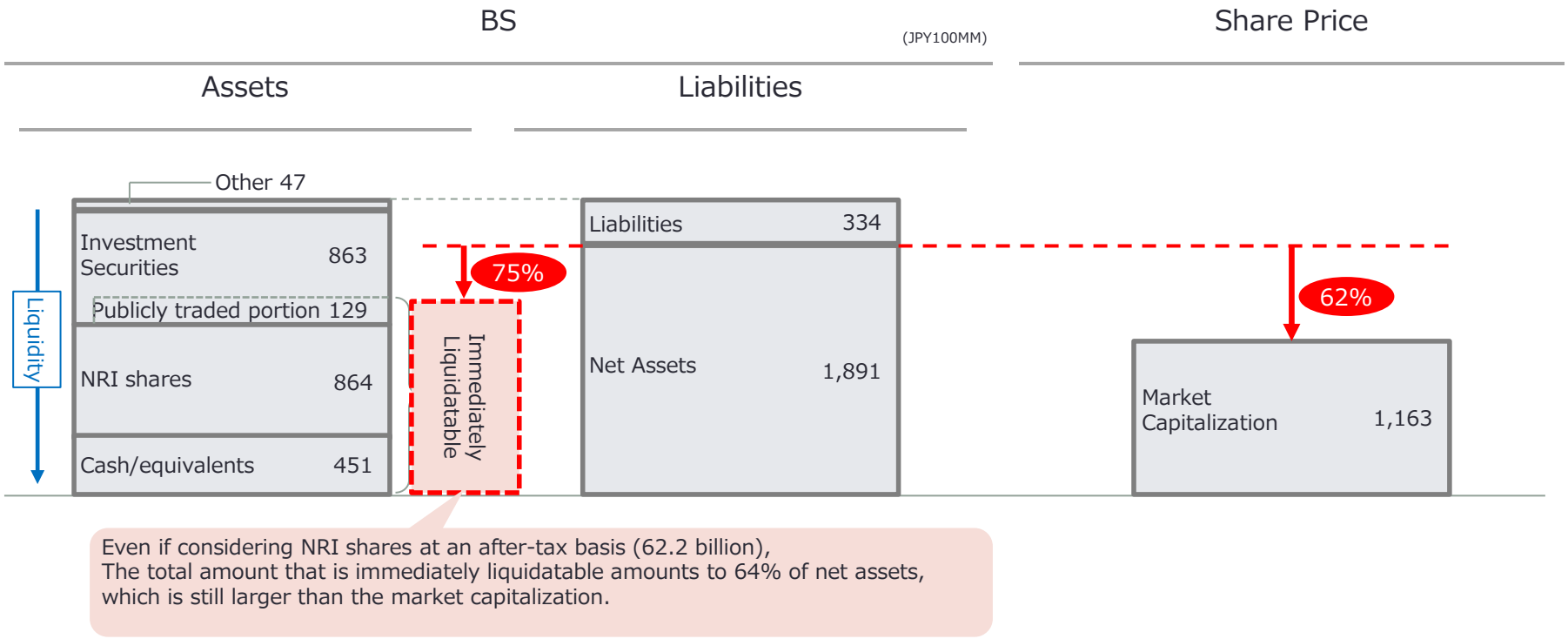
1 Financial Status of Your Company: BS and Share Price as of the End of June 2022

75% of the BS consists of liquidatable assets and there is minimal interest-bearing liabilities, yet the market capitalization is only 62% of net assets (i.e. 0.62x PBR). This is proof that the issues surrounding BS management and improvement of shareholder value are being left untouched.



From a different perspective, you could say that there is a situation that is left untouched in which the investment securities (your ownership in the investment funds that you manage) can be acquired at an exceptionally low price.

Note: all values are as of the end of June 2022, sourced from disclosure materials of your Company (p23 of 1Q earnings announcement for FYE March 2023)

This English translation is for reference purposes only. In the event of any discrepancy between this English version and the Japanese version, the Japanese original shall prevail.

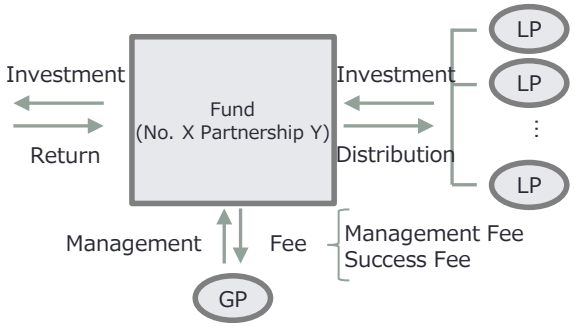
2 Schemes of JAFCO's Funds

JAFCO's characteristic is that they invest in approx. 40% ownership despite being the GP. It claims that "it is our strength that the ample capital allows us to establish funds of a certain size frequently", but the weaknesses and contradictions of this scheme becomes very noticeable especially for publicly traded companies.

- ✓ Issue 1 : Are the standards of cash/equivalents maintained for fund investments at appropriate levels for the shareholders?
- ✓ Issue 2 : Are the profit sharing and pricing (share prices) fairly balanced between the fund's LP investors and the shareholders? How do you resolve the issue of double taxation for shareholders? (LP investors enjoy the benefits of pass-through taxation)
- ✓ Issue 3 : Is it optimal to obtain a 40% ownership in the first place?

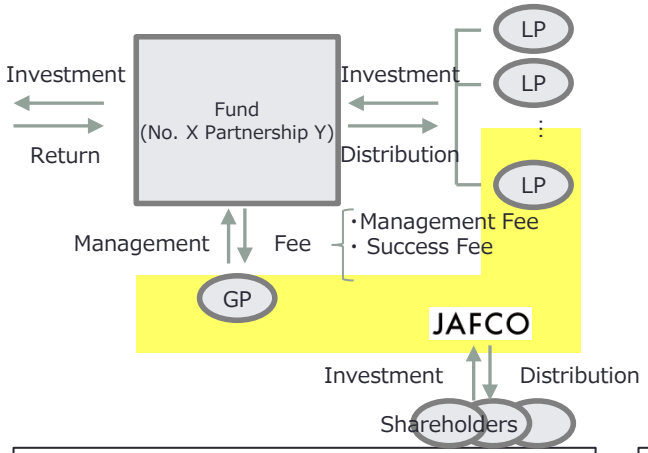
Comparison of Fund Schemes

Common Fund Schemes



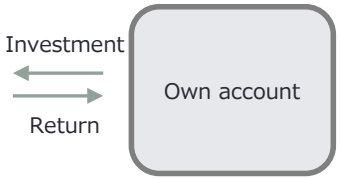
Usually, funds are operated in a way where GP and LP investors take clearly different roles.
- GP investments are usually just few %

JAFCO Fund Schemes



JAFCO is a GP and a 40% investor at the same time, as well as being publicly traded.

100% Ownership Scheme



Not technically a fund, but it is possible to invest 100% using your own account.

This English translation is for reference purposes only. In the event of any discrepancy between this English version and the Japanese version, the Japanese original shall prevail.

3 JAFCO's Issues, and the Necessary Corporate Actions to Resolve these Issues

Currently, there are 4 issues at JAFCO. If they are to be resolved while remaining publicly traded, a share buyback using proceeds from the sale of NRI shares is the leading choice.

Current Issue

LP Perspective

1 The distortion in which JAFCO shares are cheaper than the fund investments is left unresolved.
- Poses potential issues for funds that will be established going forward

2 Excessive exposure to NRI shares.
- Equivalent in value to almost half of net assets, being invested in a single publicly traded company. Poses large risk to core business

Shareholder Perspective

3 Excessive cash/equivalents (including NRI shares).
- The excessive focus on establishing investment funds is resulting in low capital efficiency and share prices, damaging shareholder value

4 Large impact of double taxation on 40% investments.
- LP investors enjoy pass-through taxation benefits, while JAFCO shareholders receive profit distribution after JAFCO gets taxed, creating a discrepancy

Solution

Take Company private

or

Use NRI shares to continue buybacks as much as possible until PBR reaches 1x

Additionally, reconsider current scheme of making 40% investment and take the issue to shareholders.

From a general perspective, it is natural for a publicly traded company to invest in the target that is expected to generate the highest returns.
For JAFCO, this target is its own shares (≒ existing LP investments that can be purchased at a discount).
Of course, if there are other targets with higher potential returns than JAFCO shares, it is valid to focus on those.

This English translation is for reference purposes only. In the event of any discrepancy between this English version and the Japanese version, the Japanese original shall prevail.

4 Adequate Levels of Necessary Cash/Equivalents

In your Company's release "Policy on Future Shareholder Returns" dated February 10, 2021, you stated that "if the sum of cash and equivalents and mark-to-market valuation (after tax) of NRI shares exceeds the 120 billion yen, we will consider buying back our shares." Buybacks have been executed thereafter, but the threshold value, to begin with, is not appropriate given the current situation

JAFCO Announcement

Necessary capital for the future are:

1. Capital needed to fulfill future payments for funds currently under management (unpaid fund capital)
2. Capital to invest in the next fund
3. Expansion of fund sizes going forward
4. Other investment opportunities
5. Preparation for unexpected occurrences

They roughly equal 120 billion yen in the current state. If cash/equivalents and mark-to-market valuations (after tax) of NRI shares exceeds this amount to a certain extent, we will consider buying back our shares.

*1/2/3 above were particularly stressed in our meetings with JAFCO.

Current Situation

Necessary capital is approximately 15 billion yen/year even without income. 120 billion is 8 years' worth that amount.

- Investments made by funds in the FYE March 2022 was 37 billion yen (largest amount in the past 12 years) ※4. A 40% investment calculates to approximately 15 billion yen/year
- Realistically, income will not be zero (signifying a state with not exits or distributions); if it actually happens for a few years, it is unrealistic for there to be future funds established

The current cash/equivalents provides 3 years' worth of capital.

- Cash/equivalents as of June 2022 is 45.1 billion yen (*including reserves for unpaid fund capital)
- A share buyback using proceeds from NRI share sales will not impact the business

Therefore, the current shares in NRI are excessive, and a share buyback using these funds will not affect the continuity of the business. (NRI shares are trading at higher prices than when past sales were conducted)

The idea of trying to constantly maintain at-hand enough cash/equivalents to be able to make 40% investments in two funds despite being a publicly traded company proves that shareholder value is taken lightly, just seeking benefits such as prestige instead.

*4 Page 7 of JAFCO's 2022 FACT BOOK

This English translation is for reference purposes only. In the event of any discrepancy between this English version and the Japanese version, the Japanese original shall prevail.