Interview with the CFO

We will pursue an optimal balance between growth investment and shareholder returns, based on financial soundness, to maximize corporate value.

Takeshi Tokugawa
Director & Senior Corporate Officer

Q You were appointed CFO in April 2025. Could you share your thoughts on your role and aspirations as CFO?

I intend to devote myself to fulfilling this weighty responsibility in pursuit of sustainable growth and enhancement of corporate value for the Company.

My fundamental role as CFO remains unchanged from that of my predecessor. In essence, the CFO must maintain financial soundness, while optimizing its balance with the key elements of growth investment and shareholder returns—and, through appropriate capital allocation, realize medium- to long-term corporate value enhancement.

This role remains the same under the current Medium-Term Business Plan. We are committed to executing growth investments outlined in the plan and translating them into higher corporate value, as well as appropriately returning the fruits of that value creation to our shareholders. We will continue to pursue optimal balance between the two with financial soundness as our top priority.

Q In March 2023, the Tokyo Stock Exchange (TSE) asked companies to “take action to implement management that is conscious of the cost of capital and stock price.” Could you outline the key points of your May 2025 disclosure in response to that request?

We recognized the TSE’s request as a top management priority and held thorough discussions on the matter. In our corporate governance report issued in July 2024, we stated that the issue was “under consideration.” After further deliberation by the Board of Directors and other bodies, we finalized our policy and disclosed it in May 2025. Consequently, in June of the same year, our status on the TSE list was updated to “disclosed.”

There are three main points to this disclosure.

The first point is recognition of our cost of capital. Using multifaceted analyses based on approaches such as the capital asset pricing model (CAPM), we determined that our cost of equity capital is approximately 6% to 8%. At the same time, we recognize that capital costs are trending upward due to factors such as the recent rise in risk-free rates, and therefore we believe it is necessary to continue to closely monitor market developments.

Second is our capital efficiency target. To ensure management is conscious of capital costs, we have explicitly stated our existing medium-term management target, which is ROE before amortization of goodwill of at least 10%, as the key performance indicator (KPI) for capital efficiency during the period of the current Medium-Term Business Plan. This expresses our commitment to consistently achieving a level that exceeds our cost of equity capital (around 6–8%).

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The third point regards our basic policy for improving ROE. One possible approach to improving ROE is to control shareholders' equity, the denominator, through stronger shareholder returns. However, as we are still in the process of expanding our business domains to achieve sustainable growth, our basic policy is to prioritize growth investment and improve ROE by increasing profits—the numerator.

Q Could you explain the updated capital allocation disclosed in May 2025, including specific figures?

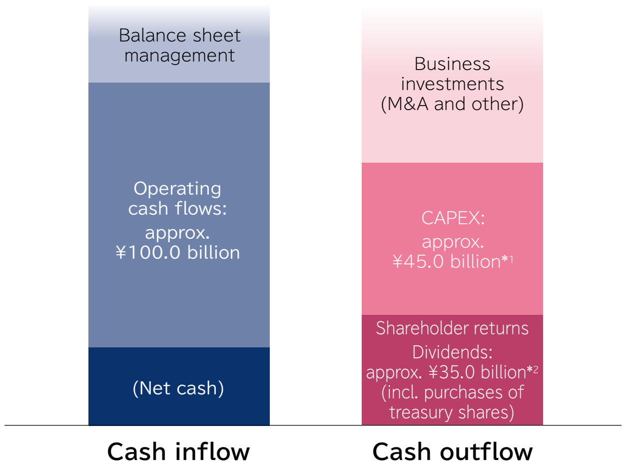
We have received many requests from shareholders and investors for a clearer picture of our capital allocation. In response, while maintaining our basic thinking, we have updated our disclosure to illustrate the approximate scale for the period of the current three-year Medium-Term Business Plan.

Regarding cash inflows, we expect to generate approximately ¥100.0 billion in operating cash flows over the three years of the plan, which will serve as our primary source of funds. In addition, to ensure that we can capture growth investment opportunities without delay, we plan to accelerate balance sheet management, including the sale of cross-shareholdings, to secure additional funding.

On the outflow side, within the scope of operating cash flows, we plan to steadily carry out capital expenditures of approximately ¥45.0 billion across the three years to strengthen our marketing infrastructure, including AI, and will deliver shareholder returns of approximately ¥35.0 billion across the three years.

Among our funding uses, growth investment, particularly M&A, remains our top priority. The Group is in a crucial phase of expanding its business from its existing advertising-centered model into new domains. Therefore, we intend to preferentially allocate generated funds to growth investments. Because M&A opportunities can vary in scale, it is possible that some investments may exceed the scope of operating cash flows. In such cases, we will utilize funds generated through balance sheet management to execute investments flexibly.

Capital Allocation During the Medium-Term Business Plan



*1 Based on ¥15.0 billion per year
*2 Based on ¥32 per share

Q In the fiscal year ended March 31, 2025, the payout ratio significantly exceeded the 30% benchmark, and the Company announced its first share buyback in three years. Could you elaborate on your policy for shareholder returns going forward?

Returning value to shareholders is one of our most important management priorities. Our basic policy of maintaining stable dividends remains unchanged. To make our policy clearer to shareholders, we have set a benchmark of approximately 30% payout ratio. However, this figure is not applied mechanically to a single-year profit base.

Because the Company actively engages in M&A, goodwill amortization has a significant impact on accounting profit. Therefore, when determining dividend levels, we take a comprehensive view, considering multi-year performance trends and focusing on profit before amortization of goodwill to better reflect our underlying earning capacity. While it is theoretically possible for dividends to be adjusted upward or downward if the payout ratio before amortization of goodwill diverges significantly from 30%, our foremost priority is to continue stable dividends.

As for share buybacks, although our policy of prioritizing growth investment remains unchanged, we recognize buybacks as an effective means of enhancing shareholder value. Our decision to repurchase shares for the first time in three years is based on comprehensive assessment, including our current stock price level, market conditions, and the need to improve capital efficiency, and we determined that a flexible buyback would effectively enhance shareholder value. Going forward, we will continue to assess additional shareholder return measures in a balanced manner with growth investments, implemented flexibly as surplus funds are available.

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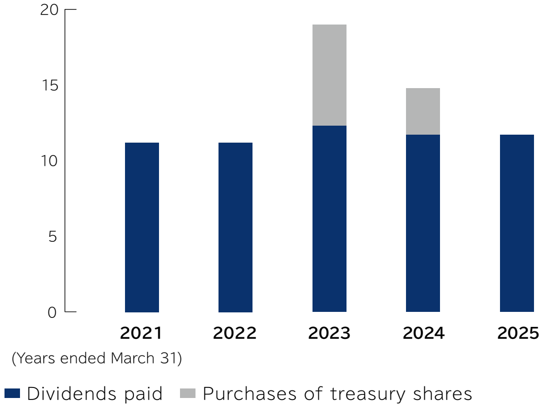
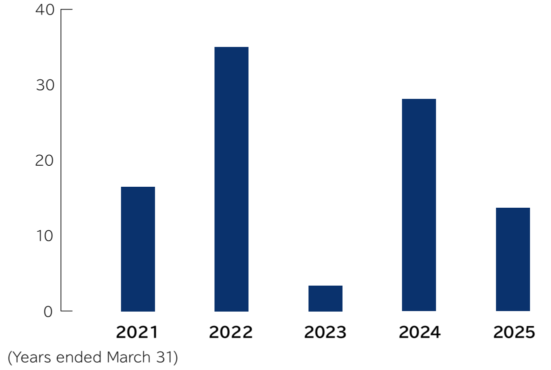
Dividends Paid and Purchases of Treasury Shares

(Billions of yen)



Results of Sales of Investment Securities

(Billions of yen)



Note: Income from sales of investment securities on the consolidated statements of cash flows

Q What is your approach to selling cross-shareholdings, which could be an important source of funds for growth investment, during the period of the current plan?

Our policy concerning cross-shareholdings is as previously explained. Specifically, we rigorously monitor the significance of holding each individual stock on an annual basis, and proceed with selling holdings for which continued ownership is no longer deemed reasonable. This policy remains unchanged.

That said, during the period covered by the current Medium-Term Business Plan, we intend to further accelerate these efforts. As I explained earlier regarding capital allocation, this is because we are now more clearly aware of the objective of securing funds for growth investment through the sale of such holdings.

The sale of cross-shareholdings often requires dialogue and coordination with the counterparties concerned; therefore we believe that it is not appropriate to set a fixed KPI. Nevertheless, as an external benchmark for objectively gauging the progress of our initiatives, we remain constantly mindful of external indicators such as the ratio of cross-shareholdings to net assets presented by proxy advisory firms, and will continue steadily working to reduce these holdings.

Q Has your thinking on funding changed during the period of the Medium-Term Business Plan?

There has been no change in our basic approach to raising funds. Regarding the level of interest-bearing debt, our principle is to maintain a net cash position (cash and deposits minus interest-bearing debt) over the medium to long term. This approach enables us to secure a certain borrowing capacity to prepare for unforeseen circumstances, while at the same time avoiding a significant increase in interest-bearing debt from the perspective of financial discipline.

Because the Group's business model does not require large-scale upfront capital expenditures, we do not believe it appropriate to employ excessive leverage, and this view remains unchanged during the period of the current plan.

On the other hand, we recognize that diversifying funding methods is an important issue. Rather than relying solely on bank borrowings, we believe it is essential to build, in ordinary times, an environment that enables diverse funding methods, including the issuance of corporate bonds, to diversify future financing risks. Based on this view, we obtained a credit rating of A+ from R&I in September 2022, and in October 2024 we issued our first corporate bonds of ¥10.0 billion in three-year bonds and ¥20.0 billion in five-year bonds, totaling ¥30.0 billion. We will continue striving to maintain a stable financial base going forward.

Q As CFO, what closing message would you like to share with shareholders and investors?

Some of this overlaps with my earlier comments, but I would like to reiterate that the most important management issue for our Company is the sustainable enhancement of corporate value.

To achieve this, it is essential that we steadily reach the targets set forth in the current Medium-Term Business Plan. As CFO, I am fully committed to supporting its faithful execution from the financial side. Specifically, throughout the period of the plan, while maintaining a stable financial foundation as our foremost premise, we are pursuing the optimal balance between growth investment, including investment in AI and technology as part of our business infrastructure, and shareholder returns, working to maximize corporate value.

I would like to encourage all our shareholders and investors to maintain high expectations regarding the growth of our Group and thank them for their continued support as we move forward.