Transcript - Financial Results for Q2 FY3/25

JALCO Holdings Inc.

November 29, 2024

1. Financial Results Briefing for Q2 FY3/25 (0:00-14:25)

< Yoshiro Sakurai, General Manager of Administration Division >

We would like to begin the financial results briefing of JALCO Holdings Inc. for the semi-annual period of the fiscal year ending March 31, 2025. I am Sakurai, the manager of the Administration Division.

Today's financial results briefing is divided into three parts.

The first part will cover an overview of the financial results, and I will explain the details of the financial figures.

Next, Mr. Sugimura, the head of Real Estate business Division and the Financial Business Division, will explain the Real Estate, Money Lending, and Social Lending business.

Finally, for the Amusement business, Mr. Fukuda, the general manager of the Amusement Business Division, would like to give an explanation.

Financial Results Briefing for Q2 FY3/25

■EBITDA Results

First, I will explain the trend in EBITDA. We use EBITDA and the figure derived by dividing EBITDA by the equity at the beginning of the period (beginning equity) as our benchmarks.

In particular, we consider 15% to be the hurdle rate for the beginning equity.

Recently, we have significantly exceeded the 15% hurdle rate in both the previous and the preceding fiscal years. With regard to the semi-annual period, there was a slight increase from the previous fiscal year, as can be seen from the figures in light blue bars below the slide. When looking at the full year, the progress is less than half, so I think the key is how much we can improve the rate in the second half of the year.

Our business does not have a significant revenue concentration in the second half of the fiscal year. As our model is primarily rental-based, we receive consistent monthly income. However, regarding the Pachinko industry, the year-end and New Year sales campaigns, combined with activities such as M&A, tend to create a sales bias toward the second half of the fiscal year. This has been a notable characteristic of our business in recent times.

Last year, we executed a significant M&A deal at the fiscal year-end. This fiscal year, we are also actively progressing M&A deals. The key focus is on how these efforts will be reflected in our financial results.

■Consolidated Financial Results

Next is the trend in consolidated performance. Please see the graph first for each figure. The light blue bar represents the results for the first half of the current fiscal year and for the previous fiscal year. Net sales, operating profit, and ordinary profit exceeded the year-on-year figures.

On the other hand, profit attributable to owners of the parent showed a slight decline compared to the same period of the previous year, as extraordinary profit was recorded in the prior fiscal year.

Regarding the second-half performance, we have raised approximately 10 billion yen through financing, including the potential portion of stock acquisition rights, as disclosed in August.

Additionally, as disclosed on November 27, we have finalized the contract for a property that had been slightly delayed.

The timing of property contracts can sometimes be slightly delayed depending on the stock price and the negotiation phase with the other party. However, as our policy prioritizes acquiring quality properties without rushing, we believe that the property announced on November 27 was secured under favorable conditions.

Regarding real estate for sale and M&A, we are actively working on various projects as we approach the fiscal year-end. If these deals are finalized, they are expected to contribute additional value on top of the current budget figures.

■Financial Highlights (1)

Next, I will explain the highlights of the financial results. First, let me talk about procurement. Regarding direct financing, we have raised 660 million yen through the issuance of new shares, and 9.51 billion yen through stock warrants, including potential shares.

In addition, we raised 2.8 billion yen in the form of private placement bonds.

With regard to indirect financing, we have been able to procure funds steadily with long-term funds at 9.77 billion yen.

Additionally, regarding the Money Lending business, the recovery of loans, including 1.86 billion yen from proprietary loans, 800 million yen from money lending, and 1.1 billion yen from other sources, has resulted in cash inflows.

In terms of asset management, we purchased three real estate properties for rent, which amounted to 2.73 billion yen.

For lending, we have made 9 loans worth 1.56 billion yen as money lending and made 1 loan worth 800 million yen as other lending.

Finally, in terms of real estate for sale, we have purchased a property in Akihabara, and an inventory of 4 billion yen for this property is recorded on the balance sheet.

In addition, we have sold 2 real estate properties for sale, for which sales amount is 2.1 billion yen.

■Financial Highlights (2)

Next, I will explain the expansion of shareholder returns. We have made changes to the shareholder benefit program, increasing the value of the QUO Card.

We also decided to present two recommended books. One book is written by Mr. Tauchi and the other by Mr. Kiyohara.

There were some disagreements on this matter, but as a result, the shareholders who read this book have offered some favorable comments.

For the next fiscal year, we plan to carefully consider various initiatives while exploring opportunities to provide returns.

See the table on the right. We have started to pay a dividend of 18 yen from last year as a progressive dividend.

We intend to first ensure that we pay a dividend of 18 yen for the current fiscal year, and also consider increasing the dividend while taking into account the status of rental income.

■Financial Highlights (3)

Next, we will move on to the expansion of IR activities. As many of you may know, we have official accounts for YouTube and X.

Regarding the shareholder benefits mentioned earlier, we held a contest on X (formerly Twitter) to select designs for QUO Cards. Starting this time, we are distributing two new designs created through this process.

In addition, we provide information on the status of businesses through YouTube Live stream.

Regarding the institutional investor meeting, the number of inquiries is increasing every year, and we are holding about two or three times a month.

As written at the bottom, we distribute videos of financial results briefing twice a year, at the semi-annual period and the full year. Since the number of overseas investors is increasing, we are also distributing English-language videos.

Finally, the shareholders' meeting and the shareholders' gathering are described on the right-hand side. It was the second shareholder meeting, and 43 people participated in the meeting as a whole. It was a long session of 2 hours and 50 minutes, but I think we were able to have fruitful interactive communication.

In June next year, we are considering holding the third gathering. If you are available, we would be delighted to have your participation.

■Financial Highlights (4)

Next, let's talk about sustainability.

Currently, JALCO is measuring Scope 1 and Scope 2 emissions. We are also currently preparing to expand our disclosure in the future.

■Financial Highlights (5)

Regarding ESG initiatives. As a measure to address environmental issues, we have properties all over the country to diversify risk. I think that we are also contributing to solving the employment problems in rural areas and to increasing local tax revenue, as reported in the news.

In terms of the social issues, we are particularly focusing on the working environment. Since employees are the most important part of our company, we are putting a lot of effort into improving the working environment.

The final point is the governance. The number of outside directors remains at more than one-third of the total number of directors. The percentage of female employees has also risen to more than 30%.

Finally, as I mentioned earlier, I think we are able to communicate with each other at the shareholder gatherings.

■Consolidated Statement of Income for Q2 FY3/25

Finally, I would like to explain the actual figures for the semi-annual period.

As the Real Estate business is performing well overall, sales, operating profit and ordinary profit increased year-on-year.

On the other hand, we incurred interest, in particular, non-operating expenses, such as expenses related to the financing conducted in August and expenses related to the acquisition of real estate. In the previous fiscal year, profit was negative year-on-year due to the recording of extraordinary profit.

Until Q1 of the previous fiscal year, we sold rental properties as rental properties and recorded these as extraordinary gains as sales of property, plant and equipment. Since rental properties are transferred to real estate for sale after Q2, they are basically recorded as a component of sales.

■Results by Segment for Q2 FY3/25

Next, the previously discussed profit and loss statement is presented here broken down by segment. We have three business segment: Money Lending business, Real Estate business and M&A business. These are our three pillars. In particular, the Real Estate business is the main business. The acquisition of real estate resulted in an increase in rental income, and the sale of two real estate properties resulted in an increase in sales and profits.

Regarding the Money Lending business, due to the offset created by off-balance sheet demands, the current revenue shows a decrease compared to the previous fiscal year.

Regarding M&A, we are aiming to conclude deals by the end of the fiscal year, although projects are still ongoing.

As a supplement, we have changed the business segmentation from the current fiscal year. Previously, performance figures were attributed solely to segments where sales were generated. However, with allocations now extending to M&A activities, there are cases where, despite no sales being recorded, profits show a negative result.

■Consolidated Balance Sheet for Q2 FY3/25

The following is the consolidated balance sheet. The main part here was about the acquisition of the property in Akihabara. Since we have acquired this as an inventory, we have recorded approximately 4 billion yen as acquisitions of real estate for sale, so this was a large factor for the balance sheet.

Non-current assets increased by 3.6 billion yen from the end of the previous fiscal year, as we are acquiring real estate.

Regarding liabilities, both current liabilities and long-term liabilities were included, but there were issuances of bonds and borrowings, resulting in an increase from the previous fiscal year.

Finally, net assets. With the financing conducted in August, there has been an increase in common stock and partial exercise of stock acquisition rights. Additionally, the proceeds from the issuance of stock acquisition rights have contributed to an increase in net assets.

On the other hand, since the dividend of surplus was at a significant level, the total amount of net assets was reduced.

■Consolidated Statement of Cash Flows for Q2 FY3/25

Next is the consolidated statements of cash flows. This time, we have raised 5.69 billion yen in cash flow from financing activities, which is a little distinctive in terms of figures. First of all, the negative cash flow from investing activities is 2.422 billion yen, and this is mainly used for the acquisition of rental properties.

In addition, approximately 4 billion yen was used for the acquisition of inventory assets mentioned earlier. As a result, cash flow from operating activities has turned negative. Therefore, when assessing the actual rental income or the operating cash flow from lending, excluding the portion related to properties held for sale from the figures should provide a more accurate estimate of the underlying numbers.

If real estate for sale is sold from the second half of the fiscal year to the next fiscal year, I think that cash flow from operating activities will be substantially positive.

That's all from me. Thank you very much.