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Domestic Earnings Call for the First Quarter of the Fiscal Year Ending March 2027

August 14, 2026

Attendees :
Hideaki Wada, President, Representative Director and COO
Naomi Imoto, Head of Financial Strategy, Investor Relations and Public Relations

■ Financial Results Presentation

P1

The quarterly trends for the most recent five fiscal years are presented on this page. Share of profit (loss) of equity-method investments increased from 2.9 billion yen a year ago to 5.7 billion yen in the current period. In addition, dividend and interest income increased from 16.5 billion yen to 19.8 billion yen. Against this backdrop, net profit increased from 28.1 billion yen to 36.6 billion yen, while comprehensive income increased from 51.5 billion yen to 77.9 billion yen, indicating that overall performance has remained solid.

P2

Regarding the balance sheet, total equity attributable to owners of parent increased by approximately 300 billion yen, from 958.5 billion yen in the first quarter of the previous fiscal year to 1,252.3 billion yen in the current period. The equity ratio also increased to 43.4%, its highest level in the most recent five-year period. BPS also increased from 21,810 yen one year ago to 28,624 yen in the first quarter.

P3

For the first quarter results, revenue, recurring operating profit, operating profit, pre-tax profit excluding foreign exchange gains or losses, and comprehensive income all reached record highs. In addition, progress toward the full-year earnings forecast, as shown on the right, was approximately 25% for each item, indicating that performance is progressing steadily against this forecast.

P4

Next, I will explain the segment results on page 4. Overall, revenue increased 15% year on year, recurring operating profit increased 2%, and operating profit increased 6%.

Looking at the results by segment, revenue from the electricity and gas business increased 29% year on year. During the first quarter, costs increased due to higher crude oil prices amid developments surrounding the Strait of Hormuz, among other factors. Meanwhile, in addition to higher unit sales prices, the volume of electricity supplied also increased year on year, resulting in a 29% increase in revenue. As for costs, we generally pass them on to customers through market-linked pricing plans, although there is a certain time lag before the price increases can be reflected in customer billings. As a result, recurring operating profit remained flat year on year, but we expect solid growth on average for the first half of the fiscal year.

The finance business also continued to grow very strongly. While the results include some impact from foreign exchange fluctuations due to the weaker yen, the underlying business itself is steadily growing excluding these foreign exchange impacts.

The other segments also generally performed steadily.

P5
Pre-tax profit was 49.9 billion yen, or 46.3 billion yen excluding foreign exchange gains or losses. As mentioned earlier, both share of profit (loss) of equity-method investments and dividend and interest income increased from the previous year.

P6
Next, I will explain the cash flow on page 6. Business cash flow was 0.9 billion yen, while EBITDA was 33.5 billion yen. Dividend and interest income amounted to 22.8 billion yen.

P7
Total equity attributable to owners of parent was 1,252.3 billion yen in the current period. After deducting the decrease attributable to shareholder returns from the various positive factors, including net profit, after-tax gains or losses on the sale of securities, and an increase in after-tax unrealized gains, equity attributable to owners of parent increased by 66.6 billion yen.

P8
Next, I will explain investment holdings performance. Against an acquisition cost of 889.9 billion yen, unrealized gains amounted to 617.6 billion yen, and unrealized gains continued to increase steadily. In addition, earnings yield, calculated by dividing the look-through earnings by acquisition cost, was 17.1%, the highest level on record. The dividend yield was also 4.3%. Dividend income and realized gain/loss on sale, shown in the bottom two rows, amounted to 20.3 billion yen and 17.1 billion yen, respectively, both continuing at a very strong pace this fiscal year.

P9
There are 40 listed equity-method affiliates.

P10

For the first quarter, we increased the dividend by 5 yen to 200 yen per share and raised our full-year dividend forecast to 800 yen per share. Based on the current full-year dividend forecast, the dividend is expected to increase by 6% year on year. This would mark the 16th consecutive year of dividend increases and the 24th consecutive year without a dividend reduction.

P11

On May 13, we resolved to repurchase up to 10.0 billion yen of our own shares. As of the end of July, we had repurchased 2.27 billion yen of our own shares.

P12

Next, I will explain the trend in shareholder returns. For the current fiscal year, including both dividends and share repurchases, we expect a total payout ratio of 38%.

P13

To summarize the first quarter, our businesses are progressing steadily. As explained earlier, the electricity business was affected during the first quarter, but this was due to the time lag in passing on higher costs to customers, and we do not believe there are any significant issues with the underlying business itself. We hope you will review the results again when we announce our second-quarter results. Our investment holdings also continue to perform steadily.

Appendix 1

In the appendix, we have included information on our sales model and earnings model for the electricity business, which has received a significant number of inquiries, and we encourage you to review these materials as well. Our electricity business is fundamentally based on an asset-light, low-cost business structure, with a model that focuses on returns and which steadily accumulates profits.

Appendix 2

Lastly, we have also included information on our financial discipline, which we encourage you to review as well.

■ Q&A Session
Earnings call for Japanese investors

【Question】I have two questions. My first question is regarding the electricity and gas business. I understand that fluctuations in electricity prices may cause some volatility in quarterly performance. At the same time, looking at the first-quarter results, it appears that your customer acquisition strategy is shifting away from pursuing acquisition volumes toward placing greater emphasis on yield and profitability.

When should we expect this change in acquisition strategy to become clearly reflected in your financial KPIs? For example, should we expect to see the impact from the second quarter or the second half of the fiscal year, in areas such as growth in recurring operating profit or changes in customer acquisition volumes? Or, given that it may take some time for the change in acquisition strategy to be reflected in financial KPIs, should we assess the impact over a somewhat longer-term horizon? Could you please explain how we should think about the timing of this impact?

【Answer】Basically, that is correct. Since the fourth quarter of the previous fiscal year, particularly around March, which is our peak sales season, we have been reassessing channels with lower returns, and have continued this approach in the first quarter. Rather than pursuing near-term market share or customer acquisition volumes, we are scaling back or withdrawing from lower-yield channels and shifting toward customer acquisition with a greater focus on profitability. As a result, we expect customer acquisition costs to decline and our business structure to become more conducive to generating profits.

One point to note is that a reduction in customer acquisition costs does not necessarily mean that our future growth will slow. The key point is not only the reduction in the number of customer acquisitions, but also the significant reduction in the acquisition cost per customer.

At the same time, the benefits will not be reflected in profits all at once. We generally amortize customer acquisition costs over approximately three years, so we expect the positive impact on profits to emerge gradually over the current fiscal year, the next fiscal year, and the following fiscal year.

As we mentioned at our previous earnings briefing, we initially expected operating profit for the current fiscal year to be around 125.0 billion yen. We subsequently incorporated an approximately 5.0 billion yen benefit from the reduction in customer acquisition costs and currently forecast operating profit of 130.0 billion yen.

Compared with our previous plan, we are limiting the number of customer acquisitions in the electricity business, which has reduced customer acquisition costs. As a result, operating profit is currently trending above our expectations, while returns are also improving.

【Question】I understand the point regarding customer acquisition costs. On the other hand, could you also provide some guidance on the outlook for recurring operating profit for the current fiscal year?

Given that you have significantly scaled back lower-return channels this fiscal year, I assume there is a possibility that growth in recurring operating profit may remain somewhat subdued for a period of time. Could you please explain how we should think about the outlook for recurring operating profit for the current fiscal year?

【Answer】For recurring operating profit, we expect growth of approximately 8% year on year for the full fiscal year. We also expect growth of approximately 4% to 5% by the end of the first half.

As explained earlier, the first-quarter results were affected by a timing difference between the recognition of costs in the electricity business and the timing of passing those costs on to customers. Therefore, we believe that when you review the results again at the end of the first half, you will see that the underlying performance of the electricity business has not deteriorated significantly.

【Question】My second question is regarding investment holdings performance. I understand that it may not be particularly meaningful to focus on quarterly fluctuations in unrealized gains, but they declined slightly quarter on quarter. From April to June, for example, shares such as Arm and Intel, in which SoftBank Group has investments, performed strongly, so I assume that broader market conditions may also have had an impact.

On the other hand, some of these stocks saw corrections in July, which I would assume created a relatively favorable market environment for your portfolio. Of course, I understand that there is limited value in focusing on unrealized gains at a single point in time, but could you provide some commentary on the current situation in July and August? In particular, are unrealized gains trending upward again, and if possible, could you provide any indicative figures that you are able to disclose?

【Answer】Investment holdings have continued to perform very well in the second quarter. In July and August, there have been a series of MBOs and tender offers involving companies in our investment portfolio. As these relate to individual investments, it is difficult to provide specific details, but we have seen multiple such transactions.

In some cases, these involve investments that we would have preferred not to exit, but we have nevertheless continued to realize exits in the second quarter at premiums of several tens of percent.

As a result, our investment holdings are performing at a very strong pace, and if this trend continues, we believe there is a possibility that performance this fiscal year could reach a record high.

【Question】Could you briefly explain the impact of making FTGroup CO.,Ltd. a wholly owned subsidiary on earnings and the financial position for the current fiscal year? Also, has this impact already been incorporated into the full-year earnings forecast?

【Answer】FTGroup CO.,Ltd. was already a consolidated subsidiary, so making it a wholly owned subsidiary will not have a significant impact on the PL, BS, or other financial statements. From the second quarter onward, there will be a change in non-controlling interests, but the overall impact will be limited.

【Question】Look-through earnings increased by 24% year on year. Were there any particular investee companies that made a significant contribution to this increase?

【Answer】As this relates to individual investee companies, we will refrain from providing further details. The results reflect contributions not only from the equity-method affiliates we disclose, but also from other investee companies.

【Question】Interest-bearing debt has exceeded 1 trillion yen. Could you please reiterate your basic policy regarding debt management?

【Answer】Given the rise in interest rates, we do not intend to continue increasing interest-bearing debt at the same pace as in the past. At the same time, assuming that interest rates will rise further, we are raising long-term funds in advance at current interest rates in preparation for bond redemptions five to seven years from now.

The funds raised are basically held in cash. Therefore, rather than actively increasing interest-bearing debt, we are securing funds for future repayments before interest rates rise further.

【Question】If possible, could you provide a breakdown of revenue, recurring operating profit, customer acquisition costs, and operating profit for the telecommunications segment, separately for telecommunications lines and IT content?

【Answer】At present, we do not disclose separate figures for IT content and telecommunications lines, so we will refrain from providing further details. However, in terms of the overall telecommunication trend, IT content is growing, while telecommunications lines are declining.

【Question】Could you please explain the current delinquency rate and default rate in the finance business?

【Answer】Regarding the finance business, we will refrain from providing specific figures, but the default rate has remained at a very low level. Primarily in Cambodia and Malaysia, we conduct rigorous credit screening and have also developed expertise in collections, enabling us to maintain a low default rate compared with other companies.

【Question】My impression is that it has been relatively uncommon for the President to participate in the first-quarter earnings briefing in the past. Could you please explain the reason for your participation this time?

For example, was it because certain aspects of the business may appear temporarily weak at present, or has there been a change in policy whereby you will participate in the earnings briefing every quarter going forward? Could you please share your thinking on this?

【Answer】There was no particular intention behind it. The IR Department coordinates the speakers for each earnings briefing, and my participation this time was simply part of that process. There was no specific reason for my participation on this occasion.

【Question】Next, I would like to ask about the dividend increase. With the Company forecasting its 16th consecutive year of dividend increases, could you explain the background behind this latest increase, particularly in the context of your approach to shareholder returns going forward?

Was the decision made with the total shareholder return ratio in mind, based on the growth of the finance business and recurring operating profit, and the strong performance of investment holdings, or does it reflect a broader emphasis on maintaining continuous dividend growth in light of the overall business environment?

Also, regarding the share price, do you believe that a higher level than the current price would be desirable? With this in mind as well, could you explain the message you intend to convey through this dividend increase?

【Answer】As we have stated previously, our basic dividend policy is to increase shareholder returns in line with the growth of recurring operating profit.

We generate approximately 200 billion yen in recurring operating profit annually. After deducting approximately 70 billion yen in customer acquisition costs, this results in operating profit of approximately 130 billion yen, which reflects the simple earnings structure of our business. If we were to stop all customer acquisition activities, the business would generate approximately 200 billion yen in operating profit.

For this reason, recurring operating profit is the metric we place the greatest importance on, as we view it as the underlying source of our earnings. Our basic approach is therefore to increase dividends in line with the growth of recurring operating profit.

Looking at the first quarter alone, growth in recurring operating profit may not appear particularly strong. However, as mentioned earlier, the timing difference in the electricity business will be reflected in the second quarter, and we expect recurring operating profit to grow steadily for the first half of the fiscal year as a whole.

Accordingly, we would like you to understand that the latest dividend increase also reflects this growth in recurring operating profit.

【Question】This is a somewhat detailed question regarding the electricity business. You mentioned earlier that there is a timing difference in passing on costs. Given that Japan Electric Power Exchange (JEPX) prices are difficult to predict, if prices rise further, is there a possibility that the electricity and gas business could appear somewhat weak in the short term?

In that context, you mentioned that you expect recurring operating profit to grow by approximately 4% to 5% by the end of the first half of the fiscal year. Does this forecast incorporate sufficient buffer to absorb a certain degree of fluctuation in JEPX prices? Could you please explain the assumptions underlying this outlook?

【Answer】As we have experienced several times in the past, electricity prices are constantly fluctuating. When costs rise, selling prices also increase, which can lead to a slowdown in customer acquisition. If we were to pursue acquisition volumes aggressively under such conditions, customer acquisition costs would increase, resulting in lower returns. Therefore, rather than trying to increase acquisitions at all costs, we have shifted somewhat toward limiting acquisitions and focusing more on generating profits.

We have been operating market-linked pricing plans for approximately five years and have accumulated considerable operational expertise, including in optimizing our sales channels. We therefore believe that we are able to manage these fluctuations without significant issues.

In addition, even when costs rise, we have seen little impact in terms of a significant increase in the churn rate.

【Question】Lastly, I would like to ask about the progress of investment activities. Are there any updates you can share for this quarter?

【Answer】Regarding investment holdings, we basically remain in a phase of net selling and are not actively increasing new investments. At the same time, as mentioned earlier, we have seen exits through MBOs and tender offers occurring almost every month since April this fiscal year. Therefore, you can basically think of our reinvestment as being conducted within the amount of cash generated from these exits.

The investment team's IRR is also progressing at a very strong pace this fiscal year, and it is possible that it will reach a record-high level.

However, we also feel that the number of undervalued investment opportunities has gradually been declining. We are therefore cautious as to whether the same investment environment will continue five or ten years from now.

That said, at least for the current fiscal year, we believe our investment holdings have the potential to deliver record-high performance.

【Question】I would like to ask about the fund business that you are working on with Rheos Capital Works and other partners. Could you provide any updates or progress regarding the fund business during this quarter?

【Answer】The fund business is still relatively small in scale, so we are steadily moving forward with these initiatives.

As mentioned earlier, we do not believe that we are currently in a phase where we should increase borrowings to expand our equity investments. Therefore, from the perspective of diversifying our investment business, we are pursuing various initiatives in collaboration with a range of companies.

Our recently announced initiative with SBI Asset Management and our initiative with Rheos Capital Works are part of this approach. Going forward, we intend to continue diversifying our investment business in various ways, although these initiatives are not yet significant in scale at this stage.

【Question】I would like to ask about the electricity business. Wholesale electricity prices, like foreign exchange rates, are inherently difficult to predict. Do you view the recent price fluctuations as temporary? Also, even if such volatility continues, do you believe that its impact can be sufficiently absorbed through your operational capabilities?

【Answer】We do not know whether prices will remain high going forward, and predicting price movements itself is not something we place particular emphasis on. Regardless of how prices move, we operate the business while maintaining a certain spread.

In terms of how the results appear on a quarterly basis, there is a timing difference because, from an accounting perspective, costs are recognized first, while the corresponding impact on revenue is reflected later. We believe this timing difference can have either a positive or negative impact depending on the month.

At the same time, an environment of persistently high crude oil prices and higher costs is not necessarily negative for us. We are experienced in operating the business under such conditions and also have financial strength. In fact, amid the continued rise in costs, a number of competitors have withdrawn from the market or stopped acquiring new customers, and we currently have several M&A transactions in progress.

Therefore, we believe that periods when the overall market is under pressure and contracting can actually present opportunities for us.

【Question】I understand that historically, your market share has increased following periods of challenging market conditions such as these. You also mentioned that some competitors are withdrawing from the market or suspending customer acquisition, as well as the emergence of M&A opportunities. Against this backdrop, would it be fair to say that we are beginning to see signs of industry consolidation in the electricity market?

【Answer】If we see another spike in electricity prices like the one we saw in 2022, we believe M&A activity will accelerate further.

At present, an increasing number of electricity providers, including major regional electricity retailers, have stopped acquiring new customers due to the impact of higher costs. In particular, many providers offering fixed-price plans have suspended new customer applications.

In that sense, we view the current market environment as an opportunity and are actively pursuing opportunities.

【Question】I would like to ask about your cash position. You mentioned earlier that you have been generating a meaningful amount of cash through exits from your investments. How do you intend to utilize these funds going forward? Will they be reinvested, or do you intend to retain them as cash? Could you please explain your approach to capital allocation in this regard?

【Answer】Funds recovered through exits are initially held as cash. As mentioned earlier, we are generally not immediately reinvesting these funds in equities. As a result, our cash position has been increasing.

We are also raising funds, so both debt and cash are currently increasing on the balance sheet.

【Question】You discussed the long-term outlook for equity investments earlier. At the same time, interest rates are currently rising, and I believe the returns available from bonds and deposits have also increased compared with the past. In this environment, how are you currently thinking about the allocation of assets among equities, bonds, and deposits?

【Answer】As mentioned earlier, our equity position has remained broadly flat. Meanwhile, the cash generated from equity sales is being invested in instruments such as bonds and time deposits.

We also have bond redemptions coming due over the next three years or so, and we are utilizing short-term time deposits and other instruments while preparing for these repayments. Our finance team is managing our cash with the aim of generating as much financial income as possible from our cash holdings.

In the current rising interest rate environment, our large cash position is gradually making a greater contribution to earnings, and we are seeing the benefits of this compounding over time.

【Question】Until now, we have focused primarily on gains on sales and unrealized gains. However, looking at the latest results, it appears that financial income, including both dividend and interest income, has increased significantly.

【Answer】Yes. In fact, interest income increased so significantly year on year that we considered disclosing dividends received and interest income separately this time.

Even interest income alone, excluding dividends, has now reached a level that would require a considerable amount of effort to generate through our operating businesses. We expect this interest income to continue increasing going forward.

At the same time, we do not currently intend to actively allocate the additional funds generated in this way toward equity investments.

【Question】 Since your interest-bearing debt has been financed at long-term fixed rates, I would expect the spread between interest income and interest expense to widen as interest income continues to increase.

In addition, share of profit or loss of investments accounted for using the equity method also increased this quarter. Historically, I believe you have placed particular emphasis on operating profit. Going forward, however, could pre-tax profit, which also incorporates dividend and interest income as well as share of profit or loss of equity-method investments, become an increasingly important performance indicator? How do you think about this?

【Answer】 We would first like investors to assess the growth of our operating businesses through operating profit, and then look at profit before tax and, ultimately, comprehensive income.

In particular, unless you also consider gains on the sale of equities and the after-tax increase in unrealized gains, it has become difficult to fully understand our underlying growth and corporate value. We therefore encourage you to look at comprehensive income as well.

We would also like you to review the balance sheet trends that we regularly present. As mentioned earlier, shareholders' equity has increased by approximately 300 billion yen compared with one year ago. By looking at these metrics together, we believe you can see that both our operating businesses and investments are performing well.

Going forward, we also intend to further enhance our IR communications so that we can clearly convey these points.

【Question】Could you please comment on the competitive environment in the electricity business? Are there any particular regions or customer segments, such as high-voltage or low-voltage customers, where you are currently seeing more intense competition?

Conversely, as you place greater emphasis on profitability and returns, are there any regions or customer segments where you are deliberately limiting customer acquisition or withdrawing from competition?

【Answer】 Regarding the competitive environment, as mentioned earlier, we believe the overall market has entered a relatively quiet phase, as competitors are reducing or suspending new customer acquisition amid rising costs caused by higher crude oil prices due to developments surrounding the Strait of Hormuz and other factors.

We have been reviewing our approach particularly in the high-voltage segment. Many high-voltage customers review their contracts annually, making this a market where competitive bidding and price competition are common. In the past, we would respond to competitors' discounts to some extent and renew or acquire contracts even at relatively low margins. However, from the end of March through the first quarter, we have been reviewing this approach. As a result, churn among high-voltage customers increased this quarter.

In the high-voltage segment, excessive price competition had been reducing profitability per customer and recurring operating profit per customer. We are therefore withdrawing from such low-margin competition and placing greater emphasis on IRR. We have shifted our policy toward renewing contracts and acquiring new customers only where we can expect sufficient returns relative to the accounts receivable.

As a result, we believe our electricity business is able to maintain relatively high recurring operating profit margins and profit margins compared with other companies. This reflects our discipline of acquiring customers only when we can secure adequate returns, rather than simply pursuing acquisition volumes.

From the first quarter, we have tightened this discipline again after it had become somewhat relaxed, and we are also reorganizing our sales channels. As for the market environment itself, we currently view it as presenting significant opportunities for us.

【Question】As a follow-up, I would also like to ask about the low-voltage segment. You explained the situation in the high-voltage segment earlier, but how do you currently view the competitive environment in low voltage, for corporate and residential customers respectively?

【Answer】Regarding low-voltage corporate customers, as mentioned earlier, competitors are not particularly aggressive in acquiring new customers, and we are not pursuing acquisitions aggressively either. We therefore view the competitive environment as relatively moderate, without significant movement in either direction.

Similarly, in the residential low-voltage segment, competitors are not currently pursuing customers particularly aggressively. We have been reducing customer acquisition costs, particularly for rental properties, and expect profitability to improve significantly over the next two to three years.

As customer acquisition costs are amortized over three years, the improvement in profitability will not occur all at once. Rather, we expect the benefits to emerge gradually over approximately the next three years. Within three years, we believe we can bring the residential low-voltage business to a level where you will be able to see significantly higher profitability.

In the high-voltage segment, price competition is extremely intense, so we do not intend to pursue customer acquisition aggressively. Placing excessive pressure on our sales teams to increase acquisition volumes would result in lower returns. The same principle applies to residential low voltage: rather than pursuing acquisition volumes at all costs, our policy is to steadily acquire customers that offer higher profitability.

【Question】Would it be correct to understand that, for low-voltage corporate customers, returns have not declined to the extent that you need to reorganize sales channels as you have in the high-voltage segment?

【Answer】The adjustments we made this time were mainly in the high-voltage and residential low-voltage segments. In the high-voltage segment, we are withdrawing from low-margin contracts, limiting new customer acquisition, and, in some cases, choosing not to renew contracts.

In the residential low-voltage segment, there were also certain lower-return channels, including some online channels, so we have reviewed or withdrawn from those channels.

【Question】Regarding residential low voltage, you mentioned that you intend to continue acquiring new customers. I would like to confirm the approximately 70 billion yen in customer acquisition costs that you referred to earlier.

While continuing customer acquisition in the residential low-voltage segment, you are also scaling back or withdrawing from lower-return channels. Taking these changes across the business as a whole into account, would it be correct to assume that total customer acquisition costs will be around 70 billion yen?

【Answer】Yes. For residential low-voltage customers, we expect the customer acquisition cost per customer to gradually decline each year going forward. In fact, customer acquisition costs per customer have already begun to decline.

【Question】Would it be correct to understand that you intend to continue acquiring new customers while simultaneously reducing the customer acquisition cost per customer?

【Answer】Yes, that is correct.

【Question】Regarding investment activities, I understand that you are taking a conservative view that, given the current strength of the equity market, the investment environment may eventually mature to a point where it becomes difficult to maintain the high IRRs you have achieved in the past.

If such a situation were to arise, would your approach to capital allocation shift toward accelerating debt repayment or allocating more capital to shareholder returns, such as share buybacks and dividends?

【Answer】Yes, that is correct. This approach applies not only to our investment holdings, but also to our operating businesses.

If we are unable to generate sufficient returns on the equity entrusted to us by our shareholders, in other words, if returns or IRR declines, we believe that the fundamental principle for a listed company is to return capital to shareholders rather than forcing reinvestment.

【Question】I have one more question regarding investment activities. Performance appears to be very strong at present, but looking ahead, what indicators should we monitor externally to assess whether the investment holdings are maturing and IRR is beginning to decline?

For example, would signs such as slowing earnings growth among investee companies or a significant rise in small-cap equity indices be relevant indicators? Are there any metrics or signals that would allow investors to assess externally whether the expected returns on investment holdings are declining?

【Answer】As we do not disclose the individual stocks that we actually buy and sell, the most straightforward indicators that can be monitored externally are the IRR and EY of the overall portfolio. EY measures how much operating profit our investee companies generate relative to our acquisition cost.

On the other hand, the performance of stocks acquired over, for example, the most recent year cannot be properly evaluated until a certain amount of time has passed. Therefore, we currently do not disclose a simple indicator that reflects changes in the investment environment in real time.

As one benchmark, our current EY is 17.1%. If this were to decline to 16% or 15%, you could view that as a sign that the investment environment is beginning to change. We also use an EY of 15%

as one of our hurdle rates for equity investments, so if EY were to begin falling below 15%, we would consider that an alert.

As for IRR, we currently disclose 18%, although the actual figure is at a level that would round up to 19%. Our investments are currently performing very well, and if this trend continues, IRR could potentially reach 20%.

【Question】At the beginning of the fiscal year, you provided an operating profit outlook by segment, with significant profit growth expected in the electricity and finance businesses, moderate profit growth in insurance, beverage, and IT content, and broadly flat performance in the telecommunication line business.

Based on the first-quarter results, you have already explained the outlook for the electricity business. For the other segments, are there any areas where your current expectations have changed from the full-year outlook provided at the beginning of the fiscal year?

【Answer】 The finance business is performing better than we initially expected and is currently trending above our original forecast. For the other segments, there have been no significant changes at this stage, and as of mid-August, they are generally progressing in line with our initial plans.

We plan to provide a further update at the end of the first half, but at present, there are no particular business segments for which we have a negative outlook.

【Question】 I have two more specific questions. First, I believe that, on a combined basis, the telecommunication line and IT content businesses were expected to deliver modest profit growth for the full fiscal year. In the first quarter, however, customer acquisition costs declined significantly and profitability appears to have improved. Do you expect this trend to continue throughout the fiscal year, or do you plan to increase customer acquisition from the second quarter onward?

Second, regarding the insurance business, customer acquisition appears to be increasing. Do you intend to continue increasing customer acquisition throughout the fiscal year?

【Answer】 Basically, that is correct. In the telecommunications business, which includes both telecommunication lines and IT content, we are not actively deploying customer acquisition costs, and as a result, profits are expected to increase.

In the insurance business, on the other hand, we are increasing customer acquisition while investing more in customer acquisition costs through certain channels.

Therefore, for both the telecommunications and insurance businesses, we expect the trends seen in the first quarter to continue throughout the fiscal year.

【Question】Regarding the finance business, you mentioned earlier that both the default and delinquency rates are being maintained at low levels and are also low compared with those of other companies. What enables you to maintain such low levels in managing receivables overseas?

Could you explain, including the origins and development of the business, what strengths you have in areas such as credit screening and collections, and what management systems underpin those strengths?

In addition, as the business is currently growing significantly, why are you confident that defaults and delinquencies will not increase materially going forward? Could you also explain what makes these capabilities difficult for competitors to replicate?

【Answer】What probably differentiates our finance business most fundamentally from other companies is that we do not set targets for the size of our loan balance. As with our equity investments and operating businesses, we manage the finance business based solely on returns.

Currently, we generate a profit margin of approximately 10% on our loan balance, and our objective is simply to grow the business while maintaining that level. Conversely, if returns fall below that level, we would be prepared to withdraw from the business. That is the level of discipline with which we operate the finance business.

I have not examined the policies of other companies in detail, but I believe many companies set targets for growing their loan balance itself. In contrast, we generate approximately 10% in net profit relative to our loan balance. I have reviewed the P&Ls and balance sheets of other companies offering microfinance services, and I do not believe there are many that generate profit margins of around 10%.

In that sense, we provide financing only to high-quality customers, meaning customers for whom we can properly assess creditworthiness and from whom we have confidence in our ability to collect. As a result, our credit screening standards are stringent and our collection capabilities are strong.

As we have explained several times, when providing loans in countries such as Cambodia and Malaysia, we conduct checks such as confirming the customer's residence before completing our credit assessment and extending a loan. In contrast, some other companies complete their screening online within 24 hours or even 12 hours. With that approach, credit controls inevitably tend to become less stringent, making defaults more likely.

Both overseas and among Japanese companies, we often see an approach where companies prioritize lending at scale and accept a certain level of defaults as long as they can ultimately retain a net profit margin of a few percent. We have received many inquiries from other companies asking why Hikari Tsushin's finance business has been performing so well.

However, what we are doing is simply maintaining the discipline on returns that I mentioned earlier. The same principle applies to our core recurring-revenue businesses: we have a rule of maintaining strict return thresholds, and applying the same discipline to our finance business has resulted in the profitability we are achieving today.

Conversely, if maintaining strict credit standards and our required returns means that our loan balance does not grow, we are comfortable with that. We would even accept a decline in the loan balance from the previous year. The same applies to our equity investments.

Across our operating businesses, financial services, and equity investments, returns are one of our fundamental decision criteria. If that can be described as a strength of our finance business, then perhaps it is. We are not doing anything particularly unusual; rather, I believe the difficult part is consistently maintaining this discipline.

【Question】Thank you. I understand that you are able to continue acquiring customers while maintaining strict credit screening standards, but could you elaborate further on what you mean by having strong collection capabilities?

Does conducting home visits and having collateral contribute to your ability to collect? Or does your strength lie more in the collection process itself, such as the timing and methods used to follow up when a payment becomes overdue?

For example, it is sometimes said that even a slight delay in the initial response can increase delinquency rates and the likelihood of loans becoming non-performing. Do you have any proprietary practices or expertise in areas such as the timing and operational processes for collections?

【Answer】Regarding collections, we are not doing anything particularly special. Rather, we take a very persistent and disciplined approach.

Above all, we respond quickly from the outset and rigorously follow up through various means, such as making daily collection calls and visiting customers at their homes. Our strength lies in consistently and diligently executing these basic collection practices.

It appears that there are no further questions, so this concludes today's first-quarter earnings briefing. Thank you very much for your participation today.