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February 10, 2023

City Index 11 Co., Ltd.

Regarding the 3rd Quarter Earnings Announcements of Cosmo Energy Holdings Co., Ltd.

Cosmo Energy Holdings Co., Ltd. (“Cosmo”) held their 3rd quarter earnings announcement meeting (“Earnings Announcement”) on February 10, at which multiple analysts asked questions on the 7th Medium-Term Management Plan as well as the renewable energy business. In particular, with regard to the renewable energy business, it was pointed out that there are no disclosures on target returns, investment criteria, or profitability thresholds.

As you are aware, Cosmo is scheduled to disclose its new Medium-Term Management Plan on March 23. At the Earnings Announcement, Senior Managing Executive Officer Uematsu commented that “in the Medium-Term Management Plan, Cosmo would like to state the amount of necessary equity capital from the standpoints of the growth and risks of each business going forward, as well as from the standpoint of credit ratings” and that “Being traded at below 1x PBR is an issue for a publicly traded company, and we recognize that as a company. We would like to state in our Medium-Term Management Plan how we will take that recognition and link that to the improvement of enterprise value.” We strongly wish that Cosmo realizes share prices that are above 1x PBR, but at the same time, we are doubtful whether that can be achieved under the leadership of the current management team.

Senior Executive Officer Yamada told us of the need to expand equity capital beyond the current target of 400 billion yen in order to invest in the renewable energy business, but with regard to the renewable energy business, analysts pointed out at the Earnings Announcement that “the 7th Medium-Term Management Plan cannot be evaluated unless it states target returns, investment criteria, and profitability thresholds for the renewable energy business.” We are of the same opinion on this point.

Cosmo has not even disclosed target returns on projects in the renewable energy business that are already in operation. We have asked Cosmo about investment criteria in the renewable energy business multiple times in the past, but have never received an answer. Cosmo cannot be allowed to increase its equity capital for the reason of expanding its renewable energy business without making adequate disclosures.

As a shareholder in Cosmo, we intend to continue convincing Cosmo, through constructive dialogue, to ensure that Cosmo does not destroy shareholder value through acts such as increasing their equity capital without displaying appropriate accountability through explanations to shareholders in the 7th Medium-Term Management Plan.