Financial Report

Review of Business Results for Fiscal Year Ended March 31, 2024 and Outlook for Fiscal Year Ending March 31, 2025

Executive Officer Noboru Watanabe

Trends in the business environment and leasing industry

Amid the resumption of full-scale economic activities, Japan's leasing industry experienced an increase in transactions on a year-on-year basis

The fiscal year ended March 31, 2024, was a year in which the Japanese economy made progress toward the full-scale return of economic activity having moved on from the effects of COVID-19. According to end-of-year statistical data from the Japanese Trade Union Confederation (RENGO) in March, the average wage increase exceeded 5%. In addition, with the Bank of Japan ending its negative interest rate policy and finalizing decisions to end yield curve control and the purchase of risk assets such as ETFs, further progress has been made in the normalization of economic activity. Moreover, the Nikkei Stock Average closed at a record high of beyond the 40,000-yen mark, which served to invigorate the capital markets to some extent. On the other hand, with Russia's prolonged invasion of Ukraine, the outbreak of the Israel-Palestine conflict in October 2023, and the Noto Peninsula Earthquake in Japan in January 2024, concerning events that could impact the future of our business environment are on the rise. Considering these changes in the domestic and international environment, we will need to continue paying close attention to the outlook for future economic activities.

In the Japanese leasing industry in which the Group conducts business, in FY2024/3, leasing transactions increased by 7.4% year on year to 4,629.9 billion yen (according to the Japan Leasing Association's "Lease Statistics" published on May 29, 2024), reflecting the increasing normalization of economic activities.

Business results

Net profit reached record high thanks to steady increase in gross profit

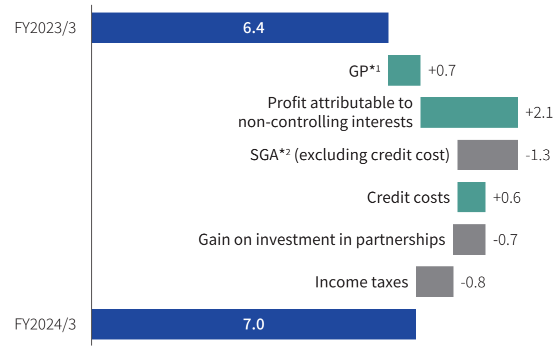
In terms of the Group's financial results in the fiscal year ended March 31, 2024, although revenues were largely on par with the previous fiscal year due to the sale of large-scale real estate for sale in the previous fiscal year, we set a record high for profit attributable to owners of parent thanks to increased revenues in the Finance Business and Other Business.

● Overview of consolidated business results (billions of yen)

	FY2023/3	FY2024/3	YoY change
Revenues	258.1	255.9	-0.9%
Operating profit	11.7	11.7	-0.2%
Ordinary profit	12.4	11.8	-5.0%
Profit attributable to owners of parent	6.4	7.0	+9.6%
Net income per share	298.14 yen	326.66 yen	—

The main changes impacting profit attributable to owners of parent from the previous fiscal year were a year-on-year increase of 2.8 billion yen in areas related to gross profit, including changes in profit from non-controlling interests, a 0.7 billion yen increase in selling, general, and administrative expenses, and a 0.6 billion yen decrease in non-operating profit and expenses. Among the areas related to gross profit, there was a year-on-year increase of 0.7 billion yen in gross profit in the Finance Business and Other Business, and a 2.1-billion-yen difference in profit attributable to non-controlling interests. As profit attributable to non-controlling interests includes profit of external investors in the funds managed by our subsidiary RISA Partners, it is deducted immediately before calculating net profit. As such, we have included profit attributable to non-controlling interests in areas related to gross profit. Although in the previous fiscal year we deducted around 3.0 billion yen due to significant revenues from these funds, this fiscal year we deducted around 0.9 billion yen, marking a 2.1-billion-yen improvement year on year. For selling, general, and administrative expenses, while personnel expenses and other expenses increased by around 1.3 billion yen, credit costs improved by 0.6 billion yen due to a reversal in allowance for bad debts in the Investment Business, marking an overall increase of 0.7 billion yen. In terms of non-operating profit and expenses, there was a year-on-year decrease of 0.7 billion yen in gain on investment in partnerships. These are revenues from RISA Partners' Southeast Asia fund, which is recorded as non-operating profit due to certain accounting processes.

● Main factors for year-on-year changes in profit attributable to owners of parent (billions of yen)



*1 GP: Gross profit
*2 SGA: Selling, general, and administrative expenses

This fiscal year, however, we were unable to meet the annual target we set at the beginning of the year. While this was due to unexpected credit costs, we implemented recovery measures through the sale and replacement of assets and secured a reasonable level of revenue, and as a result were able to achieve record high profit. I also believe that the speed at which we implemented recovery measures to counter these unexpected events is testament to the fact that we truly have stepped up our initiatives.

Business results by business

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

In our main Leasing Business, despite impacts from the expiration of large-scale contracts in the previous fiscal year, gross profit remained largely unchanged year on year thanks to efforts to improve profitability. Although operating profit was slightly below the level of the previous fiscal year due to an increase in individual allowances, basic revenues (excluding temporary profit) are steadily improving and as such we believe we are successfully improving profitability.

In the Finance Business, gross profit improved significantly year on year thanks to an increase in interest and equity revenues. The increase in equity revenues can be attributed to the above recovery measures, while in the fourth quarter we recorded a particular increase in gains on the sale of equity. This offset the increase in selling, general, and administrative expenses, while operating profit also improved substantially year on year. The increase in revenues from the sale of equity is not temporary. Rather, it has been made possible thanks to the skills and expertise we have accumulated in replacing assets while earning capital gains.

In the Investment Business, revenues fell significantly year on year due to the sale of large-scale real estate for sale in the previous fiscal year. In terms of profit, thanks to steady efforts across the year to increase revenues, we were largely able to align profit levels with those of the previous fiscal year. As performance can fluctuate significantly due to fund exits and recording periods, this fiscal year we moved forward with the acquisition of income-gain assets as a stable source of revenue to solidify our revenue base.

In the Other Business, thanks to revenues such as rental income from healthcare facilities, PFI commission revenue, and revenue from solar power generation, revenues, gross profit, and operating profit all exceeded the previous fiscal year. In the energy and healthcare fields which we have been tackling as new businesses, our initiatives are growing in a stable manner, and we look forward to an increase in revenue opportunities in the future. Moreover, as in the Finance Business, we are accumulating the skills and expertise to earn capital gains while replacing assets.

● Consolidated revenue by business (billions of yen)

		FY2023/3	FY2024/3	YoY change
Leasing Business	Revenues	224.3	228.4	+1.8%
	Gross profit	16.6	16.5	-0.5%
	Operating profit	6.4	5.5	-14.2%
Finance Business	Revenues	6.6	9.1	+38.7%
	Gross profit	4.8	6.5	+34.9%
	Operating profit	2.2	3.3	+54.2%
Investment Business	Revenues	22.8	13.7	-39.9%
	Gross profit	8.8	7.5	-14.8%
	Operating profit	4.4	4.1	-7.7%
Other Business	Revenues	4.5	4.7	+5.2%
	Gross profit	1.7	2.1	+23.1%
	Operating profit	0.5	0.6	+27.0%
Total	Revenues	258.1	255.9	-0.9%
	Gross profit	31.9	32.6	+2.1%
	Operating profit	11.7	11.7	-0.2%

* Figures exclude adjustments from segment summary information.

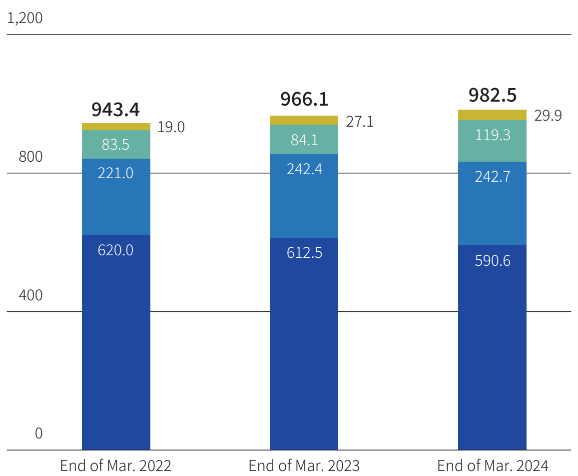
Steady progress in the transition to high-quality assets

In line with our equity ratio and other factors, we believe we can appropriately manage an operating asset balance of around 1 trillion yen. As such, rather than simply increasing our operating asset balance, we will focus on replacing our current assets with high-quality assets.

The Leasing Business, which accounts for around 60% of this balance, is a stable revenue base for the Company. In our business with the public sector, although there has been a gradual decrease in assets from special demand attributed to the GIGA School Program, we have steadily increased assets through ICT and small-lot leasing as well as through overseas subsidiaries in the private sector, which in turn has helped curb the decrease. In the Finance Business, while there have been sales of securities and decreases in short-term corporate loans as we have sought to earn capital gains, we believe we have secured a level on par with the previous fiscal year and made progress with the transition to highly profitable assets. In the Investment Business, assets increased year on year thanks to RISA Partners' acquisition of income-gain assets and its progress with various initiatives. In Other Business, we steadily accumulated assets in fields such as healthcare and solar power.

● Consolidated operating asset balance

(billions of yen)



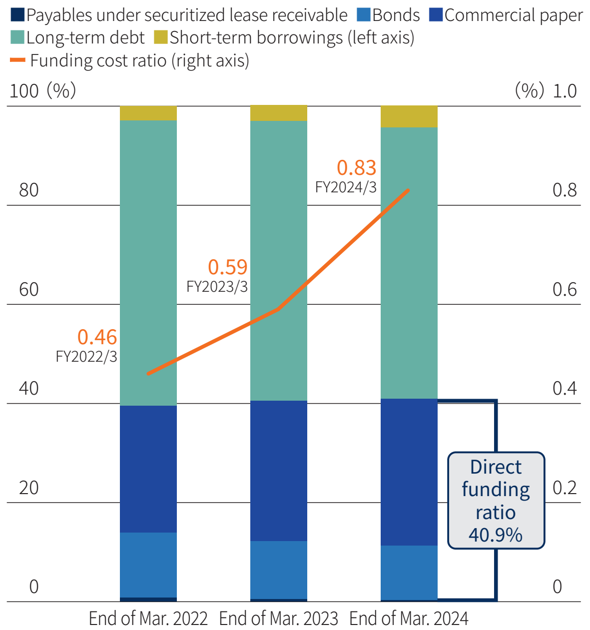
Fund procurement

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

The cost of yen funding has been stable at a low level due to the Bank of Japan's continuation of its unprecedented monetary easing policy. However, this level is now on an upward trend thanks to the Bank of Japan's easing of its yield curve control in October 2023 and early changes in policy. The funding cost ratio this fiscal year has risen 0.24% year on year to 0.83%. This is mainly due to 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 the majority of our foreign currency-denominated assets are under floating interest rate contracts. In Japan, in addition to successively reviewing funding rates and reflecting them into new contracts, we have secured a high hedging ratio and so believe any change will have a limited impact on our financial results. 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



Forecast for the fiscal year ending March 31, 2025

Aiming to secure a new record high

For the fiscal year ending March 31, 2025, on a consolidated basis, we forecast revenues at 260.0 billion yen, operating profit at 12.0 billion yen, ordinary profit at 12.5 billion yen and profit attributable to owners of parent at 8.0 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. In the Leasing Business, we are gradually improving our profitability base, and going forward we will work to further improve profitability by improving added value such as reinforcing our vendor financing. In the Finance Business, while continuing to enhance our skills and expertise, we will move forward with the transition to high-quality assets and increase revenues. In the Investment Business, with the level on par with this fiscal year as our baseline, we will aim to enhance the value of the projects we have already invested in and to maximize returns in our businesses through RISA Partners and venture fund businesses. At RISA Partners, we will also work to increase stable profits through the combination of diverse revenues, including the further acquisition of income-gain assets. In the Other Business, we will steadily expand our initiatives in new businesses such as healthcare and solar power.

One factor that can have a significant impact on our financial results is credit cost. Although normal economic activities are returning, with the lifting of special COVID-19-induced measures, our client companies' management environments are undergoing drastic change. Profitability and risk are closely related. We will work to strengthen our capabilities as well as our risk management functions as necessary in order to improve profitability as per our Medium-term Plan.

The annual dividend is planned to be 150 yen, an increase of 20 yen from the previous fiscal year

In the fiscal year ended March 31, 2024, the annual dividend was 130 yen per share, an increase by 20 yen from the previous fiscal year as per our initial plan. Similarly, for the fiscal year ending March 31, 2025, we plan to pay an annual dividend of 150 yen per share (including an interim dividend of 75 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 Group's equity ratio has been maintained at 10%, and set the return of profits in line with the profit levels set forth in Medium-term Plan 2025.

● Business results for the fiscal year under review and forecasts for the next fiscal year (billions of yen)

	FY2024/3 Results	FY2025/3 Forecast
Revenues	255.9	260.0
Operating profit	11.7	12.0
Ordinary profit	11.8	12.5
Profit attributable to owners of parent	7.0	8.0
Net income per share	326.66 yen	371.50 yen
Annual dividends per share	130.00 yen	150.00 yen

* Forecast is as of July 31, 2024.
The impact that changes in our major shareholders, etc. (announced on July 12) will have on our financial results is currently under investigation.

Financial Information and Business Results
https://www.necap.co.jp/english/ir/financial/index.html

Measures to realize management with an awareness of the cost of capital and stock prices (announced in August 2023)

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.

When formulating the Medium-term Plan 2025, the Group 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. It 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.