

# Message from the President

## Realizing solutions for a next-generation circular economy through our Medium-term Plan

We are currently implementing a three-year Medium-term Plan toward FY2026/3. This plan aims to create “circular economy-oriented” services that are unique to the Company while improving profitability and employee engagement in order to realize a next-generation circular economy. An interview was conducted to discuss the progress of these initiatives as well as future developments.



President

Masaaki Suganuma

In light of the changes in social and economic conditions, please share your thoughts on creating “circular economy-oriented” services.

**We will realize the Group Vision by providing value that captures the trend toward a next-generation circular economy.**

In response to recent changes in social and economic conditions, our initiatives to contribute to society through the practice of CSV management are expanding the scope of value we provide. In this context, we are reaffirming the importance of the Company’s reason for existing and mission, which are to solve social issues and support prosperity.

Over the past year, the cost environment has worsened due to the continued depreciation of the yen, soaring prices of resources and energy, and rising prices of materials and equipment. As a result, there was an increased need for companies in the financial market to improve capital efficiency. In addition, labor shortages caused by the decline in the working population have been intensifying in many industries, and coupled with efforts to curb long working hours, there has been an increase in capital investment and DX investment aimed at improving operational efficiency and reducing the number of workers required.

Initiatives to achieve carbon neutrality are now spreading across the entire industrial sector, and the use of recycled and reused products in pursuit of a circular economy has become an increasingly popular trend among companies.

We were quick to recognize this trend toward a next-generation circular economy and map out a future vision. By its nature, the leasing business is a business that contributes to the reduction of environmental burden through the reuse of resources and improved efficiency, therefore it can be said that it directly contributes to the creation of a recycling-based society. In addition, there is a growing need to provide value that comes with additional services, and this is creating new growth opportunities for us.

In our “Group Vision 2030,” which sets out what the ideal state for the Group’s business should be in 2030 and outlines the direction of medium- to long-term growth, we aim to “Be a solution company leading the next-generation circular economy.” We will strive to innovate our “capital solutions,” which provide solutions for a wide range of issues related to customers’ managerial resources, and increase our own corporate value by creating and providing “circular economy-oriented” services that the world will need going forward.

Please explain “improve profitability” and “improve employee engagement,” which are included in our management issues.

**ROE of 8% is a stepping stone to further improvement. I believe it is important to create a company where employees can work happily and proudly.**

Since becoming the President two years ago, I have positioned “improve profitability” and “improve employee engagement” as the two most important management issues, and I have been working continuously to achieve them.

Our profitability (capital efficiency), as seen in ROE, remained at 6.2% for FY2024/3, which is low among companies listed on the Prime Market of the Tokyo Stock Exchange. One of the reasons for this is that for many years, we focused our sales activities primarily on building up assets, which resulted in delays in improving revenue.

In recent years, the Tokyo Stock Exchange has called on listed companies to conduct “management that is conscious of cost of capital and stock price,” and there are growing expectations in the stock market for companies to undertake initiatives to improve profitability. We at the Company recognize the need to strengthen our response. Specifically, the final year target for our current “Medium-term Plan 2025” is “ROE of 8%.” However, we view this as the minimum standard and its achievement will be a stepping stone to further improve profitability.

As part of our efforts to increase profitability, we are working to improve leasing rates and generate profits by adding additional services. Moreover, we are actively working on initiatives in the financial solutions field, developing a business that takes on some degree of risk but is expected to generate higher returns than ever before. In order to advance these initiatives, enhancement of risk management will be essential, and a challenge for us going forward will be to accumulate the know-how necessary to reduce risks.

The Leasing Business is a stable source of revenue, and on top of that base revenue, the Finance Business and the Investment Business are generating profit upside. As a result, the Leasing Business currently accounts for 60% of our operating asset balance and just over 40% of our operating profit. However, going forward, we plan to transform our business portfolio with the aim of achieving a revenue structure in which operating profit is composed roughly of one-third from the Leasing Business, one-third from the Finance Business, and one-third from the Investment Business.

Regarding our other management issue, “improve employee engagement,” the engagement score for FY2024/3 based on our survey was 21%, which is not a very high level.

My policy of prioritizing employee engagement is based on my desire for employees to be proud to work for the Company and enjoy working here. Statistical data also shows a correlation between engagement and profits,

so if we create a workplace where employees can work happily and proudly, then we can expect secondary benefits such as contributions to business performance through improved work efficiency and the generation of better ideas. The financial business is rooted in relationships of trust between people, and it is a business in which people create value. I believe that employee engagement should also be prioritized from the perspective of human capital management, which aims to link the participation and growth of human resources to corporate value.

As one of our measures to improve the engagement score, we hold “dialogue sessions” between all employees and four members of the management team, including myself. In FY2024/3, this was held by each department. In FY2025/3, we will use these dialogue sessions to speak directly with employees gathered by position, communicate the direction aimed for by the Company and the challenges of taking on change, and receive opinions, questions, and requests to deepen mutual understanding. By continuing this initiative, we will build up our most important asset, which is “people.”



Dialogue session with the President

**Please tell us about the review of the first year of the Medium-term Plan and the direction of initiatives going forward.**

**In this plan, we need to present concrete solutions for a next-generation circular economy.**

In FY2024/3, the year we launched the “Medium-term Plan 2025,” operating profit remained roughly at the same level as the previous year, but net profit increased by 9.6% to a record high of 7.0 billion yen. Sales activities progressed smoothly, and while the operating asset balance increased by 16.4 billion yen year on year to 982.5 billion yen, this figure fell short of the initial plan due to factors such as unexpected credit costs recorded. We will continue to steadily implement initiatives based on the business strategies of the Medium-term Plan, develop new services, and enhance risk management in order to improve revenue.

This plan marks the first three years of our challenge to evolve towards a next-generation circular economy, and its main theme is the creation of “circular economy-oriented”

services. In this plan, we need to clearly show our customers, business partners, shareholders and investors, as well as our employees, who are the driving forces behind our evolution, what our specific “solutions for a next-generation circular economy” entail.

In the markets surrounding our business, there are increasing opportunities for value provision required through “circular economy-oriented” services, such as management and operation services for the introduction of renewable energy, the use of PFI to revitalize aging infrastructure and rural areas, schemes to improve capital efficiency through LBO loans\*, and the recycling of assets such as refurbished PCs. Solutions that meet these needs are expected to enhance environmental and social sustainability while also bringing about higher revenue as part of our growth strategy.

Looking towards the future of 2030, our goal is to accurately identify needs through this plan and steadily develop concrete solutions that will enable us to reap the benefits of economic and social value that comes from “circular economy-oriented” services.

\*LBO loan: LBO is an acronym for Leveraged Buyout. In M&As, it involves financing of the acquisition itself, as well as structuring, underwriting, and arranging.

**What are the goals of the business strategies set out as the pillars of the Medium-term Plan, and what progress has been made?**

**The first year of the plan marked a good start. We will accelerate efforts to strengthen profitability by replacing assets and adding services.**

The “Medium-term Plan 2025” promotes the three business strategies of “expand service business and create new ‘circular economy-oriented’ services,” “accelerate growth through strategic investment in core businesses,” and “strengthen vendor finance and expand customer base.”

Regarding service business, core businesses in the non-financial field, such as solar power generation and PFI projects, warehousing (temporary ownership) of healthcare facilities, and business succession support through corporate advisory services, all expanded smoothly. In addition to increasing our expertise in the business, we were able to strengthen our collaboration with partners and broaden the scope of our initiatives. Going forward, we will strengthen risk management and expand our operations in order to operate the service as a primary contractor.

Strategic investment in core businesses saw growth in ICT-related leasing with added asset management, while in terms of financial products, expansion into areas such as LBO financing and equity investment has produced positive results. Our efforts to replace assets while achieving capital gains proved successful, contributing to improved revenue. In addition, our efforts for deepening the initiatives to propose asset utilization to loan customers are proving successful. RISA Partners acquired large income-gain assets, and made progress in stabilizing revenue that is not dependent on capital gains.

In terms of vendor finance, we are expanding our volume by obtaining large-scale projects from the national and local governments, and replacing existing assets with high-quality assets. At the same time, we are working to generate revenue in new areas, such as subscription models for cloud services in collaboration with vendors, and are seeing positive results.

In FY2025/3, the second year of the plan, an increase in the number of corporate bankruptcies is expected due to the worsening cost environment, which includes rising interest rates and soaring raw material costs. In this context, we will dedicate this year to further expanding revenue while maintaining solid risk management. In particular, replacing existing assets with high-quality assets and generating revenue through additional services will be key to improving performance. We will accelerate efforts to strengthen profitability toward achieving our targets for the final year of the plan (FY2026/3), which are “profit attributable to owners of parent of 10.0 billion yen” and “ROE of 8%.”

**Please tell us your message to stakeholders.**

**We will increase environmental and social sustainability, contribute to the creation of a prosperous future, and expand the circle of trust.**

Reflecting the increase in net profit, we set the annual dividend for FY2024/3 at 130 yen per share (interim and year-end: 65 yen each, an increase of 20 yen year on year). Assuming an increase in income in FY2025/3, we plan to set the annual dividend at 150 yen per share (interim and year-end: 75 yen each, an increase of 20 yen year on year).

As a company that aims to improve profitability, we recognize that in order to develop businesses that

generate greater returns than ever before, we must retain capital in preparation for the risks involved. At the same time, it is essential to make growth investments as needed to realize solutions for a next-generation circular economy. In line with these changes to the business model, we will strive to further improve our performance going forward so that we can continue to increase the return of profits to shareholders while securing a certain amount of internal reserves.

By providing proposals and value that understand the changing times, we will contribute to the growth of our customers and business partners, including vendors, and build strong relationships of trust. Moreover, through these initiatives, we hope to increase environmental and social sustainability, contribute to the creation of a prosperous future, and expand the circle of trust.

Finally, in July 2024, we announced a change in major shareholders, etc. In October 2024, a portion of the shares held by NEC and Sumitomo Mitsui Finance and Leasing Company, Limited will be transferred to SBI Shinsei Bank, Limited, and SBI Shinsei Bank is planned to become our main shareholder. We will maintain our collaborative relationship with the NEC Group, and we believe that our new collaboration with the SBI Shinsei Bank Group will lead to medium- to long-term business growth and improved profitability. We appreciate your continued support of the NEC Capital Solutions Group over the long term.

