

# Accelerate Portfolio Transformation by Introducing ROIC by Business



We promote capital cost (WACC)-conscious management, and in the current Medium-term Business Plan, we aim to achieve consolidated operating profit of ¥40.3 billion, ROE of 7% and ROIC of 5% in fiscal 2023, which is the final year of the plan.

The cost of capital refers to the level of return expected on the company by the funders that invest in it, including financial institutions, investors and shareholders. From the perspective of fund management, it is investment return, and from the perspective of the company that receives funding, it should be recognized as the cost of financing.

We recognize that the level of the cost of shareholders' equity (shareholders expected return) is around 6% to 7% in the medium to long term. We set the target of ROE above the cost of shareholders' equity to meet the expectations of shareholders. Specifically, our target ROE for fiscal 2030 is 10%, and as its milestone, we plan to achieve 7% in fiscal 2023.

The cost of capital is affected by market interest rate trends and the company's total interest-bearing liabilities

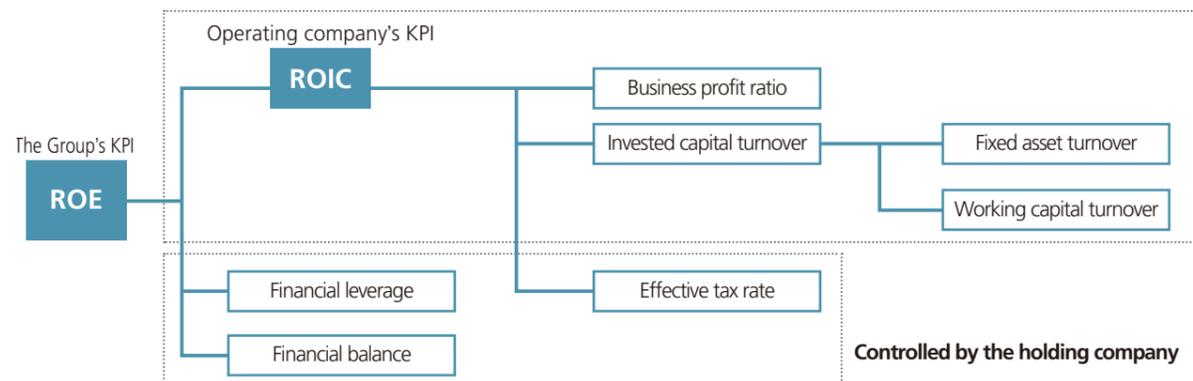
and market capitalization. We recognize the level of our capital cost is around 3.5% to 4% in the medium term. Therefore, we also set the target level of ROIC, which we adopted as a management indicator of capital profitability beginning from the current Medium-term Business Plan, for fiscal 2023 to be 5%, which is above the cost of capital.

## Purpose of introducing ROIC

Funds invested in businesses include funds procured from financial institutions and others as well as shareholders' equity. It is important to manage our businesses from the perspective of how efficiently we will use these funds.

The theme of our business portfolio transformation is shift to the Developer Business and the Payment and Finance Business and its point is use of interest-bearing liabilities. Therefore, we introduced ROIC by business segment to implement management with a focus on the profitability of "invested capital," which is the total of shareholders' equity and interest-bearing liabilities, as well as the growth

## Management of capital profitability using ROIC



potential and profitability of businesses.

Each operating company focused on ROA to use their assets efficiently in the past, but by introducing ROIC, they will evolve their business management. It also makes apparent the connection between the improvement of business profit ratio and the efforts of employees. And the holding company will focus the investment of management resources on the core businesses, implement the withdrawal and sale of non-core businesses, and add new businesses to increase capital profitability (increase the ROIC spread) and thereby maximize corporate value.

We think the dissemination of the importance of capital profitability in the Group will result in the achievement of business portfolio transformation and the improvement of ROE.

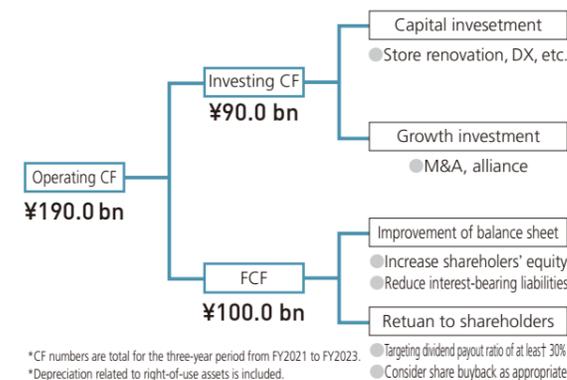
## Generation of cash flows and the balance between growth and return

The finance policy in the current Medium-term Business Plan aims to recover both PL and BS to the levels of fiscal 2019 "before the COVID-19 pandemic."

We will generate operating cash flows of ¥190.0 billion or more, of which ¥90.0 billion will be allocated to growth investment and capital investment, over these three years. We will give priority to investment in the matters that will contribute to profits by fiscal 2023 and the Developer Strategy.

In the meantime, free cash flow is expected to be ¥100.0 billion over these three years. We plan to use it for the improvement of BS and return to shareholders. In order to improve BS, we will strive to decrease interest-bearing liabilities (excluding lease liabilities) to ¥260.0 billion by reducing cash and deposits, which we have accumulated as the measures against the current COVID-19 pandemic, to the appropriate amount as well as increasing shareholders' equity. Our basic policy on return to shareholders is targeting a consolidated payout ratio of 30% or more and considering share buyback as appropriate.

## Cash flow allocation



\*CF numbers are total for the three-year period from FY2021 to FY2023.  
\*Depreciation related to right-of-use assets is included.

## Management structure reform

We will also tackle the "management structure reform" as the most important measures for full recovery from the COVID-19 pandemic. Specifically, we will reduce fixed costs and narrow the business base through business model reform. We plan to reduce fixed costs by ¥10.0 billion or more in fiscal 2023 compared to fiscal 2019 through the reforms of human resource structure and cost structure. We are considering narrowing the business base from the perspective of whether the Company is the best owner of each operating company, regardless of the size of the current profits and looking ahead to the future business portfolio.

## Investment Project Review Committee and Revitalization Plan Review Committee

The Investment Project Review Committee and the Revitalization Plan Review Committee are in place to support management decision-making on the implementation of investment projects and business revitalization and withdrawal from a financial perspective.

The Investment Project Review Committee quantitatively assesses the adequacy of a profit and loss plan and whether it meets our investment criteria and judges whether it is suitable for investment from a financial perspective. To offer more objective opinions, we have also put in place a system in which outside organizations can participate.

The Revitalization Plan Review Committee verifies business operations and examines the adequacy of countermeasures based on business performance and forecasts by managing in three phases: I) Normal, II) Caution needed, and III) Revitalization and withdrawal to be considered. In fiscal 2020, the committee verified all existing businesses from a financial perspective twice and conducted a stress test considering the risk of delay in business recovery due to the COVID-19 pandemic.

Each committee provides information to facilitate rapid decision-making at the Group Management Meetings and the Board of Directors meetings.

## Flow chart of investment project examination by the Investment Project Review Committee



## Classification into phases by the Revitalization Plan Review Committee

