



## Message from the President

# Fueling Perpetual Growth by Continuing to Support People and Companies Pursuing Change

Keisuke Miyoshi  
President & CEO

## Growing Presence of Startups and Increasing Business Opportunities

Uncertainty about the future of society continues to grow.

The COVID-19 pandemic has brought significant changes to our lifestyles and behavior patterns, while the crisis in Ukraine has led to soaring prices and supply shortages worldwide. At the same time, environmental and social changes, including intensifying disasters arising from climate change and the emergence of human rights and other social issues, are heavily impacting people's ways of life, as well as corporate management and supply chains.

The COVID-19 pandemic has undeniably forced companies to change traditional ways of generating earnings and working, which has made it difficult to derive solutions from past success models. Amid the need to pursue the development of novel products, services, and technologies based on totally new approaches, startups are attracting more attention than ever before. The products and services created by startups are closely attuned to changes in the market, and so it has

become commonplace for major corporations and other established companies to find ways of effectively incorporating these products and services into their own businesses. While the majority of existing companies have started taking social responsibility seriously recognizing that resolving social issues is a fundamental theme, there has not necessarily been a seat at the table for startups to play their part. However, as social change accelerates, there are growing expectations for highly agile startups, and venture investments are now made across a broader range of themes and in greater amounts. At the same time, there is steadily increasing social demand with regard to the venture and buyout investments that we engage in. This includes the rise in the number of successful companies that have taken the current social changes as opportunities, and growing needs for support in establishing independence from the parent company and for business succession.

## JAFCO Group's Ongoing Business and Social Value

The Company formed Japan's first venture capital fund (investment partnership) in 1982. Since then, we have worked closely with companies to achieve growth and revitalize their businesses through venture and buyout investments.

We place importance on continually investing in the bold visions of entrepreneurs and others. What we value most in investment activities is our approach of growing together with portfolio companies. For this reason, it is essential that we gain the understanding, trust, and cooperation of the four groups of stakeholders involved in our growth—namely, portfolio companies/entrepreneurs, fund investors, shareholders/investors, and our employees. By doing so, we are able to promote joint operations with portfolio companies over the medium to long term. Venture investments come with high risk and require a significant amount of time because they essentially involve the creation of completely new businesses from the ground up. To guide these investments to success, it is important to listen carefully to the opinions of not only portfolio companies/entrepreneurs, but also fund investors, shareholders/stock investors, and our investment professionals and other employees.

A key point for realizing the world envisioned by portfolio companies/entrepreneurs is to jointly think through what kind of business to create and how it will contribute to the transformation and restructuring of society. In buyout investments, our aim is to take over a business, further enhance its value, and then transfer the business to take it to the next stage. Our approach with buyout investments is the same as the one with venture investments in that we listen carefully to all stakeholders in the process of management reform and contribute to

the transformation and restructuring of society through their solid business development. It is essential that we believe in the new challenges undertaken by portfolio companies/entrepreneurs and think through how to achieve them together. Occasionally, there are cases where the interests of stakeholders may not coincide, but we believe that we always make fair decisions on such matters (an important value).

Our investments often involve pursuing pioneering goals such as the creation of novel business models, so naturally, we must be prepared for a certain degree of failure. However, we have learned from experience that big results only come from continuing to take on challenges without fear of failure. This is behind our firmly rooted culture of not fearing but permitting failure.

Our investments are not possible without portfolio companies/entrepreneurs that are serious about growing their businesses, our employees who promote the businesses with them, our fund investors who provide capital, and our own shareholders/stock investors. We work alongside portfolio companies/entrepreneurs to put their businesses on track for growth, and distribute the proceeds that we gain from our investments in the form of returns to fund investors, shareholders/investors, and the Company. By repeating this cycle of making an investment, achieving the portfolio company's growth, and recovering the investment, we have challenged ourselves to create new value, led many companies to success, and achieved our own growth. Our social value is in our ability to promote corporate rejuvenation and eventually change the industrial structure through our investments.

## Increasing the Reproducibility in the Challenge to Succeed

Our journey to date has not always been smooth. Despite many difficulties, including the collapse of the dot-com bubble in 2001, the global financial crisis in 2008, and the Great East Japan Earthquake in 2011, we have steadily continued to invest in the bold visions of entrepreneurs and others. I consider our biggest turning point to be when we shifted our investment policy to highly selective, intensive investment in 2010. This approach focuses on high-potential targets and takes on the risk of making bold investments. The shift

was aimed at promoting the growth of portfolio companies by acquiring an influential stake that allows deep involvement in their management. At a time when it was widely taken for granted that investments in startups would usually fail and the standard practice was to diversify investments in many startups in a broad range of business categories, we resolved to focus instead on highly selective, intensive investment, concentrating our funds in companies that showed a particular promise.

When it comes to putting this into practice, investment professionals who are able to think through the creation of new businesses together with portfolio companies/entrepreneurs are indispensable. However, I believe that the very reason why our highly selective, intensive investment has been successful and produced steady results is that we have built a system where our highly ambitious investment professionals can support a portfolio company's growth and create/innovate businesses along with our Business Development Division, Fund Management Division, and Administration Division.

Meanwhile, in July 2017, we bought back and canceled all of our shares held by Nomura Holdings, Inc. and Nomura Research Institute,

Ltd. (NRI), which amounted to 27.8% of the total shares outstanding, and became totally independent. Up to that point, we had already been independent in terms of management and business operations, but we still had a capital relationship with them. By dissolving this relationship, we clarified our stance as an independent company. In conjunction with the major shift in the shareholder composition, we have been working to enhance governance to ensure that our management fully considers the interests of both our shareholders, mostly consisting of institutional investors, and our fund investors.

## History of Strengthening Corporate Governance and Commencement of Full-Fledged Sustainability Management

Since becoming a company with a board-audit committee in June 2015, we have accelerated the strengthening of corporate governance by increasing the ratio of independent directors, appointing a female director, establishing the Nomination and

Remuneration Committee (in June 2019), and other measures.

Furthermore, in the fiscal year ended March 31, 2021, we decided, from the standpoint of capital efficiency, on a policy to clearly specify the amount of funds needed for continuing investment

### Purpose

**Fueling perpetual growth;  
investing in bold visions**

### Mission

**Commit to new business creation  
and jointly shape the future**



activities and to return the surplus to shareholders. We bought back shares totaling ¥35 billion that year and a further ¥15 billion the following year and we have sold about 40% of our NRI shareholdings according to our announced policy.

We have also worked on establishing a sustainability management structure. In the fiscal year ended March 31, 2022, we launched a sustainability project and began discussions on how to achieve continuous improvement of corporate value. Under this project, we are working on building corporate and governance structures that are resilient to global demands by highlighting any gaps between our management and external requirements. We also launched a cross-divisional project to discuss measures to enhance our corporate value, incorporating the details discussed in the sustainability project.

In addition, in order to communicate the significance of our existence as a company (i.e., the social value we create and the

values we embrace) to our employees, investors, and other stakeholders, we set out to introduce a purpose statement. After repeated discussions from various angles, we identified Our Purpose to be "Fueling perpetual growth; investing in bold visions." While upholding our Mission "Commit to new business creation and jointly shape the future," which defines the aspiration we have pursued since our foundation, we will decisively invest in bold visions that generate novel value, commit to ensuring their ability to fuel new perpetual growth, and contribute to the realization of a sustainable society. We also identified the material issues that we face in realizing Our Purpose and discussed measures to improve our corporate value. Regarding our human resource policies, we have launched a number of new initiatives, including more active mid-career recruitment, training of investment professionals, diversity initiatives, and the introduction of new workstyles amid the COVID-19 pandemic.

## Results for the Fiscal Year Ended March 31, 2022

Our highly selective, intensive investment to date has borne fruit, and in the fiscal year ended March 31, 2022, our fund management achieved a significant result in the form of the IPO by Visional, Inc.,

a portfolio company of ours. I believe that this success was a result of the efforts of our team led by investment professionals in supporting the entrepreneur's desire to create a new mechanism to resolve social

issues using IT and solve challenges in the way people work in Japan by focusing on the area of workstyles, rather than simply leveraging outstanding technologies or services. One insight we gained through our investment in Visional is that if a company can create a new business model by successfully addressing changes in social values in Japan, it will be able to gain a large share of an existing massive market and win a high reputation on a global basis. We will try to firmly root knowledge for the next success in our teams and replicate

the case of Visional by accumulating our own know-how out of successes of this kind.

Moreover, in buyout investments, our ongoing efforts to provide attentive support from investment to exit have resulted in the launch of a buyout-dedicated fund. In addition, we completed investment activity for the SV6 venture capital fund, and now we have begun fundraising for the next SV7 fund.

## Our Determination to Make Further Progress

As the Board of Directors and other bodies were discussing initiatives to enhance corporate value, some shareholders proposed a measure to enhance shareholder value in August 2022. Given our prior recognition of and ongoing discussions on matters overlapping with much of the proposal content as issues to be addressed, we specified our future direction, taking into account the content of the proposal,

and announced the Basic Policy for Enhancing Corporate Value in November 2022. The key points of the policy are to aim for greater capital efficiency than ever before, and to explicitly state and implement our growth strategies. In the short term, the amount of capital earmarked for the Company's investment business will be halved from ¥120 billion to ¥60 billion. At the same time, all



remaining shares of NRI held will be sold, and the proceeds from that sale will be used to buy back our shares, which will then be promptly canceled. In addition, we have changed the dividend policy from paying 3% of shareholders' equity to paying the greater of 3% of shareholders' equity or 50% of net income.

Our medium-to-long-term goals are to reduce our investment ratio in new funds from 40% to 20%, to increase total funds under management (AUM) from ¥380 billion (as of September 30, 2022) to ¥670 billion, and to boost ROE from 6% to the range of 15–20%.

As part of our growth strategies, we need to enhance our investment management and fundraising capabilities, and strengthen our organizational foundation which supports our investment activities. We will raise our investment management capabilities by improving our approach of highly selective, intensive investment, which we have been promoting since 2010, and deepening our involvement in the management of portfolio companies by quickly identifying business possibilities in each stage of investment, growth, and exit. Being committed to broader and deeper growth, we can eventually maximize the value of, and guide each portfolio company through to exit. To expand our fundraising capabilities, while increasing the percentage of repeated investments from existing fund investors, we will acquire new investors especially by targeting a new group of investors who put a particular premium on the social and economic value of funds. As a measure to strengthen the organizational foundation of employees, we will continually hire new graduates and

pass on knowledge and experience to them, and also recruit diverse human resources with the necessary backgrounds to help portfolio companies grow their business. We will also enhance our specialized functions aimed at providing cross-sectional support to portfolio companies such as hiring executives and employees and strengthening their relationships with established large corporations and financial institutions.

Furthermore, as a measure to actively contribute to the realization of a sustainable society through our investment activities, we will strengthen investment in businesses that contribute to sustainability, and help portfolio companies enhance their corporate governance. Many of our investment activities lead to the creation of new businesses that resolve social issues. To date, we have contributed to social sustainability through the expansion of portfolio company businesses. Against the backdrop of the growing awareness of social issues, we will further increase investment in businesses and companies pursuing solutions to social issues. For unlisted companies, implementing ESG-conscious management at an early stage will lead to stable and sustainable corporate/business growth. As lead investor, we regularly check the governance structure of portfolio companies and help them improve it by engaging in dialogue with their management team.

Through these activities, we will achieve Our Purpose of "Fueling perpetual growth; investing in bold visions" by maximizing the supply of risk money and circulating such money to guide portfolio companies to growth, thereby contributing to sustainable economic growth.

## Becoming a Partner of People and Companies Pursuing Change and Innovation

Today, the world, in particular Japanese society, is undergoing a major paradigm shift, away from the traditional social structure, and this trend is expected to accelerate. We have invested, and will invest in people and companies taking on challenges to pursue change and innovation. Toward that end, we must become their partner of first choice. We, too, will constantly change. By steadily implementing the recently

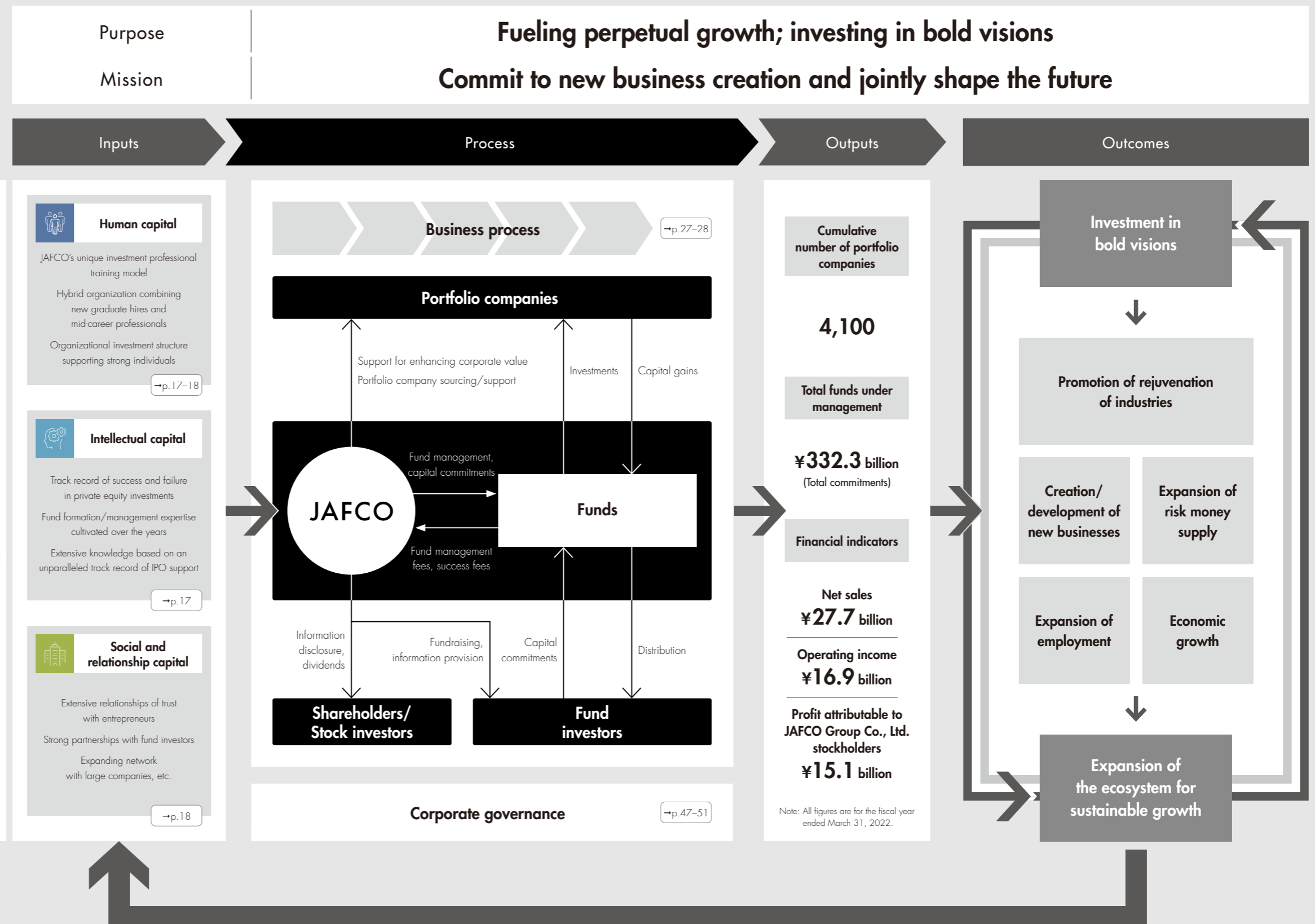
announced Basic Policy for Enhancing Corporate Value and making significant changes ourselves, we will together take up the challenge of building a sustainable society.

Stay tuned as we strive to become a partner of people and companies pursuing change and innovation.

# Value Creation Process

## Fueling perpetual growth; investing in bold visions

We will continue to invest in the bold visions of entrepreneurs and companies to drive the rejuvenation of industries and achieve the sustainable growth of society.



# Integration of Management Capital based on Human Capital

JAFCO Group creates new value by integrating its unmatched intellectual capital and social and relationship capital based on the organizational and human resource capabilities that it has cultivated.

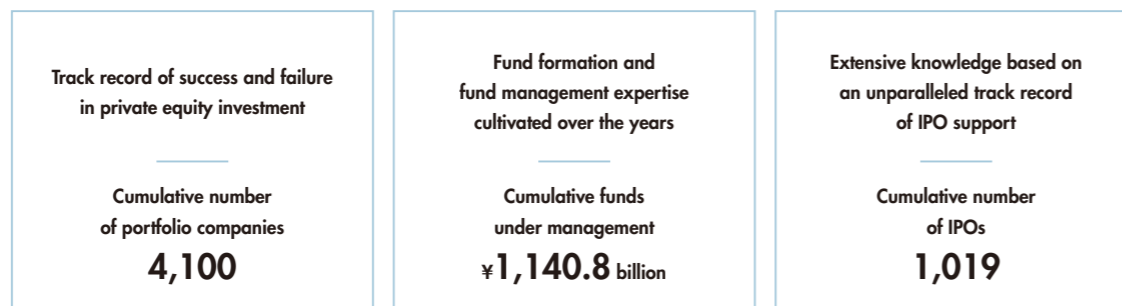


## Intellectual capital

Because investment in unlisted companies that may not have a solid business foundation is highly uncertain, the key is how effectively past experience can be leveraged to reproduce success. Reproducing success fuels perpetual growth. We have established a mechanism for sharing and accumulating experience through meetings and information systems throughout all business processes, which range from forming funds, identifying investment targets, making investment decisions, executing plans, and enhancing corporate value to selecting an exit.\* This mechanism is our intellectual capital.

To date, we have invested in 4,100 companies and supported more than 1,000 IPOs. One of our strengths is the ability to identify the potential issues that could be faced by portfolio companies and provide solutions based on our experiences of success and failure that have been accumulated in the process of supporting an overwhelming number of IPOs.

\* Refers to recovery of invested funds or exit strategies in venture capital and other investment funds



## Social and relationship capital

Our shareholders, fund investors, and portfolio companies are all important stakeholders. The success of portfolio companies improves fund performance, which translates into profits for fund investors and shareholders. The relationship between the Company, portfolio companies, and limited partners is that of a partnership for the growth of portfolio companies. Fund investors not only provide funds but also actively collaborate with portfolio companies. We, too, are sometimes introduced to promising companies and entrepreneurs by portfolio companies.

Our network with large companies and related institutions is also essential for expanding business and fundraising opportunities for the growth of portfolio companies. We continue to expand our network and deepen trust through various activities, including workshops and seminars.



The greatest source of value creation at JAFCO Group is our human capital. For many years, we have consistently hired new graduates and worked to train investment professionals. Our unique training model has contributed significantly to the development of the private equity investment market and industry, including fund establishment by our former employees. In recent years, in addition to our new graduate hiring/training model, we have been focusing on mid-career hiring in an effort to build a hybrid model for developing human resources.

Our culture of respecting portfolio companies (entrepreneurs) is continuously passed down not only to our professionals but throughout the entire organization. A culture in which all employees, regardless of their division or age, cooperate naturally with each other to support the growth of portfolio companies and improve our investment capabilities has allowed us to develop strong organizational and human resource capabilities. Our organizational structure that places emphasis on the unique talents of individual professionals while also backing up those individuals is a major feature of the Company.



## Human capital



Note: As of March 31, 2022

# Materiality

## Materiality Identification Process

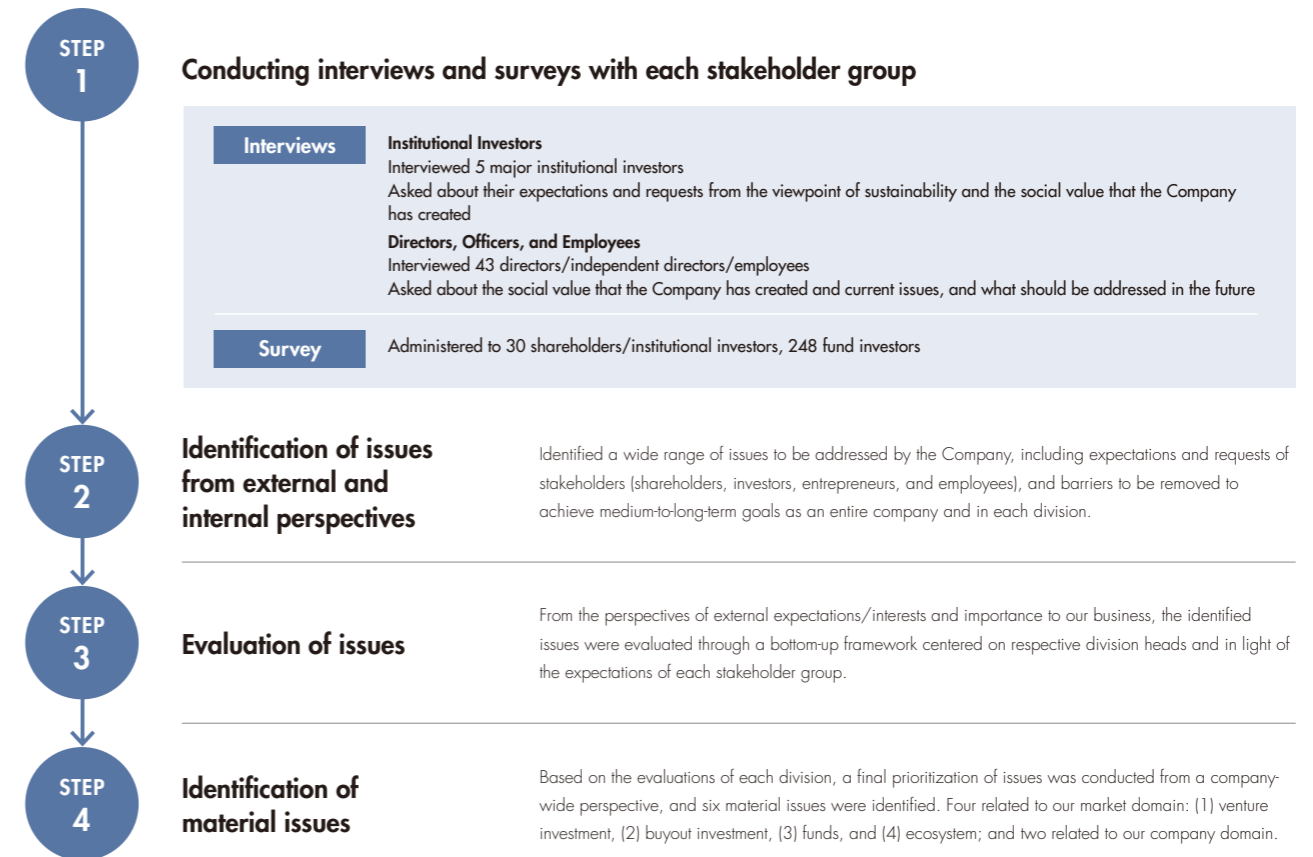
Our private equity investment, and particularly our venture investment, which is where our business originated, is strongly characterized by its contribution to solving social issues by its very nature. For this reason, we have focused on private equity investment since our founding based on our policy of continuing to invest through good times and bad. We believe that our continued investment enables us to achieve Our Purpose and contribute to the resolution of social issues.

In recent years, the social environment has become increasingly diverse, and issues have become more complex, making it vital to understand society from a wider perspective. With this in mind, we consider our course of action based on the opinions of our stakeholders. We will continue to determine our direction for growth while taking into account a wide range of opinions, and work to identify and resolve material issues and make improvements.

## Identifying Material Issues based on Feedback from Stakeholders

Before identifying material issues, we conducted interviews with stakeholders such as institutional investors with a view to enhancing our corporate value. We received a number of comments that our business of private equity investment itself contributes to resolving social issues. Based on such feedback, we worked to identify material issues in

terms of medium-to-long-term issues related to the markets and stakeholders in which and with whom we are involved. After raising a wide range of issues, six material issues were identified based on the evaluation axes of internal issues and external demands, as well as expert advice.



Material issues	Social issues facing the Company	Policy	Examples of specific initiatives
1. Creation of new businesses that lead the way in fulfilling social needs	Innovation in various industries is essential for the sustainable development of society and economic growth. The creation of new businesses that address potential social demands, in addition to resolving social issues which have already emerged, is required.	Conduct highly selective, intensive investment and deepen management involvement to achieve high performance	<ul style="list-style-type: none"> <li>Expand the scope of deal sourcing to include companies at an earlier stage with high growth potential and become involved in their management as a lead investor</li> <li>Ensure a high level of involvement in business development and deploy a full range of management resources, through a specialized team to support portfolio companies</li> <li>Build a business foundation to realize continuous corporate growth in the future</li> </ul>
2. Growth of companies with social value and passing on to the next generation	Issues faced by companies are becoming increasingly complex, such as the necessity of adapting to social and environmental changes, productivity improvement, and the shortage of business successors. The ability to revitalize corporate growth must be improved to pass on the technology and assets essential for society's future.	Realize a fresh start by committing to growth through an integrated approach	<ul style="list-style-type: none"> <li>Commitment by professionals through an integrated approach covering everything from sourcing to exit</li> <li>Use of knowledge cultivated through venture investment to achieve corporate growth for the next generation</li> <li>Establishment of a business foundation that allows continuous corporate growth in the future</li> </ul>
3. Expansion of risk money supply in Japan	New industries that support the future must be created to ensure Japan's medium-to-long-term growth. Since Japan continues to lack a sufficient supply of risk money, it is vital that long-term capital from institutional investors in Japan and overseas is allocated to the private equity market, wherein it can gain value and circulate.	Improve attractiveness of funds as a financial instrument through high investment performance and management discipline/transparency of management	<ul style="list-style-type: none"> <li>Acquisition of new investors by providing a level of returns that sufficiently compensates for lower liquidity</li> <li>Building trust with investors through highly disciplined and transparent management</li> <li>Strengthening and expanding collaboration with financial institutions and business firms that support the growth of portfolio companies</li> </ul>
4. Establishment of an ecosystem that supports business creation and growth	As there are many barriers that must be overcome to create new businesses and reinvigorate corporate growth, a structure that supports society as a whole is needed. Based on a high level of commitment of professionals in various specialized fields, there is a need to reproduce success through the circulation of diverse knowledge and experiences.	Form co-creation partnerships to create new businesses and realize a fresh start	<ul style="list-style-type: none"> <li>Acquisition of new investors by providing returns that compensate for low liquidity</li> <li>Building frameworks to support entrepreneurs and companies through cooperation with universities, research institutions, and government</li> <li>Awareness-raising/support for career development to expand the flow of human resources to growth industries</li> </ul>
5. Continuous organizational development to promote active roles of diverse human resources	Combining diverse viewpoints and a wide range of individual strengths is indispensable for the sustainable development of society. To enable each individual to work with enthusiasm and fully demonstrate potential, companies are called upon to take the initiative to respect diverse values.	Promote recruitment of diverse human resources and strengthen frameworks that support their growth and success	<ul style="list-style-type: none"> <li>Expansion of internal functions, contacts with entrepreneurs/companies, and various networks by securing diverse human resources through a combination of new graduate and mid-career recruitment</li> <li>Continuous promotion of on-boarding and internal support programs to support growth</li> <li>Establishment of a personnel system and a working environment that ensure health and safety as a basis for success</li> </ul>
6. Reduction of business and management risks by strengthening governance	Reflecting the diversification and rising complexity of social issues, corporate social responsibility and expectations from stakeholders are increasing. To meet the demands and expectations of society and realize sustainable corporate growth, companies are called upon to strengthen their governance.	Strengthen the organizational system and structure to lower business and management risks	<ul style="list-style-type: none"> <li>Strengthen the corporate governance system that supervises and supports management</li> <li>Maintain compliance as a financial instruments business operator and accumulate private equity investment expertise</li> <li>Enhance ESG monitoring and the support structure for portfolio companies</li> </ul>

# Sustainability

## Realizing a Sustainable Society through Investment Activities

We will contribute to the realization of a sustainable society through the following two initiatives for portfolio companies.

### 1 Invest in businesses that have social significance

The first initiative is continued investment in businesses with social significance. The number of businesses that contribute directly to sustainability has increased in recent years. Leading examples are businesses working toward a decarbonized society, which is a global issue, and those that address new lifestyles following the impact of the COVID-19 pandemic. While our investment targets are not limited to specific industries or domains, we aim to realize a sustainable society by discovering hidden value with regard to social issues and continually investing in companies with social significance.

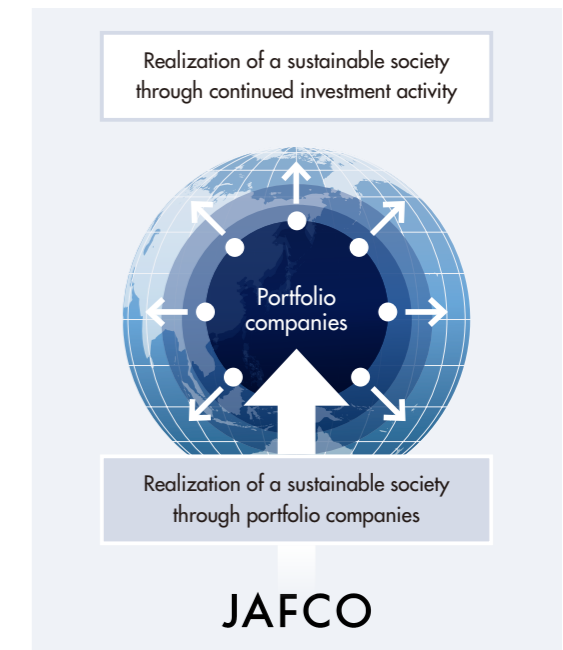
### 2 Enhance governance to increase portfolio companies' awareness of sustainability

The second initiative is enhancing governance to increase portfolio companies' awareness of sustainability. While the importance of corporate sustainability activities is increasing, there are cases where portfolio companies cannot satisfy ESG evaluation criteria on their own. Through active involvement in these portfolio companies, we will change their awareness of sustainability and link this to improvement activities, thereby enhancing sustainability in society as a whole.

As described above, we contribute to the realization of a sustainable society through involvement in portfolio companies. We therefore believe that the continuation of our investment activity itself leads to the achievement of a sustainable society. Our private equity investment encourages the flow of funds, drives the transformation of the industrial structure, and enriches society. From a global perspective, the private equity investment domain in Japan has high growth potential, and we believe that the expansion of the private equity market itself contributes to sustainability.

We regard continued investment as a highly important initiative, not only in terms of business and corporate growth, but also to boost sustainability in society as a whole. Even when many funds refrained from investment activities amid significant declines in business confidence, including the global financial crisis, we continued to carry out consistent investment.

While responding in a timely and appropriate manner to external demands as the global environment and social systems drastically change, our strong dedication to continuing investment through good times and bad will remain unchanged. We will continue to realize Our Purpose and strive to create a sustainable society through the means of investment, on which we have focused since our inception.



### 1 Invest in businesses that have social significance

Here we introduce sustainable value that portfolio companies realize through their businesses by dividing them into four categories, three of which are based on the three tiers of the "SDGs wedding cake" model\* — biosphere (contributing to resolving environmental issues), society (contributing to resolving social issues), and economy (contributing to the innovation and development of industries)—and the other is enhancing governance and information disclosure.

\* The SDGs wedding cake model is a conceptual model developed by Professor Johan Rockstrom, co-founder and former director of the Stockholm Resilience Center at Stockholm University, Sweden.

Biosphere: Contributing to resolving environmental issues



TeraWatt Technology Inc.

TeraWatt Technology conducts research and development of next-generation lithium-ion batteries with high energy and power density. It is contributing to the realization of a **decarbonized society** through the development of next-generation batteries that can extend the driving range of electric vehicles, which are in increasing demand, and increase the payload capacity and flight time for delivery drones.



Sharing Energy Co., Ltd.

Sharing Energy offers Share Denki, a third-party ownership service for solar power systems for detached houses. The company contributes to a **decarbonized society** by transforming the energy system through the creation of distributed power sources and the supply of innovative products.

Society: Contributing to resolving social issues



Next Innovation Inc.

Next Innovation offers Smaluna, a one-stop medical consultation platform for contraceptive pills that allows consultation, examination, prescription, and delivery arrangement over smartphone. The company also provides a corporate welfare service and has developed a free sanitary product service, contributing to **empowerment and quality of life for women**.



Gojo & Company, Inc.

Gojo & Company operates microfinance services in India, Cambodia, Sri Lanka, Myanmar, and Tajikistan for low-income earners who cannot access financial services due to a lack of economic infrastructure. The company contributes to **providing equal opportunity and expanding freedom by ensuring financial access for all people**.

Economy: Contributing to the innovation and development of industries



TIER IV, INC.

TIER IV has developed Autoware—an open-source software from Japan for autonomous driving systems. The company contributes to **the social implementation of autonomous driving systems** through its two platforms: Pilot.Auto and Web.Auto.



Synprogen Co., Ltd.

Synprogen utilizes its proprietary DNA synthesis technology (OGAB method) to provide ultra-long and complex DNA synthesis services and DNA library construction services for various combinations. It also applies its technology to the design and development of viral vectors for gene therapy and production process development, thereby contributing to **the development of gene therapy products and the establishment of manufacturing platforms**.

Enhancing governance and information disclosure



LegalOn Technologies, Inc.

LegalOn Technologies offers Legalforce, an AI-based software that supports contract reviewing. It helps to prevent hidden risks from being overlooked or required clauses from being omitted in contracts and allows users to search for clauses used in the past, thereby contributing to **improving the efficiency of highly specialized legal practices and strengthening corporate governance**.



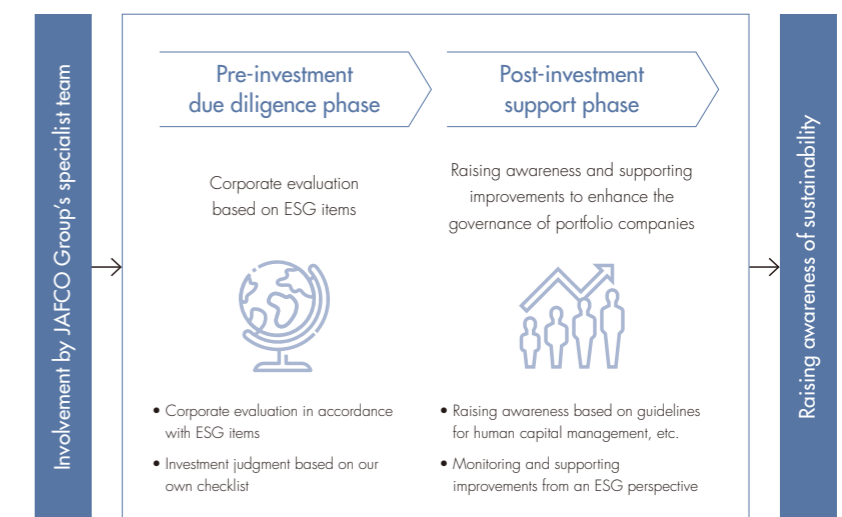
Sustainable Lab Inc.

Sustainable Lab offers TERRAST, a tool that enables companies to easily collect and analyze non-financial information. It contributes to **enhancing governance and non-financial information disclosure** by managing and analyzing non-financial data, including analysis of the current status of ESG/SDG management and industry/competitor/timeseries comparisons.

### 2 Enhance governance to increase portfolio companies' awareness of sustainability

As many portfolio companies are yet to establish the necessary organizational frameworks, we have been conducting compliance checks on a regular basis. In recent years, we have further strengthened our efforts in response to increasing social demands for sustainability. In the pre-investment due diligence phase, we evaluate candidate portfolio companies and entrepreneurs based on our own checklist, which includes ESG items. Then, in the post-investment support phase, we conduct awareness-raising activities and periodic surveys based on management guidelines and monitoring indicators with a focus on an ESG perspective, and our specialist team carries out improvement activities if necessary.

We will continue to contribute to the realization of a sustainable society by raising the awareness of portfolio companies.



## Message from the CFO



**We will improve our capital efficiency and build a solid financial foundation to promote growth strategies.**

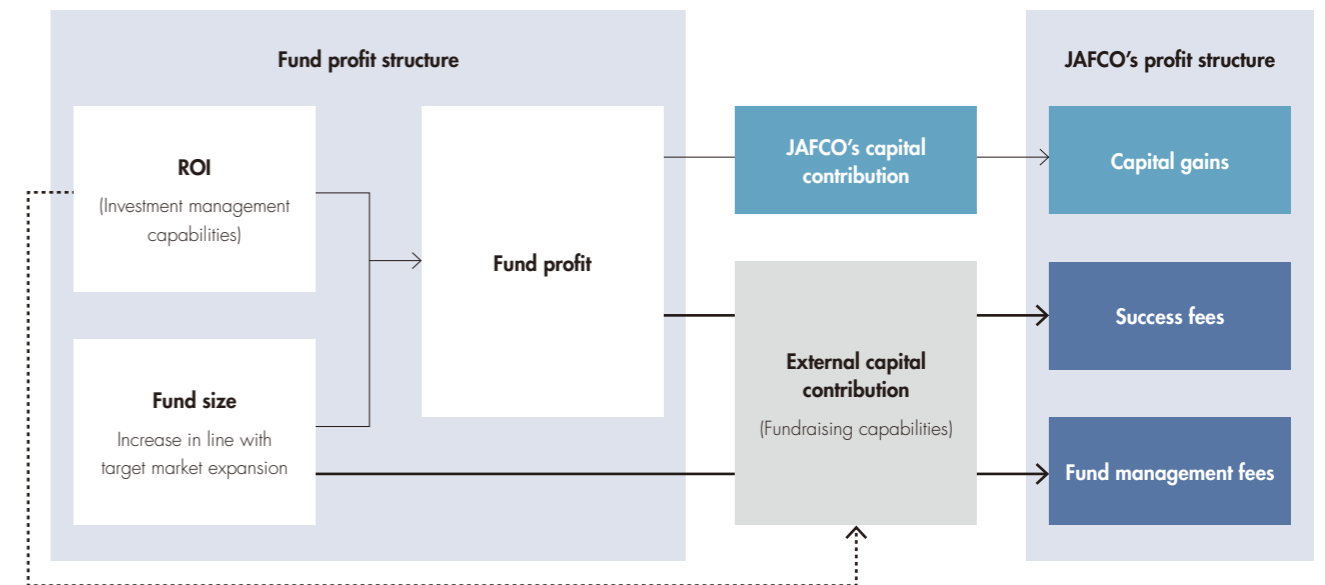
Hiroaki Matsuda  
Chief Financial Officer

Since its founding in 1973, JAFCO has continued to invest in companies working to create new businesses or to revitalize their existing businesses. Looking back, despite adverse events such as the collapse of the dot-com bubble in 2001, the global financial crisis of 2008, and the Great East Japan Earthquake in 2011, we have continued to invest consistently regardless of the circumstances. When it comes to creating a cycle of economic revitalization and growth, it is very important to continue investing even amid difficult circumstances. As CFO, my most important mission is to ensure that we have the financial foundation and fundraising capabilities to make bold investments in businesses that can potentially change the future.

Our main income sources are capital gains on our interests in funds that we manage, and the success fees and fund management fees we receive for the management of external capital entrusted to us by fund investors. The most distinctive feature of our venture capital funds is that we ourselves also invest in the funds. In doing so, we, the fund manager, take on risk ourselves to show our investors that we are strongly committed to the fund performance, and also to align our returns with those of investors. Doing so has enabled us to raise funds on a steady basis and focus on improving the funds' return on investment (ROI).

The most important aspect of maintaining a solid financial position as a company making private equity investments is the ability to properly evaluate investment assets. As CFO, I must identify decreases in the value of our investment assets faster and more accurately than anyone else. If we can identify and solve problems early, our investment professionals can devote themselves to proactive investment activities. As we move forward with this business, I believe it is extremely important that we create such a frontline-oriented environment and disclose the fair valuation of our private equity holdings—a key category of our assets—with transparency to fund investors, as well as JAFCO's shareholders/stock investors. Our investment professionals maintain a close dialogue with the management teams of portfolio companies in a variety of ways to gain a thorough understanding of the status of their businesses. We have a culture in place in which these investment professionals and members of the Business Development Division and Administration Division discuss the potential downside risks openly and honestly. This information reaches me as well. It is one of our greatest strengths to be able to accurately evaluate assets based on such information.

### Overview of profit structures



Higher performance increases a fund's attractiveness as a financial instrument, facilitating external fundraising

## Building a Strong Financial Foundation and Improving Capital Efficiency

Put simply, our venture investment is a business in which we create novel businesses together with entrepreneurs. Being a business of great significance, it is also highly risky and heavily impacted by changing times. In 2010, amid the continued economic downturn caused by the 2008 global financial crisis, we adopted a policy of highly selective, intensive investment. Prior to that, we attempted to reduce risk and improve performance by diversifying investments among many companies, but due in part to the financial crisis, we could not achieve the expected results. As a result of shifting to highly selective, intensive investment, the number of portfolio companies decreased, but we could focus more on management involvement and gaining a deeper understanding of their business conditions, allowing us to generate more favorable results. Meanwhile, increasing the amount invested in each portfolio company meant that capital gains per company were higher and overall fund performance generally improved. Highly selective, intensive investment has also made it easier to grasp the downside risks of each portfolio company. Prior to the policy change, we were not always able to identify the downside risks in portfolio

companies, and had some sudden unpredicted bankruptcies. However, the policy has allowed us to be more closely involved with each portfolio company and to gather information through smooth communication. It has made it relatively easy for us to identify risks beforehand, detect signs of their manifestation, and take prompt preemptive action. The shift to highly selective, intensive investment stabilized our profitability, enabling us to achieve a strong financial foundation.

Much discussion has been made about our capital efficiency. We, basically, have been making an effort to build a solid financial structure that would allow us to stably finance our own investments in our funds. However, in 2021 we specified the amount of capital needed to continue our investment activities and decided to return any surplus to shareholders to improve capital efficiency. Then we sold off around 40% of the shares we held in Nomura Research Institute, Ltd. (NRI) and bought back our own shares totaling ¥50 billion. Going forward we will take further measures to improve our capital efficiency.



## Reflection on the Fiscal Year Ended March 31, 2022

Looking back on the business environment in the fiscal year ended March 31, 2022, although the number of IPOs in Japan reached 120, the market underwent a significant correction in the second half against the backdrop of U.S. monetary policy and geopolitical risks. As a result, we could not predict how it would affect the performance of portfolio companies and the fundraising of our new fund. These circumstances led a number of planned domestic IPOs to be postponed or scaled down, but even in this business environment, the Company's performance remained relatively strong. Capital gains on listed and unlisted stocks combined, including those from six new IPOs (four domestic<sup>1</sup> and two overseas), amounted to ¥12.6 billion, exceeding the previous year. The amount of investments also exceeded that of the previous year, reaching ¥37.1 billion on a global basis. The IPO by Visional, Inc. made up a significant part of the year's total capitalization over ¥200 billion proves the potential of our highly selective, intensive investment policy, and that venture investment is and will continue to be a growing domain.

As for shareholder returns, we completed the aforementioned share buyback (totaling ¥35 billion; 14.3 million shares<sup>2</sup>) approved in February 2021, and canceled a total of 16.74 million treasury shares (17%<sup>3</sup> of shares outstanding) by June 2021. In addition, we conducted a three-for-one stock split on February 1, 2022, to increase stock liquidity. Moreover, we completed a share buyback (totaling ¥15 billion; 7.41 million shares<sup>2</sup>) approved in October 2021 by



April 2022, and canceled 7.63 million shares (9.4%<sup>4</sup> of the number of shares outstanding) in May 2022.

1. Excluding an IPO (Kibun Foods Inc.) from our investment securities portfolio.
2. Figures after the stock split in February 2022.
3. Number of shares outstanding (including treasury shares) as of the end of March 2021.
4. Number of shares outstanding (including treasury shares) as of the end of March 2022.

## Next Challenge

In the midst of these efforts, in August 2022 a group of shareholders proposed to us a measure to increase shareholders' value including a takeover bid. Having already recognized much of the proposal content as issues to be addressed, we further looked into measures to improve our corporate value.

Up until now, we have been working to realize Our Purpose—Fueling perpetual growth; investing in bold visions—by making venture and buyout investments through our funds. With the aim of sharing the results of our efforts with shareholders and achieving further growth, we announced our Basic Policy for Enhancing Corporate Value in November 2022, which calls for the improvement of capital efficiency through the reduction of net assets and the promotion of growth strategies.

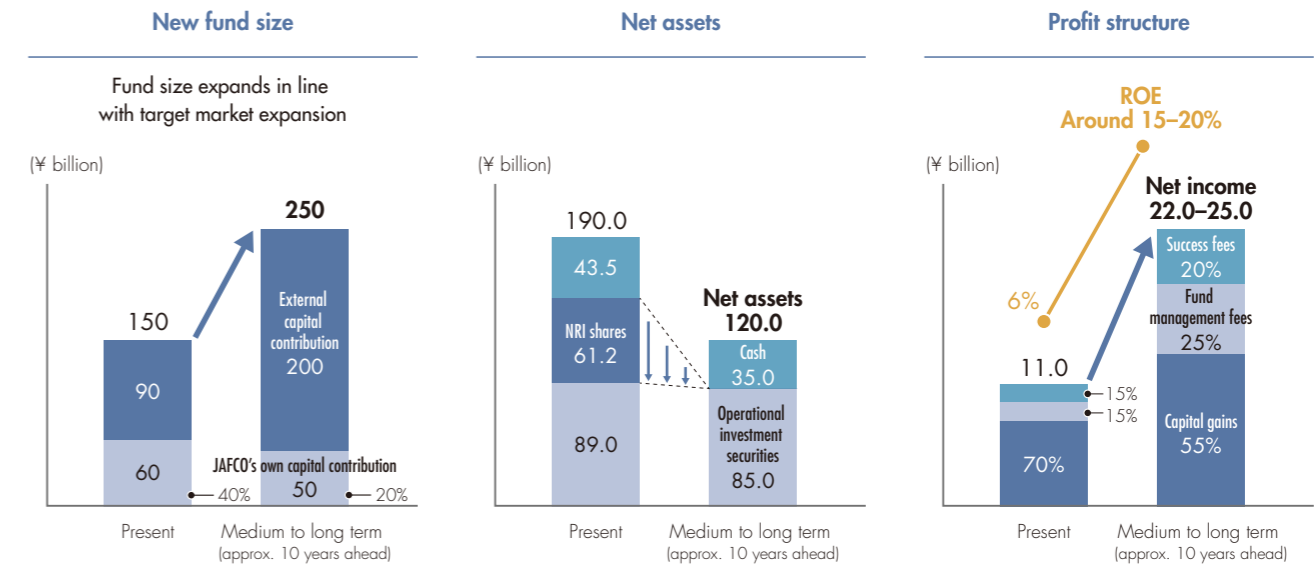
The goal is to increase the level of profit and significantly improve capital efficiency by reducing net assets based on growth strategies, and to expand the size of new funds while gradually reducing our

investment ratio to around 20%.

In addition, in order to maintain a financial position that enables us to continue investing in any business environment, we had previously defined ¥120 billion of cash level including NRI shares collectively as the necessary funds for future investment activities. However, we decided to halve it to ¥60 billion, as an amount expected to be invested over the following three years, and any cash in excess will now be used for share buybacks to improve capital efficiency. We sold our entire holdings in NRI and used ¥42 billion of the after-tax proceeds to buy back our shares. We will promptly cancel the acquired treasury shares to reduce treasury shares to 3% of the shares outstanding.

As for dividends, owing in part to the results of our highly selective, intensive investment, we have been building a financial structure that allows us to generate steady profits. Accordingly, while maintaining a solid financial foundation, we have adopted a dividend payout ratio

### Illustration of our vision and quantitative targets



Note: Total amount of new domestic and overseas funds.

target and announced a policy of paying out 3% of shareholders' equity (average of the beginning and end of the period) or 50% of net income, whichever is greater. It is meant to both improve capital efficiency and align our interests with those of our shareholders. However, as an exception, for the fiscal year ending March 31, 2023, the dividend will be the greater of items a) or b) below.

- a) ¥150 per share
- b) Dividend per share calculated by deducting the amount of the share buyback to be implemented in the current fiscal year from net income, including the gain on sales of NRI shares

In addition, being focused on further improving ROE we have set a 10-year management goal of decreasing net assets from ¥188.8 billion as of September 30, 2022, to around ¥120 billion. Furthermore, our growth strategies are centered on further improving investment performance by enhancing our investment management capabilities and expanding fund size by enhancing our external fundraising capabilities in line with the expansion of target markets. Moreover, we are lowering our investment ratio in new funds from 40% to around 20% over the next 10 years. Therefore, we are gradually reducing the amount of our own investment in funds based on this target ratio, and returning the funds previously allocated to self-funded investments to shareholders. Through these measures to improve capital efficiency, we aim to increase the total shareholder return ratio, including through share buybacks, to between 60% and 100%+ and ROE to between 15% and 20%.

## To Our Shareholders and Stock Investors

The recently disclosed Basic Policy for Enhancing Corporate Value is a transformative 10-year plan for improving our capital efficiency and promoting growth strategies. To implement the short-term measures and to achieve the medium-to-long-term targets it sets forth, our directors, officers, and employees will put every effort into further strengthening our investment management and fundraising capabilities, making

higher profits, and improving capital efficiency to boost our corporate value. By strengthening corporate governance as a public company, we will establish an organizational foundation in which management and human resources can be passed on in a stable manner, and contribute to the realization of a sustainable society through our investment activities.

# JAFCO Group has established a system for increasing the reproducibility of investment capabilities by sharing and maximizing investment professionals' individual competence and commitment across the organization

- About every three years, the Fund Management Division plays the central role in fundraising for domestic flagship funds in collaboration with the Investment Division, the Structured Investment Division, and the Business Development Division.
- For each investment, we form the optimal team and provide comprehensive growth support from the deal-sourcing stage to exit.
- For enhancing the corporate value of portfolio companies, a specialist team is formed for each company to provide systematic support according to the growth stage, ranging from recruitment and sales and marketing support to IPO preparation.

