

2. Real Estate, Money Lending and Social Lending Business (14:26-37:11)

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This is Sugimura from JALCO Holdings.

I will explain about the Real Estate business and the Money Lending business.

There are two key points. The key point is that we successfully leveraged our strengths to acquire distinctive properties, such as properties in Akihabara and Joetsu.

The other is about the sale. The second key point is that, due to owning distinctive properties, we were able to sell a property in the first half of the year at a higher price compared to the purchase cost.

Let me explain this point.

Real Estate, Money Lending and Social Lending Business

■Map of Our Owned Real Estate

First, let me explain the Real Estate business.

This is a national distribution chart of the real estate we own.

The people watching this presentation might already be aware, but gradually, the properties highlighted in yellow have been increasing in number.

The properties highlighted in yellow represent real estate that was originally owned by pachinko halls but has now been acquired and is being held by our company.

We have concentrated our management resources in pachinko halls.

We have purchased four new properties over time from April to September.

One is a property in Akihabara, a pachinko hall CYBER. We purchased this for 4 billion yen and other real estate in Gotemba, Shizuoka Prefecture, and then real estate in pachinko halls, such as Joetsu in Niigata, and Tsushima in Nagasaki Prefecture.

On the other hand, the properties highlighted in green are real estate for sale, but these are commercial facilities other than pachinko halls.

We are not actively pursuing a selling strategy, but we are currently receiving inquiries for a few of our properties. If the proposed sale prices align with our expectations, we are open to considering selling these assets.

Overall, the number of properties in yellow is increasing and the number of properties in green is decreasing.

■Proportion of Rental Income from Owned Real Estate (by company and region)

Next, this is the status of rent income from real estate owned.

The left side of this slide is an indicator for each business category, which is the difference between pachinko halls and other business categories.

Until the previous year, there was a significant difference in the return on equity (ROE) between the pachinko and other businesses. However, this year, we have narrowed this gap. This is because we invested a larger portion of our own capital into the Akihabara property, which aligns with our strategic approach.

However, currently, we are considering purchasing from a certain viewpoint.

For example, we closely examine whether the profitability of investment (NOI) in the property, such as the occupancy rates of stores and pachinko/slot machines, has reached a certain level. In addition, we are considering a comprehensive range of projects, taking into account such factors as whether M&A will increase profits or whether it will increase profits when we sell them in the future.

Real estate that can clear these perspectives is still mainly pachinko halls, so we intend to continue to focus on such properties.

The pie chart in the middle shows the percentage of rent by company.

As I mentioned, our management resources are concentrated in the amusement industry, and as you can see in this pie chart, more than 80% of them are pachinko halls.

Major companies such as Maruhan, D'STATION and KICONA are our rental clients, as are strong local pachinko halls such as Eagle. We think they are relatively safe clients, as we receive stable rental income.

■Trends in Assets and Other Items by Fiscal Year

Next, let's look at the number of real estate purchased and the amount of money spent on them over time.

At the right edge is the figures for the first half of the current fiscal year. We have purchased four real estate for 6.9 billion yen.

There were large projects in the previous fiscal year, such as Narashino's properties and FREEDOM, and I think that many people feel that they are slightly inferior in comparison with them. Looking at the trends in this table, we see that both the number and the amount of cases have been steady for the half-year.

In the latter half of the fiscal year as well, some figures have risen significantly. Many people feel that the recent disclosure of our purchased properties is low, but as I explained earlier, on November 27, we have disclosed that we will purchase the real estate in Joetsu City, Niigata Prefecture, for 2 billion yen.

In addition, we cannot provide specific explanations here, but various projects are progressing, including large properties in the Kanto region and the Kansai region.

Our company is always moving forward, and we are considering purchasing properties that will bring in a large profit without difficulty at the best possible time, as we are working on multiple projects simultaneously.

We would like to report again if we are able to make purchases in a timely manner, such as the property in Joetsu City this time.

We believe that the real estate business will continue to perform well, so please continue to have high expectations for the future.

■Example of Real Estate Purchase in H1 of 2024

Now that I have explained the numbers, I would like to explain a specific example.

These are examples of real estate we purchased in the first half of 2024. We will introduce 2 cases as examples.

On the left is a property in Akihabara, which is an urban property following last year's Tenroku FREEDOM, and is a large scale.

We made a comprehensive decision to purchase this product, including our future exit strategy. We are confident that this will be a significant positive factor for our business in the future.

To be more specific, we purchased a property in a good location in front of Akihabara Station in June, and immediately after purchasing it, we received an offer from another company to purchase it.

At the moment, GAIA is running the pachinko hall, but other pachinko hall operators have also expressed an interest in running

it. In addition, some companies have stated that they would like to purchase it with the aim of operating it in a different type of business, such as a hotel. There are more bids than we had anticipated.

In principle, we intend to hold real estate for a long period of time. However, there are multiple options for this property, such as leaving the property as it is currently, leaving it to other halls to operate, or selling it.

Specifically, we have not decided on what to do, but we intend to consider it with appropriate timing, while also considering the interests of the parties concerned.

Next, on the right side, we purchased the Super D Station in Joetsu City in June.

The property itself is located in the center of Joetsu City and is the largest pachinko hall in Niigata Prefecture with 1,276 pachinko machines.

This is a business revitalization project that we have been able to originate by leveraging our strengths.

This was triggered by information coming in from several of our own routes. This is a project that quickly solved problems by utilizing our know-how in off-balancing real estate and M&A.

We acquired this property for just under 1.6 billion yen. Initially, when the information about the property became available, there were reports that it was being listed for nearly double that amount.

The reason we were able to purchase the property at such a favorable price is that this deal went beyond merely generating profits for our business. It also enabled the original owner to offload the property from their balance sheet, providing them with the necessary funds to sustain their business operations. Additionally, tenants operating the pachinko halls have benefited from a stable environment, allowing them to continue their operations without disruptions. Additionally, for the creditors of the original property owner, the arrangement increased the likelihood of successful debt recovery. This structure ensured that all parties involved were able to benefit, making it a mutually advantageous scheme.

Our success in bringing this scheme together has enabled us to purchase it cheaper than it originally had been.

In the amusement industry, there has been an increase in the need for off-balance sheet arrangements and M&A. However, as in the two examples on this page, we believe that it is only possible for us to be able to purchase distinctive properties because we have our own information routes and we have our own expertise in off-balancing and M&A.

Our Real Estate business, which has such strengths, will be able to continue to grow our company.

As I mentioned earlier, with regard to Joetsu, we have announced that we will purchase another property on November 27.

This is the fourth property in Niigata Prefecture, and this property is located within 2 kilometers of D Station. Our dominant position in Niigata Prefecture is contributing to the increase in our position. Looking ahead, we are strategically purchasing multiple properties in anticipation of M&A and such developments.

Please look forward to our future business development in this area.

■ Borrowings

The following table shows the trends in financing of our borrowings.

We basically finance the majority of the properties we purchase with borrowings, and, of course, the outstanding amount of borrowings also increases as the number of properties we own increases.

The types of financial institutions from which we borrow are mainly credit unions, which are written in blue, as well as non-banks and regional banks.

The properties our company handles often involve quite complex schemes, such as partial acquisitions (e.g., buildings only) or

other challenging structures. Despite these intricacies, financial institutions have been highly responsive, enabling swift and efficient processes.

In recent years, the amounts borrowed and the purchase prices of properties have been increasing significantly. However, we continue to secure funding smoothly. We believe this is because financial institutions have a deep understanding of the nature of our operations and our company's strengths.

We will continue to communicate firmly with financial institutions as we move forward with projects.

■Sales Results for Owned Real Estate

I explained about the purchase, but conversely, I would like to introduce some examples of the sale of real estate owned.

Of the four cases listed, two on the right side were properties sold in the first half of the fiscal year.

The property in Yamaguchi was the land with a leasehold interest in a complex of pachinko halls and retail facilities. The property we purchased for 1 billion yen was held for about 5 years and sold for 1.4 billion yen.

The property on the right-hand side of Aichi Prefecture is a drugstore land with a leasehold interest of 550 million yen, which the Company has held for about 4 years and sold for 750 million.

As shown in the line (7) in this table, we are able to sell all of them at around 1.4 times the purchase price.

As explained earlier in the example of purchases during the first half of the fiscal year, our company holds high-value, distinctive properties. Furthermore, by leveraging proprietary information channels and unique expertise, we have been able to acquire these properties at favorable prices. As a result, we are able to either hold properties for the long term or sell them at higher prices in the short term. We believe that this is a characteristic and strength of our Real Estate business.

The two properties on the left are examples of the sale of pachinko halls in the past.

As I mentioned earlier on the page with the map of Japan, properties used as pachinko halls marked in yellow have increased, while other properties marked in green have decreased. However, even among the pachinko hall properties, there are cases where they are sold or discontinued due to reasons such as the business closing down.

Looking at the line (7) here, we were also able to sell the property in Tokyo at 1.4 times the purchase price and the property in Kanagawa at 1.87 times the purchase price.

■Sales Results for Owned Real Estate (Image)

All of them above are in Tokyo, and the properties below are in Kanagawa. On the upper side, the hotel is currently constructed, and on the lower side, the logistics facilities are currently in place.

We own properties with good locations and high real estate values. There are many inquiries to buy the property because its value is high even when it is sold due to circumstances, and this is an example of our company being able to sell the property with a certain amount of profit from the sale rather than being purchased when it is sold.

It is a characteristic of our properties that sufficient profit is expected until the final exit. We make comprehensive assessments, from the point of acquisition to the exit strategy, when deciding to purchase. Ultimately, we continuously evaluate and adjust our property portfolio to ensure we achieve the maximum profit at the optimal time. This approach is central to our business strategy.

Incidentally, we have also received inquiries from people who want to buy pachinko hall properties for other uses. In fact, we

have received such inquiries outside of Akihabara properties.

We are primarily focused on investing in amusement facilities as our core business. However, to manage the capital entrusted by our shareholders more efficiently, we also aim to optimize our asset portfolio through asset restructuring or sales, considering factors such as sale prices. If we identify new opportunities that will benefit all stakeholders, we will inform you accordingly.

That concludes our explanation of the Real Estate Business.

■Money Lending Business

Next, I will explain about Money Lending business.

The table shows changes in the loan balance.

The figures on the right are for the first half of the current fiscal year. As of the end of September, the loan balance was 4.57 billion yen, down slightly from the end of March.

Between April and September, 10 loans worth 2.4 billion yen were made, but there were collections, so there was a slight decrease.

In the previous fiscal year (FY3/24), the Lending business has remained restrained in terms of concentration and selection of management resources. However, we did not do anything, and we carefully selected loan projects to be of good quality. In order to create a sound lending business, we reviewed our internal systems, procedures, and screening procedures, and so on, and we were in the process of solidifying our defenses.

In the first half, we changed our policy aggressively. Although not shown in this table, the balance of loans was 3.1 billion yen for FY3/24, but as I said earlier, the balance of loans was 2.4 billion yen only for the first half of this term, so the contents of the activities have changed.

Particularly in the pachinko industry, demand for capital investment has been increasing due to the spread of Smart Slot machines and the demand for capital investment in response to redesigned banknotes, and the number of such loans has recently been increasing.

Although the outstanding balance of loans in the bar graph has remained flat, we would like you to understand that the business has changed to stable business operations.

The light blue portion of the bar chart shows the balance of lending.

■Social Lending Business

In terms of lending, we formed a project in September for the first time in about a year, and the actual result is 800 million yen.

As I mentioned earlier, we have solidified our defenses in the previous fiscal year, but we have made progress in establishing an internal system faster than expected. As a result, we were able to identify good quality projects, and in September, we successfully structured a new deal worth 800 million yen, which was a significant project.

Additionally, in October, we structured a 260 million yen project, bringing the total fundraising amount for this period to 1.06 billion yen, which has already surpassed last year's fundraising total.

Our lending approach differs from that of other companies, as we do not frequently structure new projects. So, many investors may feel dissatisfied with the pace at which we introduce new opportunities. However, the projects we structure are carefully selected with a strong focus on ensuring high repayment potential. We only proceed with those we can confidently assess as having a high chance of success. As a result, investors can feel relatively secure in their investments with our offerings. We will continue to work hard towards that goal and ensure that we maintain this approach moving forward, so I hope for your continued

understanding and support.

We have been increasing the number of staff members, and I personally joined in September. I am in charge of the lending division. We will continue to strive for an increase in the number of lending deals formed.

The explanation of the Lending business is now over.