, we have been expanding our range of business opportunities. Of course, we expect growth to continue centered on low-voltage electricity, including in the next fiscal year, but beyond that, we also anticipate growth in the beverage business, the insurance business, and solutions businesses. As such, we believe that achieving organic growth of over 10% is fully feasible.

【Question】So, is it correct to understand that low-voltage is performing well and that businesses outside electricity and gas are also developing, giving you greater confidence?

【Answer】That is correct. Without overextending ourselves, while maintaining returns, we believe we can sufficiently target growth of over 10%.

【Question】I have two questions. First, regarding the competitive environment for each electricity service category – residential low-voltage, small-and-medium-sized business low-voltage, and high-voltage – could you provide more detail on who you are competing with in each area? It appears that residential low-voltage faces relatively little competition and is growing, but I would appreciate a more detailed explanation broken down by service.

【Answer】First, in high-voltage, the reality is that major players such as TEPCO and Kansai Electric have been intensifying their competitive efforts. This primarily takes the form of price competition, but we determine how far to respond based on returns and IRR. In this context, for high-voltage we are not pursuing a simple price-driven approach; instead, we are shifting toward a proposal-based sales strategy that combines multiple solutions. On the other hand, in low-voltage, rather than competing with specific companies, we are seeing strong growth driven by collaboration with investee companies and property management firms, as well as our proactive approach to the rental housing market through investment holdings initiatives compared to other companies. That is the current competitive landscape.

【Question】Regarding low-voltage, it seems that the industry environment has escaped its worst phase. Is there not a sense that new retail electricity providers will use this as an opportunity to compete more aggressively?

【Answer】I apologize, but we would need to reconfirm that with our front-line teams. At present, however, we have not heard much about any particular company making a notably aggressive push.

【Question】Second, in addition to electricity, the insurance and beverage segments have performed quite well. Could you explain the factors behind their strong performance and their sustainability?

【Answer】First, in insurance, we focus on policies related to communication devices such as smartphones and personal computers. Fortunately, there is limited competition, our alliances with distributors are highly developed, and because the target is communication devices – with a potential market of 100 million to 200 million units – there remains significant room for further penetration. Given the limited competition and the large target market, we believe there is continued growth potential. As for water (beverages),we hold a dominant position, with an overwhelmingly large number of units held and sold. It is not the case that competitors are aggressively challenging us. While I would not say there is no competition at all, we believe that steady performance will continue under these conditions.

【Question】One more point, which I believe relates to operating profit. With regards to the finance segment, operations were strong in Malaysa etc., but the overseas situation is somewhat difficult to understand. Could you provide a general overview?

【Answer】Regarding overseas activities, we primarily operate in Malaysia and Cambodia. With respect to Cambodia, some may have had concerns due to civil conflicts and similar issues, but since our operations are not near border areas, the impact has been minimal, and the effect on performance is negligible. Both countries remain markets with significant growth potential, and operations are continuing steadily with no particular reason for concern. Malaysia is also growing steadily.

【Question】Regarding the factors putting pressure on operating cash flow, it was explained that this is due to an increase in receivables in the finance segment. Could you explain this in simpler terms, including the business model?

【Answer】Primarily in Japan, we provide leasing for small and medium-sized enterprises, as well as credit and installment sales for individuals. In addition, in Malaysia and Cambodia, we offer installment sales for motorcycles, smartphones, automobiles, and similar items. Since we provide funds to customers upfront, this is a forward-investment-type business model, meaning cash outflows occur first. Subsequently, we recover the funds along with fees, which is a typical finance business model. As the business expands, cash outflows increase in line with the growth in transaction volume. This is a standard characteristic of such business models.

【Question】Regarding the electricity segment, capacity contribution unit prices are rising in the next fiscal year. How will this affect your electricity procurement costs? For example, if procurement is mainly from the wholesale market, is there no impact?

【Answer】Our pricing structure is basically designed to pass such costs on to customers, so we will consider price revisions as necessary.

【Question】Under your financial discipline policy of maintaining cash equivalent to three years of interest-bearing debt, available cash is decreasing. There is currently a gap of 102.7 billion yen relative to this benchmark. As the finance business is expected to continue expanding, how do you plan to manage cash? Possible measures might include relaxing financial discipline regarding cash-on-hand, converting equity investments into cash, prioritizing certain businesses, or raising long-term funds even at somewhat higher base interest rates. Could you share the measures you are currently considering?

【Answer】We are not considering any changes to our financial discipline standards. Our policy of maintaining three years' worth of cash holdings remains unchanged. Going forward, there will be bond redemptions and other factors that require us to increase our cash holdings. While rising interest rates are leading to higher interest expenses, we intend to firmly maintain financial discipline and safeguard our financial health. In that sense, our cash on hand currently exceeds 100 billion yen and is ample, and we aim to restrain interest-bearing debt over the medium to long term. Regarding cash allocation, in terms of whether to invest in equities or financial receivables, we will be more selective than ever, allocating capital only to areas with the best returns and the ability to appropriately grow performance. Decisions on allocating to equities versus the finance business will be made case by case. As for raising long-term funds in a high interest rate environment, we will also evaluate this based on the conditions at the time and make a decision accordingly. Furthermore, we intend to strategically assess funding maturities while considering the balance of debt repayment peaks.

【Question】Regarding cash holdings, are there any standards for bond holdings, such as maturity? If you are able to disclose, could you provide an approximate breakdown of bond holdings?

【Answer】We do not set specific limits such as maturities. We invest in bonds in a diversified manner, taking into account yields and interest rates. At present, the assets we disclose are investment grade or higher, and we also hold some amount of securities outside that category. As for allocation ratios, we do not disclose this information.

【Question】Regarding securities investments, we understand that your investments are not short-term, such as three or six months. Over the past three months, unrealized gains and realized gains have increased, although profits may have been higher in the first half of the period. How do you evaluate current performance?

【Answer】As you pointed out, unrealized gains are solid, and we are also proceeding with partial sales of positions that have become highly valued. As mentioned earlier regarding interest-bearing debt, since surplus funds have decreased, from a cash allocation perspective we are currently considering restraining investment in equities somewhat. Our evaluation is based on long-term horizons of 5, 10, and 20 years. While stock prices are currently high, we believe there are still many high-quality companies that are undervalued, and we will continue to invest in such companies.

【Question】I have two questions. First, regarding the Class B shares of Premium Water Holdings introduced in the most recent quarter. Some view there to be a risk if the Tokyo Stock Exchange does not recognize these shares as tradable shares. Is it correct to understand that there have been no particular updates at this point and that matters are proceeding appropriately in accordance with TSE rules?

【Answer】Yes. We have confirmed this with third parties and also with the Tokyo Stock Exchange, and appropriate disclosures have been made by Premium Water Holdings.

【Question】Second, I apologize for asking again, but could you elaborate on your free float capacity? Considering listing criteria for the Prime Market, this also relates to the scope for share buybacks. How much flexibility do you believe you currently have? Also, the shareholder composition may change at next year's general meeting, which could affect the free float ratio – please share your outlook on this as well.

【Answer】Regarding the tradable share ratio, we firmly meet the listing criteria for the Prime Market of 35%. In terms of capacity for share buybacks, assuming cancellation, we hold approximately 6% to 7% of issued shares, which, depending on the share price, represents capacity of roughly 100 billion to 120 billion yen. We will continue to carefully consider share buybacks while monitoring the appropriate time to proceed.

【Question】Could you clarify your priorities between purchasing shares in the market and buying back your own shares?

【Answer】The key consideration is whether they are undervalued. As undervalued stocks in the market have decreased compared to the past, we assess on a case-by-case basis whether market investments or our own shares are more attractive. That said, we do not believe they can be directly compared, and we will make decisions based on prevailing conditions.

【Question】On a quarterly basis, sales of investment securities in the third quarter reached 110 billion yen, which are historical highs. Purchases were of a similar magnitude, suggesting large-scale rebalancing. Could you explain the background to this development?

【Answer】It is not that we have conducted large-scale sales per se, but against the backdrop of rising stock prices, we do sell shares that we consider to have become overvalued relative to our assessment. Recently, as seen in quarterly figures, gains on sales have increased, and sales have progressed. Proceeds are generally reinvested, and we use them to purchase undervalued shares. Rather than rebalancing, this reflects our usual approach, and there has been no change in our equity investment policy.

【Question】Could you provide an overview of lending rates, loan growth, delinquency rates, and default rates in your finance business in Asia?

【Answer】Lending rates in Asia are generally near the upper limit rates. Outstanding receivables in the finance business have increased, reaching approximately 220 billion yen recently, up from around 170 billion yen at the end of the previous fiscal year – an increase of about 50 to 60 billion yen. This is one of the factors behind the negative operating cash flow mentioned earlier. Regarding delinquency and default rates, in Japan we serve customers who may be somewhat below the standards of those targeted by traditional non-bank companies, resulting in higher levels. However, this is reflected in our fee structure, where we charge higher premiums. While higher compared to peers, we leverage our proprietary know-how and use collection agencies to ensure proper recovery. Overseas, we have also established servicing operations to manage this.

In summary, toward the end of the fiscal year, as mentioned earlier, we will firmly grow recurring operating profit, targeting a minimum annual growth rate of over 10%. Over the medium to long term, we aim for 15% growth, and we intend to steadily build our performance. On the ground, we remain focused on steadily growing recurring operating profit. We hope you look forward in anticipation of our full-year results.

If there are no further questions, this concludes the third quarter financial results briefing. Thank you very much for your participation today.

(2) Earnings call for Overseas investors

Attendees :
Hiroyuki Ohashi, Managing Executive Officer
Naomi Imoto, Head of Financial Strategy, Investor Relations and Public Relations

【Question】 How do you calculate the five-year business return by product (including the definition of profit, churn assumptions, and the evaluation period)?

【Answer】 Returns are monitored at the individual product level across all segments. More specifically, we estimate the recurring operating profit expected over the next five years against customer acquisition costs, with key KPIs, including churn, collection rates, and pricing, reviewed and refreshed on a quarterly basis.

【Question】 Is the increase in acquisition costs due to a rise in high-IRR investment opportunities? Or is it because, as returns trend downward, more acquisition spending is required to sustain the same growth rate? Also, in which segments has the payback period lengthened the most?

【Answer】 In addition to managing performance at the segment level, we also manage each product and plan individually within the same segment, and therefore growth rates differ accordingly. For example, in the energy business, customer acquisition in retail products has been particularly strong recently, and we are actively investing in acquisition costs in response. Given that we operate across a diverse range of segments and products, there will naturally be cases where growth rates decline in certain businesses. In such situations, we do not lower our hurdle rate simply to pursue growth. Rather, our approach is to aim for maximum growth within the bounds of maintaining our prescribed return thresholds. The metric we place the greatest emphasis on is return.

【Question】 At what churn rate would your 2x return hurdle no longer be met? In addition, are any of your key segments currently close to that threshold?

【Answer】 We consider returns as our most important management metric. For example, if a business cannot generate returns that sufficiently meet our required threshold even after deploying a certain level of customer acquisition cost, we classify it as non-core business and proceed with divestment where appropriate. In the past, we operated mobile phone retail shops, but as returns declined, we withdrew from direct operations and shifted entirely to an agency model. In this way, we continuously monitor returns, divesting or exiting businesses that fail to meet our standards and concentrating only on those with higher returns.

【Question】 From today's base, what do you see as a realistic through-cycle growth rate in recurring operating profit per share over the next 5–10 years? And roughly how much of that growth would be attributable to customer acquisition costs (CAC), M&A, and price/mix effects?

【Answer】 First, with respect to the organic growth rate of recurring operating profit, we consider 10% per annum to be a realistic expectation. We will continue to pursue M&A proactively, but since it depends on timing and other factors, we consider it separately from base growth. If possible, we would like to achieve approximately an additional 5% per annum through M&A. As for customer acquisition costs, assuming a 2x return hurdle, we can derive the appropriate level of investment. We apply the same return criteria to M&A as well. Rather than deploying acquisition costs internally to build up customers, we aim to acquire them more cheaply through M&A, and therefore we manage returns on M&A with the same level of discipline.

【Question】I have a few questions regarding your investments. First, based on the current portfolio size, what forward pre-tax IRR do you assume for the investment portfolio? What implications would that have for long-term growth in book value per share after dividend payments and share buybacks?

【Answer】First, with respect to IRR, we manage our investments at a pre-tax level of 18%. In addition, our company consists of two aspects: operating businesses and investment holdings. On the business side, recurring operating profit is growing, which drives growth in value per share. At the same time, in the equity investment domain, the operating profits of our portfolio companies are expanding, contributing to an increase in Hikari Tsushin's value per share. This is reflected in metrics such as the growth in look-through earnings and increases in dividend income received under our investment holdings indicators.

【Question】I recall that you previously explained that when market valuations are elevated, you intend to refrain from increasing interest-bearing debt or expanding investment holdings. Against that backdrop, we have recently seen an increase in securities acquisitions and the issuance of longer-dated bonds. Could you please elaborate on the background and rationale for these developments?

【Answer】There has been no change in our policy. With respect to investment holdings, we invest only in stocks that we judge to be undervalued based on our own criteria; even if a company is fundamentally strong, we do not invest if it appears overvalued, and we continue to adhere to this discipline. As for the increase in borrowings, this reflects the prolonged low-interest rate environment; when we have opportunities to raise funds on a long-term and low-cost basis, we execute accordingly. Given that interest rates in Japan are trending upward, if this trend continues, we expect the pace of financing to moderate gradually.

【Question】What hard limits do you set for the portfolio size as a percentage of equity, for single-name exposure, and for sector exposure?

【Answer】We do not set hard portfolio limits such as caps on individual position sizes or sector allocation targets. In making investment decisions, we first assess whether the target company has a strong business model and a sound financial foundation. Only after these conditions are satisfied do we invest, and only when the valuation is sufficiently attractive. Accordingly, we do not establish firm ratio targets.

【Question】In light of the foreign exchange losses on overseas bonds and deposits, has your approach to currency mix or hedging changed in any way? If so, what conditions would lead you to revise that stance?

【Answer】We diversify our currency exposure to a certain extent rather than limiting it solely to the Japanese yen, from a risk management perspective. Although the majority of our operations are conducted in Japan and we generate cash domestically, even if we maintain a high growth rate in Japan, overseas investors may not view our growth as sufficient if the value of the Japanese yen declines from a global perspective. In light of such risks, we maintain a certain level of currency diversification.

【Question】I have three questions. First, recurring operating profit in the energy segment declined 5% year on year in the third quarter. What were the key factors behind this? Also, could you share your outlook for the fourth quarter?

【Answer】The primary reason for the decline in recurring operating profit in the third quarter was seasonal fluctuations in electricity usage. Differences in temperatures compared with the same period of the previous year led to changes in electricity consumption, which in turn resulted in the variance observed.

【Question】Secondly, the ratio of customer acquisition cost to recurring operating profit is significantly higher in the beverages segment than in telecommunications. Could you elaborate on the reasons for this disparity?

【Answer】Recurring operating profit represents the cumulative total built up over many years, whereas acquisition cost, for example, on a nine-month cumulative basis, refers only to the acquisition costs incurred during that period. As a result, the calculation effectively divides the acquisition costs invested in the period by recurring operating profit, which has been accumulating over a long period of time. The longer a business has been operating, the larger the accumulated recurring operating profit becomes, and therefore, dividing acquisition costs by recurring operating profit produces the discrepancy observed. In other words, it is driven by differences in time horizons. If returns are constant, then on a single-year basis, the recurring operating profit generated in that year corresponds to that year's acquisition costs. However, actual recurring operating profit includes the total amounts accumulated in prior years, and this difference in time frame is what creates such a gap.

【Question】Third, in recent months Hikari Tsushin's shares have underperformed the TOPIX 1000. How do you analyze the factors behind this?

【Answer】Naturally we cannot control the market itself. We recognize that short-term relative share price performance is influenced by external factors such as overall market fund flows and sector rotation. At present, we believe our shares are undervalued, and accordingly we are conducting share buybacks.

【Question】What percentage of new low-voltage electricity and water contracts is now sourced via apartment and property-related channels? Additionally, how do the margins and churn rates of these channels compare to those of other distribution channels?

【Answer】In the low-voltage residential energy segment, more than 90% of contracts are for rental apartments. As apartment units typically consume less electricity than detached houses, recurring operating profit per unit is comparatively lower, but acquisition costs per unit are also kept lower. In contrast, in the water dispenser business, we do not have a channel dedicated specifically to rental properties. Instead, we operate through multiple channels, including traditional event-based sales and various alliances with our partners. As a result, our customer mix is broadly in line with the overall composition of the detached housing and rental housing markets in Japan.

【Question】Over the next five to ten years, who do you expect will ultimately control the customer relationship in your core markets – property owners, digital platforms, utilities, or Hikari Tsushin itself? Furthermore, what steps are you taking to ensure that you retain that leadership position?

【Answer】While there are uncertainties regarding the future outlook, we believe that in the energy, water dispenser, and insurance businesses alike, it is ultimately the end user who chooses the service. Accordingly, our basic policy is to prioritize and value the end user. At the same time, we place importance on our relationships with various stakeholders, including housing management companies and other referral partners, and we believe it is crucial to carefully manage and maintain the customer accounts that we bill on a recurring monthly basis. Building on this foundation, our strategy going forward is to further strengthen cross-selling to our existing customer base.

【Question】If major partners were to seek a greater share of the jointly created value, how would you safeguard your economics and preserve your returns?

【Answer】We do at times hold discussions with key partners, such as landlords and building management companies, regarding revenue sharing. Simply increasing the partner's share would reduce our returns, so we do not make changes to the allocation ratio nonchalantly. Instead, we propose that they sell additional products alongside the existing offerings. In addition to expanding the product lineup, we provide mechanisms that make it easier for partners to conduct sales and enhance their earnings with minimal effort.

【Question】With respect to interest-bearing debt maturing within the next three years, how much do you aim to hold in cash reserves in excess of that amount? And do you have a clearly defined minimum threshold for this level?

【Answer】Please allow me to explain our financial discipline. We currently hold ¥588.0 billion in cash, while interest-bearing debt maturing within three years totals ¥485.9 billion. We continuously monitor this balance and maintain a policy of holding cash reserves in excess of the interest-bearing debt due within the next three years. At present, we are maintaining a surplus of more than ¥100.0 billion.

【Question】Based on S&P's methodology, what is your current net debt-to-EBITDA ratio? Furthermore, considering potential downgrade triggers, what internal upper limit do you operate within?

【Answer】This fiscal year, we have undertaken substantial financing, including the issuance of foreign bonds, and as a result, our net debt-to-EBITDA ratio is expected to exceed 4x. Since S&P's downgrade trigger is a sustained ratio above 4x, our policy is to manage our financial position so that it does not remain above 4x on a continuous basis. Although we expect the ratio to exceed 4x this fiscal year, we will control our financial management from next fiscal year onward to ensure that it does not surpass that level.

【Question】If your financial discipline or net debt-to-EBITDA levels were to be breached, which items would you prioritize for restraint or review –investment holdings, customer acquisition costs, M&A, share buybacks, or dividend growth?

【Answer】We review our businesses in order from those with the lowest returns. We generate a 30% IRR in our operating businesses, while our investment holdings generate an 18% IRR. For M&A, we also make decisions based on the prevailing level of returns at the time, and if valuations are high, we refrain from executing. Taking the overall situation into account, we would suspend activities sequentially, starting with the areas that generate the lowest returns.

【Question】Global equity markets have become increasingly volatile amid developments surrounding AI. Do you see attractive investment opportunities in the semiconductor or SaaS sectors in Japan?

【Answer】We are not particularly focused on specific sectors such as AI, semiconductors, or SaaS. Rather, we select only companies that have strong and stable businesses, sound financial foundations, and attractive valuations. Within the SaaS sector, for example, there are both high-quality companies trading at reasonable valuations and others that are overvalued. Therefore, we do not make decisions based on sector preferences, but instead evaluate each company on a standalone basis.

【Question】At present, what risks do you believe may not be fully reflected by investors but could cause your strategy to deviate from plan? And if such risks were to materialize, what specific actions would you consider or implement in response?

【Answer】In our businesses, we already factor in events such as rising churn rates and the emergence of new competitors. Accordingly, we believe that we have taken the necessary measures to address the risks currently identified. Therefore, if a risk that we have not yet recognized were to materialize, we would regard that as a "true" risk.

【Question】In order to facilitate a clearer assessment of risk and return, would you consider separating operating book value per share from investment book value per share in your disclosures, or alternatively ring-fencing the investment portfolio?

【Answer】We have long received feedback that Hikari Tsushin’s valuation is difficult to assess because we operate both business and investment segments simultaneously. While we recognize this contention, it should be noted that we do not manage our operations by clearly delineating business and investment activities; rather, we allocate capital in an integrated manner. Therefore, figures divided into business and investment segments based solely on accounting classifications do not necessarily reflect the underlying economic substance of our company. In practice, we manage our businesses at an IRR of approximately 30% and our investments at around 18%, allocating capital under disciplined return criteria. As a company, we prioritize long-term growth in value per share over formal segmentation, and we will continue to consider the appropriate approach to disclosure going forward.

With that, we would like to conclude today’s session. Thank you very much for your time and for staying with us throughout the discussion.