Financial Report

Review of Business Results for Fiscal Year Ended March 31, 2023 and Outlook for Fiscal Year Ending March 31, 2024

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Trends in the business environment and leasing industry

Amid increasingly uncertain business circumstances, Japan's leasing industry experienced an increase in transactions on a year-on-year basis

During the fiscal year ended March 31, 2023, the Japanese economy saw a year of progress in resuming economic activities as society moved toward a post-COVID-19 world, despite the lingering effects of COVID-19. On the other hand, the Russian invasion of Ukraine that began in February 2022 has become prolonged, triggering soaring prices of crude oil, grains, and other commodities. In response, central banks around the world began tightening their monetary policies to combat inflation. These situations aggravated the uncertainty. In December, there were movements in Japan suggesting revisions to monetary easing, such as the Bank of Japan expanding the permitted fluctuation range for long-term interest rates to 0.5% under its yield curve control. Considering these changes in the domestic and international environment, we will need to pay closer attention to the outlook for future economic activities.

In this environment, leasing transactions in the Japanese leasing industry for the fiscal year ended March 31, 2023 expanded 2.2% year on year, to 4,310.6 billion yen, according to the Japan Leasing Association's Lease Statistics published on May 29, 2023.

Business results

Revenues increased, but net profit fell below the previous fiscal year's record high

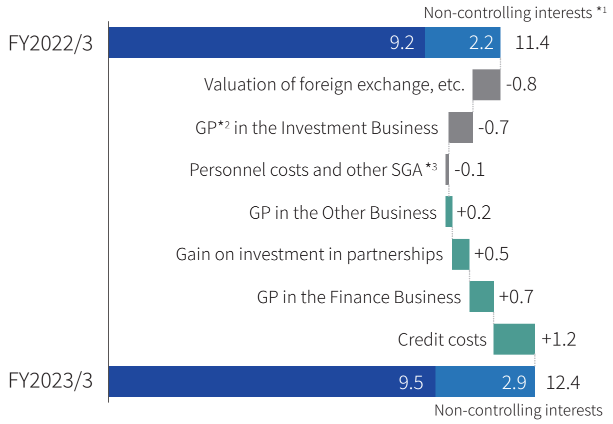
Regarding the Group's business results in the fiscal year ended March 31, 2023, revenues were mostly flat in the Leasing Business, where sales of large-scale leased assets were posted in the previous fiscal year. On the other hand, growth was seen in the Finance Business, Investment Business, and Other Business, and revenues increased year on year. Moreover, operating income and ordinary income surpassed those of the previous fiscal year due mainly to improvements in credit costs. Profit attributable to owners of parent dropped compared to the previous fiscal year due to an increase in profit attributable to non-controlling interests.

Regarding factors that caused changes in ordinary income, while there were fluctuations by business, gross profit increased by 0.2 billion yen year on year. Selling, general, and administrative expenses also improved by 1.1 billion yen year on year due to a significant improvement in credit costs, despite an increase in personnel expenses caused by a rise in performance-based bonuses. Regarding credit costs, there was a significant improvement year on year due to the posting of large-scale credit costs in the fourth quarter of the previous fiscal year, but the posting of an unexpected amount in the current year's fourth quarter became a factor in the downward revision of the forecast for the period. In terms of non-operating income and expenses, valuation of foreign exchange saw a decrease in earnings of 0.8 billion yen year on year, while gain on investment in partnerships increased by 0.5 billion yen. All of these results are mainly due to the effects of the initiatives of RISA Partners, Inc. Gain on investment in partnerships is posted in non-operating income and expenses for accounting purposes, and is not included in the gross profit of the Investment Business. Foreign exchange was a factor that decreased earnings year on year, because while we posted a gain on valuation of foreign exchange in the previous fiscal year, we posted a loss on valuation of foreign exchange in the current fiscal year.

● **Overview of consolidated business results**
(billions of yen)

	FY2022/3	FY2023/3	YoY change
Revenues	249.9	258.1	+3.3%
Operating income	10.4	11.7	+12.1%
Ordinary income	11.4	12.4	+8.9%
Profit attributable to owners of parent	6.9	6.4	-7.5%
Net income per share	322.37 yen	298.14 yen	—

● **Main reasons for changes in consolidated ordinary income** (billions of yen)



*1 Non-controlling interests: profit attributable to non-controlling interests in fund revenue, etc.
*2 GP: Gross profit
*3 SGA: Selling, general, and administrative expenses

Business results by business

Operating income in the Leasing Business and the Investment Business, which both grew in the previous fiscal year, decreased year on year

In the mainstay Leasing Business, revenues were down year on year until the third quarter due to the effects of large asset sales in the previous fiscal year, but for the full year, revenues and gross profit remained at the same level as the previous year. Meanwhile, operating income decreased year on year due to an increase in credit costs and an increase in selling, general and administrative expenses, including personnel expenses. In the Finance Business, revenues rose year on year due mainly to an increase in interest revenues. Moreover, operating income improved significantly year on year due to the posting of large-scale credit costs in the previous fiscal year. In the Investment Business, revenues rose significantly year on year due to the sale of large scale real estate for sale in the first quarter. In contrast, profits decreased year on year due to multiple exits of venture funds in the previous fiscal year, as well as the posting of credit costs in the fourth quarter. In the Other Business, which mainly includes new businesses, revenues and income rose due to the considerable advances made in efforts for healthcare, solar power, PFI, etc.

Operating asset balance reached a new high

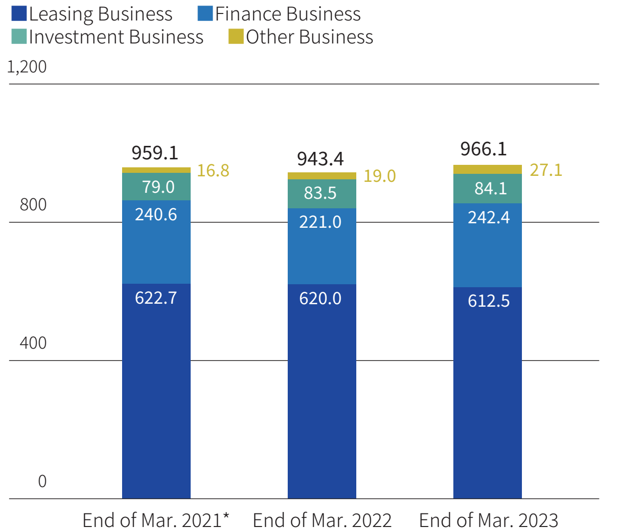
Despite large asset sales in the Leasing Business in the second quarter, the balance of operating assets was kept at a high level even in the absence of special demand, such as Windows 10 updates and GIGA school projects, thanks to steady sales activities. In the Finance Business, the balance of operating assets increased year on year due to an increase in factoring and assets such as corporate loans. In the Investment Business, the balance of operating assets rose year on year due to the acquisition of investment projects, despite the sale of large-scale real estate for sale in the first quarter. In Other Business, we steadily accumulated assets in new businesses such as healthcare and solar power. As a result of the above, operating asset balance reached a new high.

● **Consolidate revenue by business** (billions of yen)

		FY2022/3	FY2023/3	YoY change
Leasing Business	Revenues	224.2	224.3	+0.0%
	Gross profit	16.6	16.6	+0.2%
	Operating income	7.1	6.4	-10.6%
Finance Business	Revenues	5.2	6.6	+25.9%
	Gross profit	4.1	4.8	+16.6%
	Operating income	-0.7	2.2	-
Investment Business	Revenues	16.4	22.8	+39.4%
	Gross profit	9.6	8.8	-7.7%
	Operating income	5.4	4.4	-18.2%
Other Business	Revenues	4.2	4.5	+6.8%
	Gross profit	1.5	1.7	+15.6%
	Operating income	0.3	0.5	+79.3%
Total	Revenues	249.9	258.1	+3.3%
	Gross profit	31.7	31.9	+0.7%
	Operating income	10.4	11.7	+12.1%

* Figures exclude adjustments from segment summary information.

● **Consolidated operating asset balance** (billions of yen)



* In connection with the revision of reportable segments, the data presented was retrospectively modified for the segments after the revision.

Fund procurement

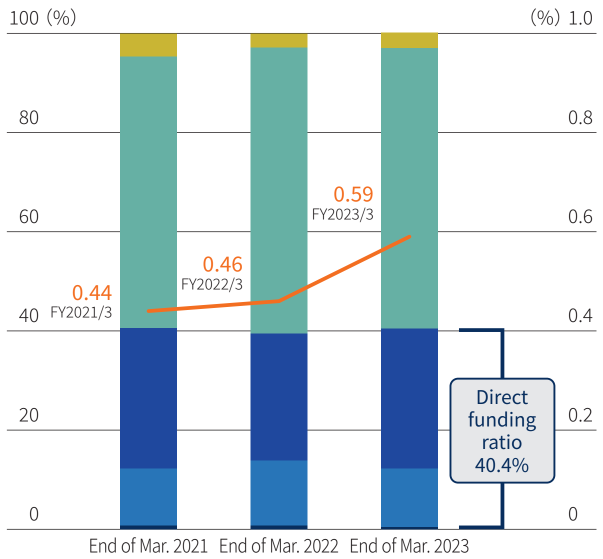
Interest-bearing debt increased year on year, and the impact of the rise in funding cost ratio on business was limited

Cost of Yen funding remained stable at a low level due to the Bank of Japan's continuation of unprecedented monetary easing. However, it was decided at the Bank of Japan's Monetary Policy Meeting held in December 2022 that the permissible fluctuation range for the yield curve control would be expanded. In addition, we recognize the necessity to keep a close eye on the fund-raising environment, such as the financial instability that occurred in the United States and Switzerland in March 2023. Under these circumstances, the Group's interest-bearing debt for the fiscal year ended March 31, 2023 increased year on year, mainly centered on commercial paper. The funding cost ratio was up year on year given the increase in interest rates for foreign currency-denominated funding. However, the interest rate change has a minor impact on our financial results, given that a majority of our foreign currency-denominated assets are under floating interest rate contracts. There are no issues on capital resources and the fund liquidity, and cash flows are normal.

● Consolidated interest-bearing debt composition (left axis) and funding cost ratio (right axis)

Funding cost ratio (%) =
Funding costs ÷ Average balance of interest-bearing debt

■Payables under securitized lease receivable ■Bonds ■Commercial paper
■Long-term debt ■Short-term borrowings (left axis)
— Funding cost ratio (right axis)



Forecast for the fiscal year ending March 31, 2024

Aiming to secure a new record high

For the fiscal year ending March 31, 2024, on a consolidated basis, we forecast revenues at 260.0 billion yen, operating income at 12.0 billion yen, ordinary income at 12.5 billion yen and profit attributable to owners of parent at 7.5 billion yen. In addition to sustainable growth in the Leasing Business and Finance Business, we are also striving to increase revenue in the Investment Business, aiming for a new record high. Moreover, we are working to increase revenue over the medium to long term.

As mentioned at the beginning, we are aware that the business environment will remain uncertain going forward due to factors such as the prolonged Russian invasion of Ukraine and changes in the policies of central banks around the world. Although there are concerns about increases in credit costs, increases in prices of leased assets, and increases in fund procurement costs, transactions with small and medium-sized businesses, which are at an increased risk of bankruptcy due to the end of COVID-19 emergency loans, account for a low proportion of the Group's overall business. Moreover, we believe that the impact of these concerns on our business will be limited, as the situation is such that customers are aware of the rise in prices and interest rates, and can easily gain an understanding of the shift of the costs on to lease rent, etc.

The annual dividend for the fiscal year ending March 31, 2024 is planned to be 130 yen, an increase of 20 yen from the previous fiscal year

For the fiscal year ended March 31, 2023, we increased the year-end dividend by 36 yen from the initially planned level of 74 yen. The annual dividend thus stood at 110 yen per share.

For the fiscal year ending March 31, 2024, we plan to pay an annual dividend of 130 yen per share (including an interim dividend of 65 yen), which represents an increase of 20 yen. While upholding our basic policy of maintaining a stable dividend, we have taken into account that the dividend payout ratios of other companies in the same industry have been continuously increasing and that the Group's equity ratio has been maintained at 10%, and, in the formulation of our Medium-term Plan, decided on a profit return plan after consideration of the future outlook.

● Business results for the fiscal year under review and forecasts for the next fiscal year

(billions of yen)

	FY2023/3 Results	FY2024/3 Forecast
Revenues	258.1	260.0
Operating income	11.7	12.0
Ordinary income	12.4	12.5
Profit attributable to owners of parent	6.4	7.5
Net income per share	298.14 yen	348.37 yen
Annual dividends per share	110.00 yen	130.00 yen

* Forecast is as of April 28, 2023.

Measures to realize management with an awareness of the cost of capital and stock prices

Aiming to achieve sustainable improvement in profitability and enhance PBR

To achieve sustainable growth and improve corporate value over the medium- to long-term, the Group places emphasis on management with an awareness of return on capital, which involves formulating and implementing revenue plans and capital policies based on an accurate understanding of the company's cost of capital. To achieve this, we appropriately consider the review of our business portfolio and the allocation of management resources, including investments in human capital and systems, in conjunction with the formulation of our Medium-term Plan and annual budget, and reflect them in our business plan.

In FY2023/3, the Group reached the final year of its previous Group Vision and Mid-Term Plan 2020. Accordingly, we formulated our new Group Vision, "Be a solution company leading the next-generation circular economy," with FY2024/3 as the first year, and we also formulated and announced our "Medium-term Plan 2025."

When formulating the Medium-Term Plan 2025, we deemed it essential to secure a level of revenue that would sustainably exceed the cost of capital to improve market valuation, including PBR and PER. We also determined that sustainably increasing profitability would lead to further improvement in corporate value. In formulating a concrete profit plan, in addition to increasing the absolute amount of profits, we held repeated discussions on the profitability that the Company should aim for, with a focus on sustainably increasing profitability. As a result, we set an ROE target of 8% for FY2026/3, the final year of our Medium-term Plan 2025, and a target of 10.0 billion yen for profit attributable to owners of parent. In addition to improving profitability (improve ROE), we will carry out return measures in line with our profit level while drawing up growth strategies unique to the Group, such as grasping revenue opportunities through our strengths in ICT and sound risk-taking capabilities. In doing so, we hope to capture growth expectations from the market (improve PER) and improve PBR, which is calculated using the formula ROE x PER.

Moreover, the Group has formulated and announced non-financial indicators that go alongside the financial indicators in the Medium-term Plan 2025. In addition to initiatives related to environmental and social issues, we will work to improve employee engagement by strengthening investments and initiatives related to human capital. This will lead to an improvement in profitability through the accumulation of non-financial capital.

While weighted average cost of capital (WACC) and cost of shareholders' equity represent typical indicators used in the analysis of cost of capital, the Group uses cost of shareholders' equity from the perspective of placing importance on investors' expected returns, and undertakes analysis by comparing it with ROE.

[Related information]
Group Vision 2030 and Medium-term Plan 2025 (FY2024/3-2026/3)
Published on April 28, 2023

P.14 3. Aim in Medium-term Plan 2025
P.15 4. Management objectives (financial and non-financial)
P.16 5. Medium-term Plan 2025 (Business Strategy 1/2)
P.17 5. Medium-term Plan 2025 (Business Strategy 2/2)

IR-related information

Please see our website for detailed financial information.

▶ **Investor Relations**
https://www.necap.co.jp/english/ir/index.html

▶ **IR Library** (Financial Results, Presentation Materials *on a quarterly basis)
https://www.necap.co.jp/english/ir/library/index.html

▶ **Annual securities report for the 53rd fiscal year** (April 1, 2022 to March 2023)
https://pdf.irpocket.com/C8793/KSWQ/QTGY/a0wi.pdf (in Japanese)