

# Measures to Implement Management that is Conscious of Cost of Capital and Stock Price

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FinTech Global Incorporated

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<https://www.fgi.co.jp/en/>

## **Analysis of Current Situation**

Return on equity (ROE) 3

Cost of capital 4

Market valuation (market capitalization, PER, PBR) 6

## **Activities and Targets**

ROE target and initiatives 7

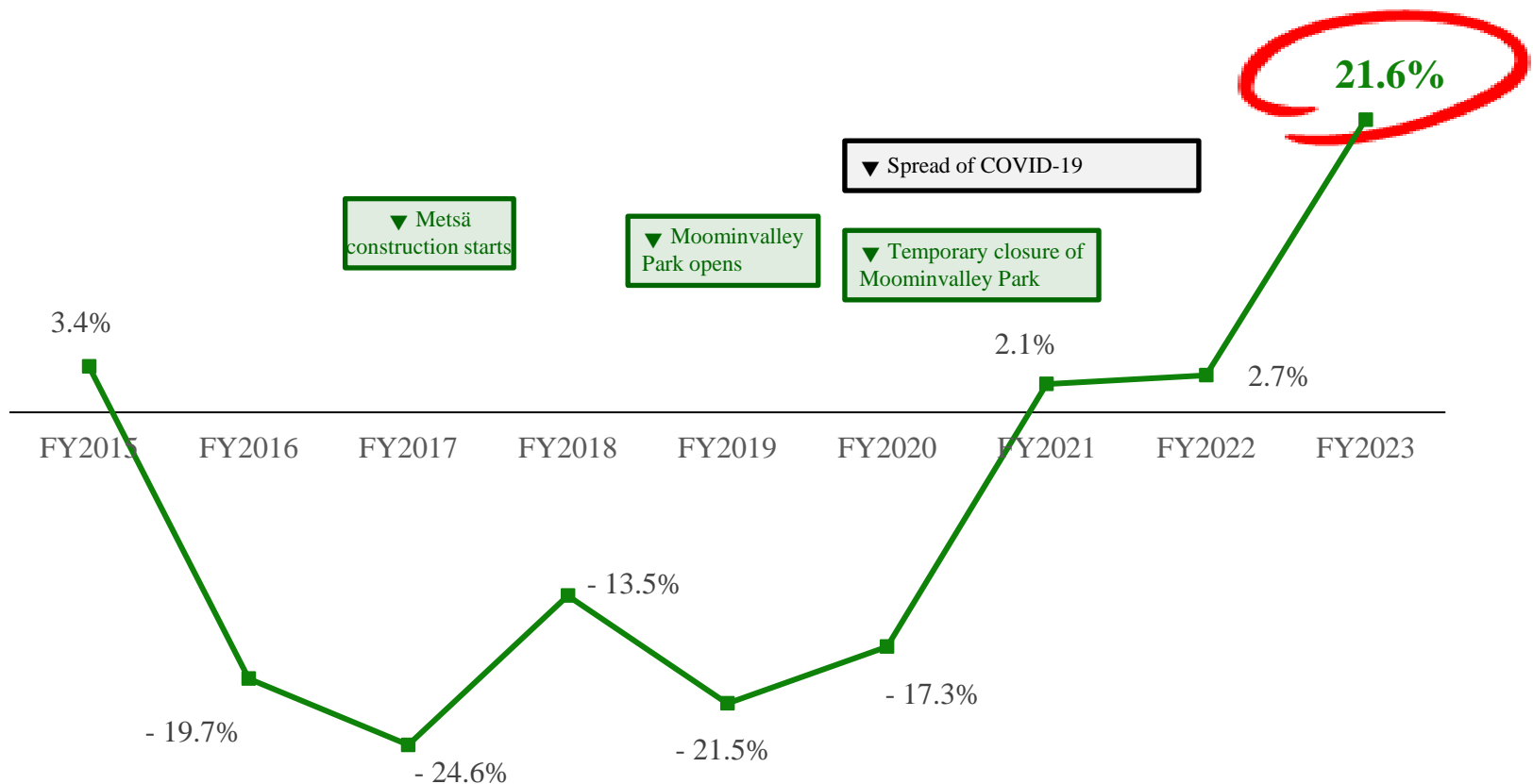
Reducing cost of shareholders' equity 8

This document has been prepared by FGI in response to a request by Tokyo Stock Exchange, Inc. (“the TSE”) that companies listed on its Prime and Standard sections analyze the current situation regarding such factors as cost of capital and return on equity, formulate a plan and implement initiatives to realize management conscious of capital costs and stock prices.

# Analysis of Current Situation — Return-on-Equity (ROE)

## Changes in ROE

Between fiscal 2016 and fiscal 2020, ROE remained in negative territory due to costs associated with preparations for the opening of Metsä as well as losses caused by pandemic-related factors. But since fiscal 2021, ROE has greatly improved, paralleling favorable demand for services, especially business succession solution services.



# Analysis of Current Situation — Return-on-Equity (ROE)

## ROE breakdown

Major improvement in net profit margin.

	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
ROE	-13.5%	-21.5%	-17.3%	2.1%	2.7%	<b>21.6%</b>
Net profit margin	-22.2%	-17.3%	-17.3%	1.6%	1.9%	<b>17.2%</b>
Total asset turnover	0.27 times	0.56 times	0.38 times	0.49 times	0.54 times	<b>0.50 times</b>
Financial leverage	2.23 times	2.24 times	2.60 times	2.63 times	2.66 times	<b>2.49 times</b>

$$\text{ROE} = \frac{\text{Net income}}{\text{Revenues}} \times \frac{\text{Revenues}}{\text{Total assets}} \times \frac{\text{Total assets}}{\text{Shareholders' equity}}$$

【Profitability】
【Asset efficiency】
【Financial leverage】

Net profit margin
Total asset turnover
Financial leverage ratio

# Analysis of Current Situation — Cost of Capital

ROE greatly exceeds cost of shareholders' equity, and return on invested capital (ROIC) greatly exceeds weighted average cost of capital (WACC). The equity spread—difference between ROE and cost of shareholders' equity—hit 13.8, indicating that FGI generated shareholder value.

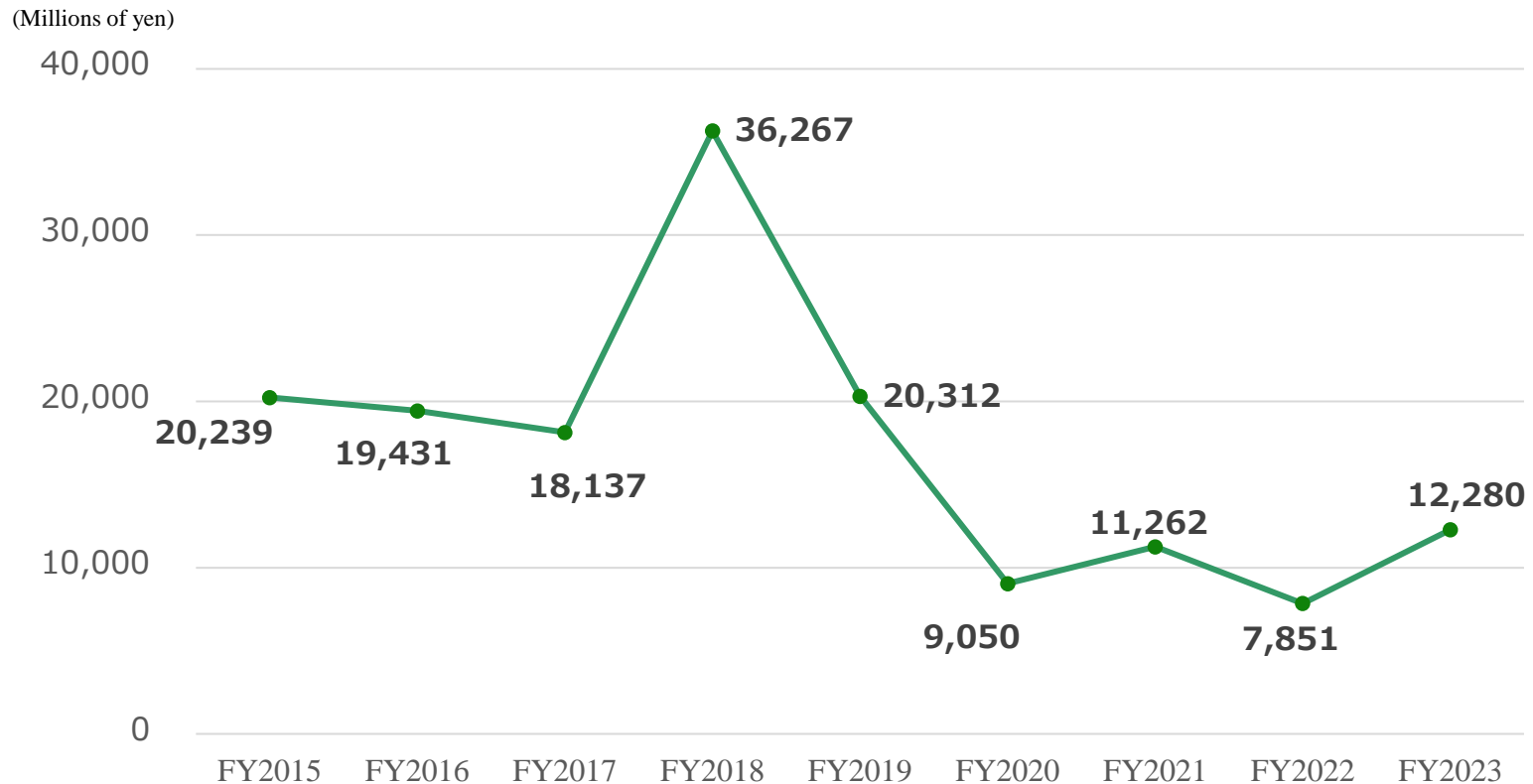
ROE	21.6%
Cost of shareholders' equity*1	7.8%
Equity spread	13.8

ROIC*2	12.5%
WACC	5.2%
ROIC-WACC spread	7.3

- Notes: 1. Cost of shareholders' equity based on capital asset pricing model (CAPM)  
The beta used in CAPM calculation is 1) beta value determined through return analysis from the price-earnings ratio over a weekly window (52 weeks and 104 weeks) or a monthly window (36 months and 60 months); 2) industry beta value; or 3) comparable company beta value, whichever is higher.
2. ROIC (return on invested capital) =  $\text{Earnings before interest after taxes} / (\text{Average interest-bearing debt at end of year} + \text{Average total net assets at end of year} - \text{Average cash and deposits at end of year})$

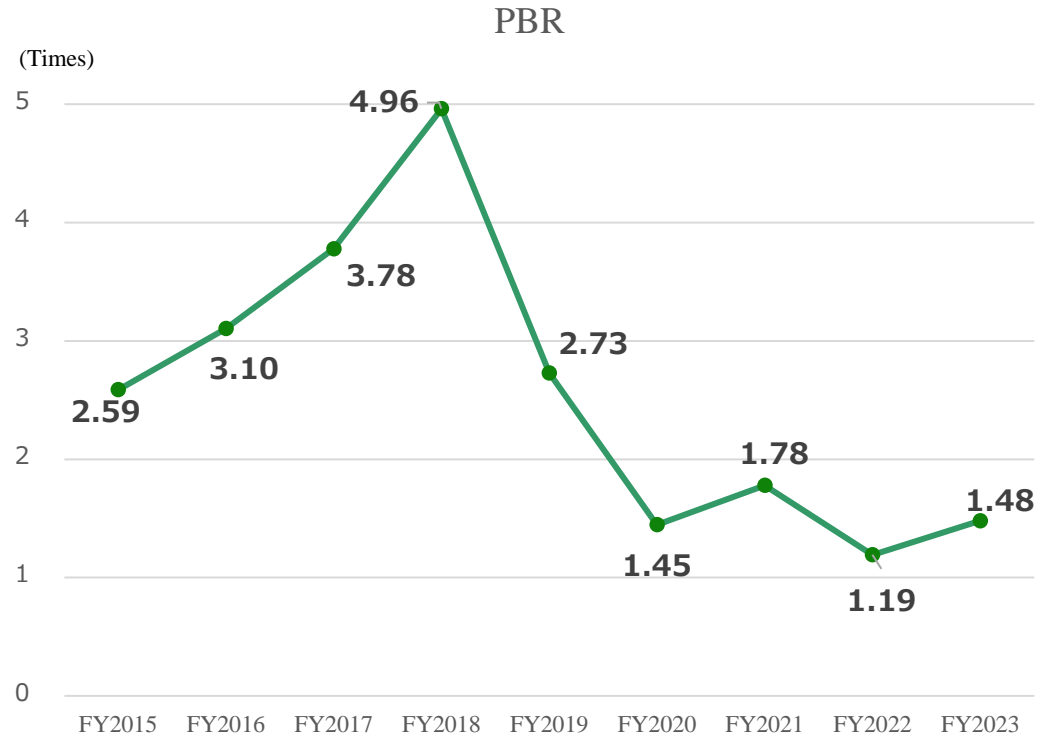
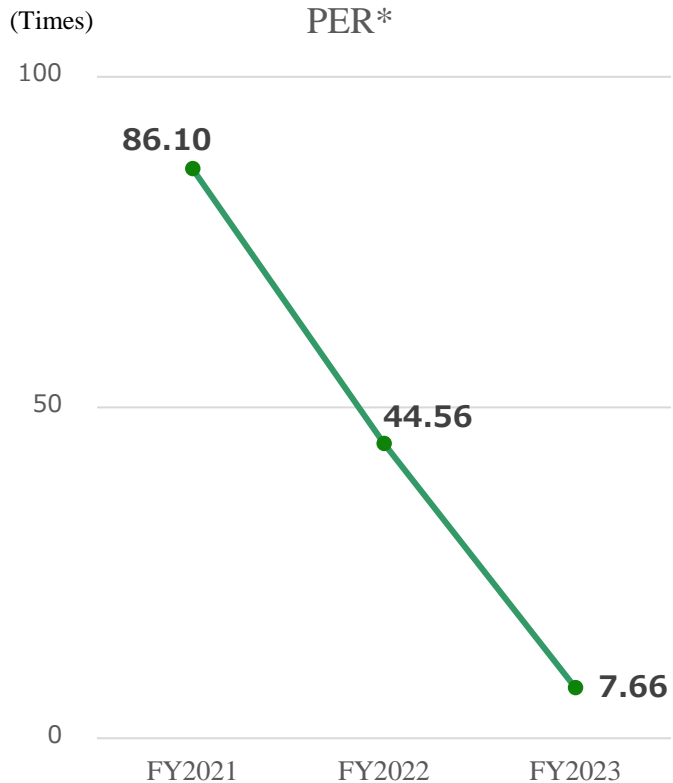
# Analysis of Current Situation — Market valuation (market capitalization)

Business results have been on recovery and expansion track since fiscal 2021, but this trend is not fully reflected in stock price. Primary reasons for disconnect between business results and stock price is that potential investors do not have deep understanding of FGI's business initiatives, including business succession solution services, and that small market capitalization often falls outside the investment range of institutional investors.



# Analysis of Current Situation — Market valuation (PER, PBR)

Price-to-book ratio (PBR) consistently maintained above 1.



\*Note: Calculated using closing price on last trading day of each fiscal year. Data for fiscal 2020 and earlier, not presented because, except for fiscal 2015, FGI booked loss attributable to owners of the parent.

# Activities and Targets — ROE target and initiatives

## Promote initiatives emphasizing enhanced profitability on steady path toward ROE exceeding 20%

<b>Enhancing profitability</b>	<p><b>Strengthen all business segments, with emphasis on high-margin business succession solution services</b> Described on consolidated performance forecast page in fiscal 2023 results presentation materials released November 8, 2023.</p> <p><b>Strive to recruit, train and keep employees with excellent capabilities, and strengthen human capital</b> Human resources evaluation and compensation system reviewed at domestic companies engaged in investment banking business in fiscal 2023, and efforts will roll out to achieve further progress on issues related to human resources.</p> <p><b>Medium- to long-term perspective on cost control</b> Planning to build solar power generation facility on grounds of Metsä Village for captive consumption. Aim to reduce electricity bills over medium to long term, and strive to show proven results and acquire know-how in renewable energy business. Also reduce social risks by cutting CO2 emissions.</p>
<b>Improving asset efficiency</b>	<p><b>Regularly conduct review of investment portfolio and allocate capital accordingly</b></p> <p><b>Improve Metsä Village profitability toward securitization</b></p>
<b>Improving financial leverage</b>	<p><b>Expand debt procurement for growth investment</b> Project finance for Moominvalley Park accounts for debt on the consolidated financial statements, with FGI's own loan balance very minor. Will accelerate growth strategy through investment using borrowed funds.</p> <p><b>Realize return to shareholders</b> Ensure cash in hand so as not to miss out on investment opportunities, and then utilize profit generated to execute return to shareholders.</p>



## Activities and Targets — Reducing cost of shareholders' equity

### Reduce performance volatility by expanding stable sources of revenue

### Utilize power of IR activities and information disclosure to control huge stock price fluctuations

#### Lower performance volatility

##### **Reduce performance volatility by expanding stable sources of revenue**

In investment banking business, high demand for business succession solution services is driving growth, but profitability fluctuates depending on size of project and is difficult to control at the formation stage, creating an issue of volatility impacting business results.

Stable sources of revenue are expanding as the balance of assets under management accumulate, but must stabilize and diversify revenue further throughout the Group to reduce performance volatility and cost of shareholders' equity.

#### IR activities

##### **Promote dialogue with institutional investors**

Promote dialogue to encourage accurate evaluation of prevailing corporate status and control huge stock price fluctuations through reasonable stock price formation. Will reduce cost of shareholders' equity.

##### **Run information meetings for individual investors**

Will run information meeting similar to one held in May 2023, and facilitate viewing through website link.

#### Information disclosure

##### **Appropriate information disclosure**

Control huge stock price fluctuations by adequately explaining business opportunities and inherent risks to stock market and thereby minimizing surprises. Reduce cost of shareholders' equity.

# Disclaimer

Certain statements made in these materials, including some management targets, may contain forward-looking statements which reflect management's views and assumptions. Management targets represent goals that management will strive to achieve through the successful implementation of business strategies for the FGI Group. The Group may not be successful in implementing its business strategies, and management may fail to achieve its targets. Management targets and other forward-looking statements involve current assumptions of future events as well as risks and uncertainties that could significantly affect expected results, including adverse economic conditions in Japan, the United States or other countries; declining real estate and/or stock prices; additional corporate bankruptcies or additional problems in business sectors to which Group companies lend; difficulties or delays in integrating businesses and achieving desired cost savings; increased competitive pressures; changes in laws and regulations applicable to the Group's businesses; and adverse changes in Japanese economic policies.

To the extent materials containing forward-looking statements remain in available documents, we have no obligation nor the intent to update such forward-looking statements.