

SPARX Group Co., Ltd.

8739

Tokyo Stock Exchange Prime Market

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Summary

A pioneering, independent active investment company that balances stability with high earnings by selecting investee companies through thorough corporate research and an outstanding ability to create hypotheses

1. Company overview

SPARX Group Co., Ltd. <8739> (hereinafter, “the Company”) is a pioneering, independent active investment company founded in 1988 under the vision of “To Be the Most Trusted and Respected Investment Company in the World.” It has established unique investment methods, such as introducing the “long-short investment strategy*,” which has now become commonplace in the fund industry, for the first time in Japan. It was listed on JASDAQ in 2001 and became the first Japanese independent active investment company to be listed on the Tokyo Stock Exchange First Section in 2019. The Company continues to lead the industry as an active investment company. Following the revision of the market classifications in April 2022, it is currently listed on the Prime Market.

* A method for securing returns even when the stock market is down by buying undervalued stocks whose prices can be expected to increase and short selling overvalued stocks whose prices are projected to go down.

The Group has four pillars that it is focusing on to achieve growth. These pillars are Japanese Equity, which invests in Japanese equities; OneAsia, which invests in Korean and other Asian equities; Real Assets, which invests in renewable energy power plants and other such assets; and Private Equity, which forms and manages funds for the purpose of investing in startup enterprises (private-equity investment). It has set the goal of increasing assets under management to ¥3 trillion by 2026, which would be double the amount at the end of FY3/21. In accordance with its in-house investment philosophy of “Macro is the Aggregate of the Micro,” the Company performs highly detailed research on individual companies to select its targets for investment, which makes it a company that can balance stability with high earnings and is its strength.

2. Results trends

In the FY3/24 consolidated results, operating revenue increased 23.5% year-on-year (YoY) to ¥16,498mn, operating profit grew 31.1% to ¥7,476mn, ordinary profit rose 28.6% to ¥8,090mn, and profit attributable to owners of parent increased 44.2% to ¥6,519mn, so both revenue and profits grew significantly. The market environment is trending positively overall, and in this situation, assets under management (AUM) steadily increased, driven by Japanese Equity, and management fees rose 12.0% to ¥14,258mn. In addition, benefiting from the favorable market environment, performance fees grew greatly, rising 463.8% to ¥2,054mn, which contributed to the increase in operating revenue. Together with the rise in operating revenue, the Company controlled human resources costs and other costs to appropriate levels, and as a result, the growth of operating profit was higher than that of revenue. In this situation, base earnings*, which is an indicator of ongoing, stable profitability, also increased steadily, up 5.7% to ¥6,348mn. In recent years, the growth of base earnings has been accelerating and it set a new record high in FY3/24.

* Base earnings are defined as management fees net of commissions paid minus fixed expenses and other ordinary expenses. Highly variable factors like performance fees are not included, so base earnings are an important indicator for assessing the earnings stability of an investment company.

Summary

Regarding results forecasts for FY3/25, in investment trust management, discretionary investment management and investment advisory services, which is the Company's primary business, the Company does not disclose forecasts because it acknowledges the difficulty of making projections of future results given the fact that the business is greatly affected by economic situations and market conditions. However, it started at the end of April 2024 with record high AUM of ¥1.8933 trillion, and in addition, the outlook for the market environment is favorable, so at FISCO we think that management fees will continue to trend at a high level.

3. Medium- to long-term growth strategy

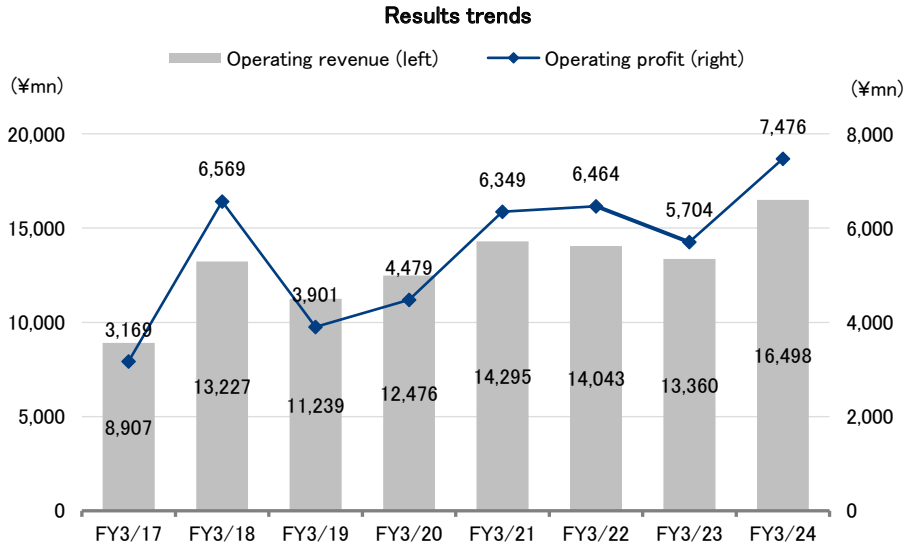
As its medium- to long-term growth strategy, while steadily increasing the AUM of its four pillars of Japanese Equity, OneAsia, Real Assets, and Private Equity, it has set the target of doubling AUM from ¥1.5356 trillion at the end of FY3/21 to ¥3 trillion by March 2026. At the same time, it is focusing on developing its new business areas. It has designated energy (including hydrogen), healthcare, and fintech as growth areas as they are expected to have high growth potential, and its policy is to increase the return on capital in all Group companies, while developing new business areas, through the efficient allocation of management resources. While increasing the four pillars' AUM and pursuing improved ROE, in the medium- to long-term it is targeting operating profit of ¥10.0bn and market capitalization of ¥100.0bn.

FISCO thinks that the Company will be able to find new areas with investment value that have been overlooked by investors through its cycle of thorough corporate research, outstanding investment hypothesizing, and rigorous, hypothesis-based research on investment targets, which is the strength of the Group. In addition, the hypotheses it derives from its thorough company research are novel and convincing, so the Company is likely to be able to adequately attract capital from investors. Also, when considering the recent strong performance of the Japanese equities market, at FISCO we think its target of increasing AUM to ¥3 trillion by March 2026 is fully achievable.

Key Points

- Independent active investment company with an investment philosophy of "Macro is the Aggregate of the Micro"
- In FY3/24, revenue and profits increased significantly, while benefiting from the strong performance of the markets
- Term-end AUM reached a new record high, and in this situation, base earnings, which shows ongoing, stable profitability, also set a new record high
- Seeking to increase AUM to ¥3 trillion by March 2026, double the level of end-FY3/21

Summary



Source: Prepared by FISCO from the Company's financial results

Company overview

Pioneering active investment company with multiple competitive advantages; unique investment philosophy of “Macro is the Aggregate of the Micro”

1. Company overview

The Group is a pioneering, independent active investment company founded in 1988 by Shuhei Abe, the current President and CEO, under the vision of “To Be the Most Trusted and Respected Investment Company in the World.” Taught by world-famous investor George Soros, Abe’s investment method is unique and strategic, and the Company was the first in Japan to introduce the “long-short investment strategy,” which is now commonplace in the fund industry. The company name SPARX comes from a comment made by Soros when Abe explained his strategy to him, saying, “I felt a spark in what you had to say.”

(1) The “ARTS Spirit”

The Group also has a strong sense of mission as an independent investment company, and it is oriented to establishing funds and developing investment trusts for the benefit of investors. Its “ARTS Spirit” is put forth as a basic starting point and putting this spirit into practice creates the Group’s value.

Company overview

The “ARTS Spirit”

The Principles of SPARX	We will always strive to achieve bigger goals in an ever-changing environment through our innovation, dedication and flexibility. However, our principles will always be the same. These core principles are represented by what we call the “ARTS Spirit,” which each employee realizes on an advanced level. In this way, we believe we can become an investment company that is trusted and respected by society and investors.
Arigato	We will act with respect and a sense of gratitude toward the people with whom we work and all people with whom we interact.
Responsiveness	We will value agility as our main approach to change and will always respond quickly.
Thoroughness	We believe that activities with discernment and care generate innovative knowledge, and we will constantly keep on perfecting them.
Sympathy	We will interact with clients and colleagues in a harmonious and contributory manner. We believe that humility and sincerity lead to mutual growth and will act with a sense of propriety. We will be open-hearted and accepting of diversity in a flexible manner and will create opportunities for free debate and discussion.

Source: Prepared by FISCO from materials provided by the Company

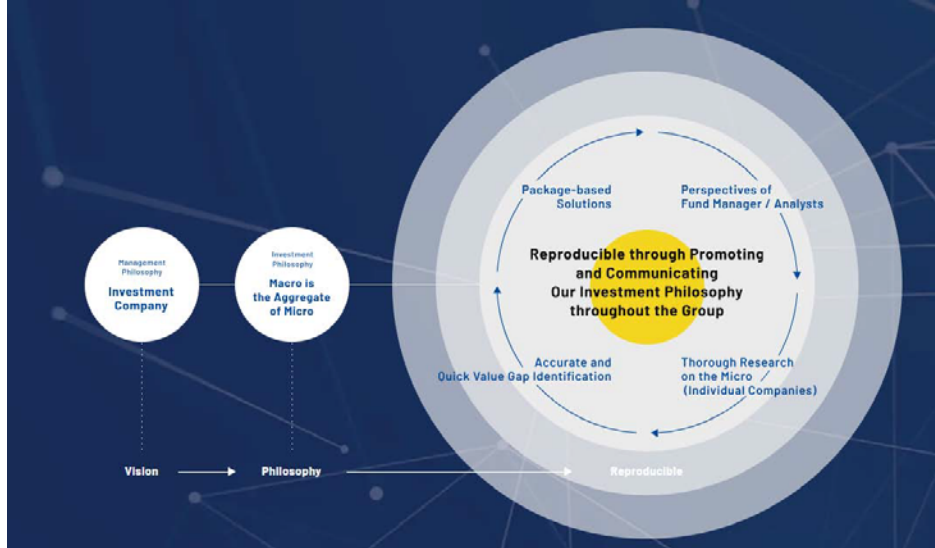
(2) Investment philosophy

What is notable about the Company and a source of its competitive advantage is its investment philosophy of “Macro is the Aggregate of the Micro.” Abe puts a great deal of emphasis on this concept and ensures that it penetrates the entire company. “Macro” in this context refers to major trends that are difficult to predict with accuracy; for example, how the Japanese economy will trend going forward and which industries will experience growth. On the other hand, “micro” here means companies’ daily business activities, and the qualities and policies of its executives—those things that can be understood and are easy to predict. In other words, by rigorously researching the activities of companies and the qualities of their executives and by accumulating this information, the macro (major trends) comes into view. This thinking is expressed in the phrase, “Macro is the Aggregate of the Micro.” Based on this thinking, when actually making investments, discussions on the direction of the Nikkei Stock Average or how portfolio company stock prices will trend are not emphasized; rather, fund managers visit individual companies based on their own hypotheses and engage in dialogue with executives—this is the emphasis.

Another major characteristic of the Company’s investment philosophy is that investment hypotheses are made at the stage prior to selection of companies targeted for investment. An example would be hypothesizing, amid calls for an emphasis on ESG, that there will be increasing societal need with respect to carbon-free companies. Thorough corporate research is conducted based on investment hypotheses, which makes it possible to verify the validity of the hypotheses and discover undervalued companies with healthy growth prospects.

Company overview

The Company's investment philosophy and approach



Source: The Company's website

In FISCO's view, the investment philosophy of "Macro is the Aggregate of the Micro" will become increasingly important in order for the Company to have a competitive advantage. This is because of the penetration of artificial intelligence (AI) into financial markets and the accelerating trend to leave investment up to AI. Investment via AI involves training AI with an enormous amount of data on past stock price trends and having it predict future stock prices statistically. However, corporate activities and the qualities and thinking of executives cannot be perceived and understood without visiting the actual site and meeting with management. What determines the direction of corporate performance is the accumulation of corporate activities and qualities of the management team, etc., and this is not something that can be predicted from past data using statistical methods. FISCO is in agreement with the Company's thinking.

In this way, by performing rigorous research on individual companies to select investment targets, the Company has been able to maintain both stability and high earnings in financial markets that are fundamentally high risk with high return, and it continues to lead the industry. The Company's capital is ¥8,587mn (at the end of FY3/24), and it has 186 Group employees (as of the same date).

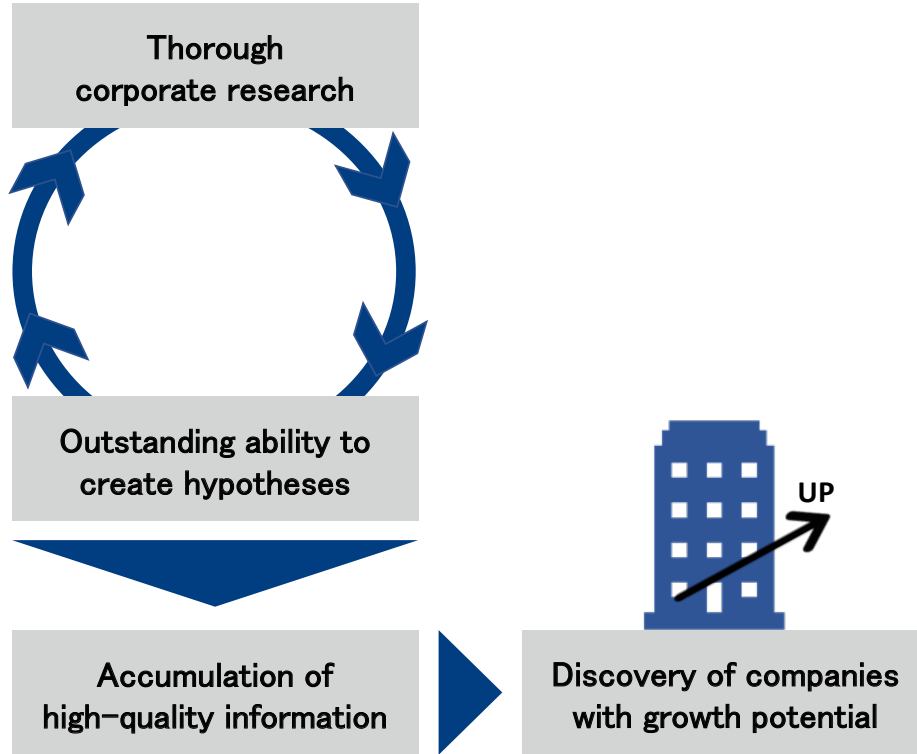
Examples of excess return at the end of FY3/24

Strategy	Annualized return	Reference index	Excess return
Japanese Equity Active Long Only Investment Strategy	11.26%	4.24% (TOPIX)	7.03%
Japanese Equity Mid & Small Cap Investment Strategy	8.64%	5.87%*	2.77%
Japanese Equity Long-Short Investment Strategy	4.81%	4.30% (TOPIX)	0.51%
Japanese Equity Strategic Investment Strategy	10.19%	4.47% (TOPIX)	5.72%

* Reference index: Russell/Nomura Japan Equity Style Index Mid and Small
 Source: Prepared by FISCO from the Company's results briefing materials

Company overview

The Group's Positive Investment Cycle



Source: Prepared by FISCO through interviews

History

1989	Began investment advisory services in Minato-ku, Tokyo as SPARX Asset Management Co., Ltd.
1997	SPARX Asset Management Co., Ltd. licensed to provide discretionary investment management business
2000	SPARX Asset Management Co., Ltd. licensed to provide securities investment trust management business Changed the Japanese name of SPARX Asset Management Co., Ltd.
2001	SPARX Asset Management listed on the JASDAQ Market
2005	Acquired a majority stake in Cosmo Investment Management Co., Ltd. (now SPARX Asset Management Korea Co., Ltd.), a Korea-based asset management company, in order to develop investment activities in the Asian region
2006	Transitioned to a holding company structure, and SPARX Asset Management changed its name to SPARX Group Co., Ltd.; SPARX Asset Management, a subsidiary, took over the asset management business
2012	SPARX Green Energy & Technology Co., Ltd. established to enter the renewable energy power generation business
2014	Acquired a 100% stake in Japan Asset Trust Corporation in order to further expand the investment business for real assets, including renewable energy power plants and real estate, and changed its name to SPARX Asset Trust & Management Co., Ltd.
2019	Assigned to the Tokyo Stock Exchange First Section Invested in Sigma-i Co., Ltd., which provides solutions for quantum annealing technology research and development, and began participating in its management
2020	Established SPARX Innovation for Future Co., Ltd. to administer and manage Space Frontier Investment Limited Partnership, which is aimed at fostering globally competitive, Japan-based space companies
2021	Established Nomura SPARX Investment, Inc. with Nomura Holdings <8604> to manage investment corporations that invest in non-listed companies
2022	Transferred to the Prime Market through a reclassification of Tokyo Stock Exchange categories

Source: Prepared by FISCO from the Company's homepage

2. Business description

The Group has four pillars that it has established as focus areas. Japanese Equity, which invests in Japanese equities; OneAsia, which invests in Korean and other Asian equities; Real Assets, which invests in renewable energy power plants and other such assets; and Private Equity, which forms and manages funds for the purpose of investing in startup enterprises. On this basis, it provides investment trust management, discretionary investment management, investment advisory and other related services.

(1) Japanese Equity and OneAsia

SPARX Asset Management Co., Ltd. handles Japanese Equity, and SPARX Asset Management Korea Co., Ltd. and SPARX Asia Investment Advisors Limited primarily handle OneAsia. Equity investment is conducted based on strategies that include the Japanese Equity long-short strategy, Japanese Equity focus all cap strategy, Japanese Equity mid & small cap strategy, Japanese Equity market neutral strategy, and Japanese Equity Value Creation Strategy. At the end of FY3/24, the AUM of Japanese Equity and OneAsia had both grown significantly, up 37.8% from the end of the previous period to ¥1,313.1bn and up 40.2% to ¥126.2bn, respectively. Japanese Equity benefitted from the favorable market environment, and the AUM of every investment strategy, except that of the market neutral investment strategy, steadily increased. In particular, with the establishment of the new SPARX Value Creation Japan Equity Fund in May 2023, the AUM of the value creation investment strategy grew significantly from ¥2.5bn at the end of the previous period to ¥107.8bn. At FISCO, we think the AUM of the Japanese Equity investment strategy as a whole will grow steadily in the future as well. In March 2023, the Tokyo Stock Exchange (TSE) requested that all listed companies in the Prime and Standard markets take action on cost of capital-conscious management and share price. Based on this request, each company has been implementing measures, such as improving the return on capital and increasing shareholder returns, and they have been focusing on increasing corporate value by allocating cash efficiently while being conscious of the cost of capital. However, even in this situation, although the percentage of companies with a P/B ratio of less than 1x is decreasing, the percentage of TOPIX 500 companies with a P/B ratio of less than 1x was still 133 companies, or about 26%, as of January 2024 (cited from Ministry of Economy, Trade and Industry materials). Compared to other markets, such as in the US and Europe, the percentage of companies with a P/B ratio of below 1x is relatively high. But to look at this in another way, it can be said that the corporate value of Japanese companies has significant potential for growth. As companies become increasingly aware of their cost of capital and share prices, going forward it is expected that they will continue to focus on increasing their corporate value through generating profits and other means. As companies pursue higher corporate value and P/B ratios, the level of investor attention on Japanese equities is expected to trend at a stably high level. Therefore, at FISCO we think that the Company's Japanese Equity investment strategy is highly likely to generate a stable inflow of investment funds.

In addition, the Company's training of local fund managers and the establishment of a high quality management system are progressing well, and we expect OneAsia's AUM to also trend steadily. In particular, we anticipate capital inflows to accelerate against the backdrop of Asia's high growth potential. According to the latest forecasts by the IMF, the Asia region's actual GDP growth rate was 5.0% in 2023 and will be 4.5% in 2024 and 4.3% in 2025. In particular, the growth rates of India, for which the Company's policy is to develop it as a foundation fund, will be 7.8%, 6.8%, and 6.5% in 2023 to 2025, while the annual growth rates of Indonesia in the same years will be 5.0%, 5.0%, 5.1%, so their high growth is expected to continue. Based on the Company's investment philosophy and its thorough company research, we can expect it to continue to discover companies with high potential in markets that are maintaining high growth, so we think it is highly likely that the inflow of capital will increase from investors responding to this strategy.

Company overview

(2) Real Assets

Within Real Assets, development, management, and operation of renewable energy power plants, including solar power plants, is handled by SPARX Green Energy & Technology Co., Ltd. Investment in the phase from power plant development to the start of operations (called “green field” investment) is handled by SPARX Asset Management. Further, “brown field” investment in power plants already up and running is handled by SPARX Asset & Trust Management Co., Ltd. The main investments have been made in solar, wind, and biomass power plants. When knowledge regarding the investment target is insufficient, experienced partners are enlisted and investment is conducted with them, which makes it possible to invest in high-quality real assets and generate high earnings. AUM at the end of FY3/24 increased 7.9% from the end of FY3/23 to ¥285.5bn, of which ¥280.1bn was invested in renewable energy power facilities. The number of investments increased by 5 YoY to 347 (approx. 702 MW), and the number of plants selling electricity increased by 5 YoY to 345 (approx. 647 MW). These investments are steadily generating returns, and investments in renewable energy appear to be making steady progress. As a result, the Company ranks fourth in the ranking of renewable energy (solar and wind) generation in Japan. With the intensification of natural disasters and the global trends for decarbonization and controlling rising temperatures, there is a strong social need for solar power generation and other renewable energy sources. At the 28th Conference of the Parties to the United Nations Framework Convention on Climate Change (COP28) in 2023, the target was set to “triple the global renewable energy generation capacity by 2030.” Japan is also focusing as a country on promoting renewable energy. Although the FIT (Feed-in Tariff) system introduced in 2012 has significantly increased the percentage of the power supply from renewable energy sources (from 10.4% in FY2011 to 21.7% in FY2022), it will be necessary to further promote renewable energy in order to achieve the target of 36% to 38% by FY2030. In addition to this favorable external environment, by utilizing the knowledge about renewable energy that the Company has accumulated so far in order to discover highly profitable investment targets, at FISCO we think it is highly likely that it can steadily raise funds from investors.

Real assets generating stable revenue



Wind power plant



Biomass power plant



Solar power plant



Solar power plant

Source: The Company's website

Company overview

(3) Private Equity

SPARX Asset Management and SPARX AI & Technologies Investment Co., Ltd. invest in foreign and domestic startups on the themes of intelligent technologies, robotics, technologies for a hydrogen-based society, electrification, new materials, carbon neutrality, and the SDGs. For investments in startup companies to bear fruit takes a considerable amount of time, but investments have been made in Sansan, Inc. <4443> (listed June 2019), MEDLEY, INC. <4480> (listed December 2019), freee K.K. <4478> (listed December 2019), FIXER Inc. <5129> (listed September 2022) and other startups that have held an IPO.

Private Equity is characterized by funds being formed jointly with major companies. One example is Mirai Creation Fund III, which started in October 2021. Its investors include major companies like TOYOTA MOTOR CORPORATION <7203> and Sumitomo Mitsui Banking Corporation. In April 2024, the Company established the Space Frontiers Fund II, and major companies such as Toyota Motor Corporation and MUFG Bank, Ltd. are also participating in it as investors. At FISCO, we highly evaluate this fund for realizing investment from major companies through thorough research of individual companies and excellent hypothesis-building capabilities. This is because, precisely as only the “micro” is fully known, the Company is able to raise funds from investors as not only can it create a fund in an attractive field that investors themselves are unaware of, but it can also create hypotheses that are rational and persuasive. In fact, the Company ranks third in the ranking of venture capital fundraising in Japan. Moreover, the management period of these funds is 10 years and in practical terms there is no cancellation during this period, so stable revenue is expected, the same as from Real Assets. According to the Startup Development Five-Year Plan formulated by the current Japanese government in 2022, the target is to achieve a total investment amount in startup companies of ¥10 trillion by 2027, which is 10 times the amount of when the plan was formulated. Compared to overseas, the scale at the current time is still small, but in addition to the government’s support for startups, the Company’s strategy has high earnings potential, so it is anticipated that the level of interest in this investment strategy will rise. Particularly in the space field that the Company is focusing on, the government has established the Space Strategy Fund from the viewpoint of strengthening national security, and it is aiming to contribute around ¥1 trillion to companies and universities over 10 years. The government is creating various policies to develop startup companies, and in this situation, it is expected that that scope and scale of startup companies will expand and the market itself will grow even more. Based on this trend, at FISCO we think it is highly likely that the flow of funds from investors responding to the Company’s strategy will accelerate.

Private Equity is a field where the Group is able to exhibit its strengths, and also a field that the Group intends to grow. FISCO believes that Private Equity is an area that embodies the essence of the Group, which has achieved growth by creating new investment domains overlooked by clients.

3. The Group’s strengths

The Group has the following five strengths: 1) Bottom-up corporate research and outstanding ability to make hypotheses, 2) Outstanding ability to ask questions, 3) High earnings rate, 4) Human resources development through an open corporate culture, and 5) Investment from a long-term standpoint.

Company overview

(1) Bottom-up corporate research and outstanding ability to make hypotheses

Thorough, bottom-up corporate research and an outstanding ability to make hypotheses are based on the investment philosophy, “Macro is the Aggregate of the Micro,” that has been instilled throughout the Company. As discussed above, “Macro is the Aggregate of the Micro” is the thinking that large trends come into view through the accumulation of rigorous company research. Because the Group performs detailed research on many companies, it is able to form appropriate hypotheses, and it can be said that based on these hypotheses, it is able to find companies needed by society, that is to say, companies with high growth potential. In addition, from the perspective of establishing new funds and developing new investment trusts, it is able to find areas with investment value that have been overlooked by investors themselves. At investment companies, it is often the case that work is split between analysts who research companies and fund managers who manage the investments, but the Group emphasizes bottom-up corporate research, so fund managers also research companies based on their own hypotheses.

(2) Outstanding ability to ask questions

Thorough corporate research is tied to an outstanding ability to ask questions, which is also a strength. Through this rigorous research, the Company is able to ask more essential questions to investee companies and engage in deeper discussions, which go beyond the surface level of short-term stock price changes and the next term's results. Asking essential questions allows the Company to acquire more important information, and this in turn allows it to conduct appropriate discussions for improving the performance of investee companies, which is then connected to an engagement strategy that is outstanding, in FISCO's view.

(3) High earnings rate

The Group high earnings rate, which is one of its strengths, is expressed in its management fee rates and percentage of AUM eligible to earn performance fees. Management fee rates and whether or not performance fees can be attached to funds are determined through negotiations with clients, but in the case of investment trusts, these are negotiated with the companies that sell the trusts, which include securities companies and banks. With the Group's funds, thanks to rigorous company research, investee companies generate outstanding returns, which allows high management fee rates to be set (0.75% in FY3/20, 0.69% in FY3/21, 0.69% in FY3/22, 0.73% in FY3/23, and 0.71% in FY3/24). With regard to the percentage of AUM eligible to earn performance fees as well, investments generate excellent returns, which allows funds to be set with performance fees. The rate in FY3/24 was high at 35.3%. As a result, the operating profit from the same period was also high at 45.3%.

(4) Human resources development through an open corporate culture

In the Group's investment research division for Japanese Equity, meetings are held every morning to share progress made on company research. Weekly meetings are held apart from this as well to share and discuss hypotheses and investment behavior. FISCO believes that this is extremely significant for human resources development. Through sharp feedback from experienced fund managers, personnel are able to learn about areas in need of improvement and effective points of entry when performing research. Making manuals for research methods and how to hypothesize is difficult, and these abilities tend to be internalized, but the Company shares them through discussion and debate. This serves to raise the level of fund managers and makes it possible to accumulate highly talented human resources. The Group puts a great deal of emphasis on human resource development, and taking time to develop its human resources is a company credo, so long service length is another characteristic. In the asset management industry, in which fund manager ability determines a company's earnings, human resources development through an open corporate culture and information sharing is a strength and generates positive results, in FISCO's view.

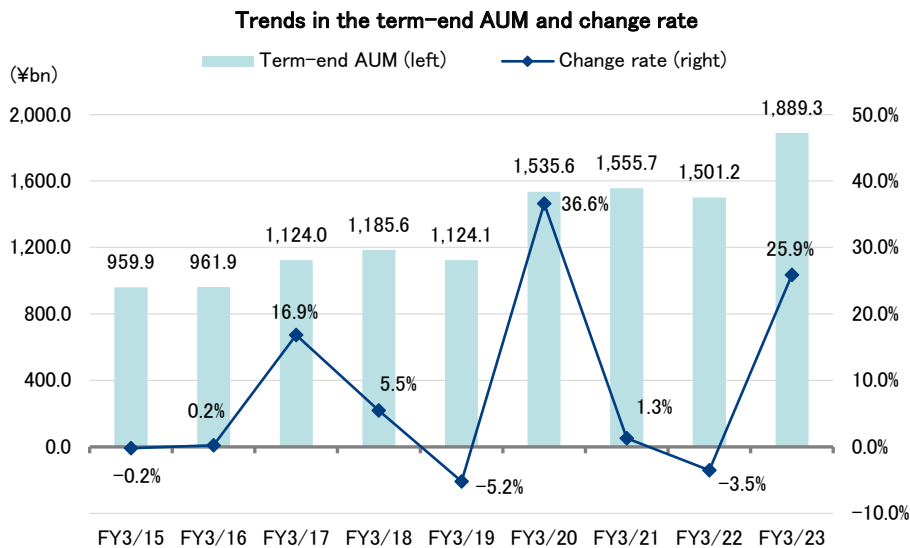
Company overview

(5) Investment from a long-term standpoint

The Group makes investments from a long-term perspective, so it is able to build trust with investee companies and raise corporate value. Even when impacted by temporary events like stock market declines, the impact is mitigated by investing long-term, which allows, as a result, returns to be provided to investors. In addition, with long-term funds with an investment period of 20 years, AUM and management fees increase in a stable manner, which lends stability to earnings.

4. The Group's position in the market

In addition to the above-described strengths, among the listed, independent, active investment companies, the Company's characteristics include its wide range of investment targets, from Japanese domestic stocks to real assets such as solar power generation facilities, and also private equity. Within a single corporate group, it is rare to find companies advancing a wide range of strategies, from traditional investment strategies like selective investment in equities and long-term holdings, through to alternative investments, including in renewable energy and an engagement strategy. In addition to its traditional strategies, at FISCO we think the Company is able to steadily increase AUM through conducting alternative investments at the same time as realizing high levels of profitability. This is because in the Real Assets' investment strategy, which targets large-scale infrastructure like renewable energy power generation businesses, the investment amounts are large, which contribute corresponding amounts to the increase in AUM. In fact, its AUM of ¥38.2bn (12-month average) in FY3/14 had grown rapidly, by 7.2 times, to ¥277.4bn by FY3/24, and its percentage of total AUM had also grown to as high as 16.6%. A basic principle of asset management is risk diversification through diversifying investments. On this point, the Company minimizes the risk of excessive AUM fluctuations by investing in various assets within the Group, from listed and non-listed shares that are highly volatile relatively speaking, through to real assets that are highly stable. Looking at the trends in the Company's AUM and AUM increase rate, we see that they are both trending stably.

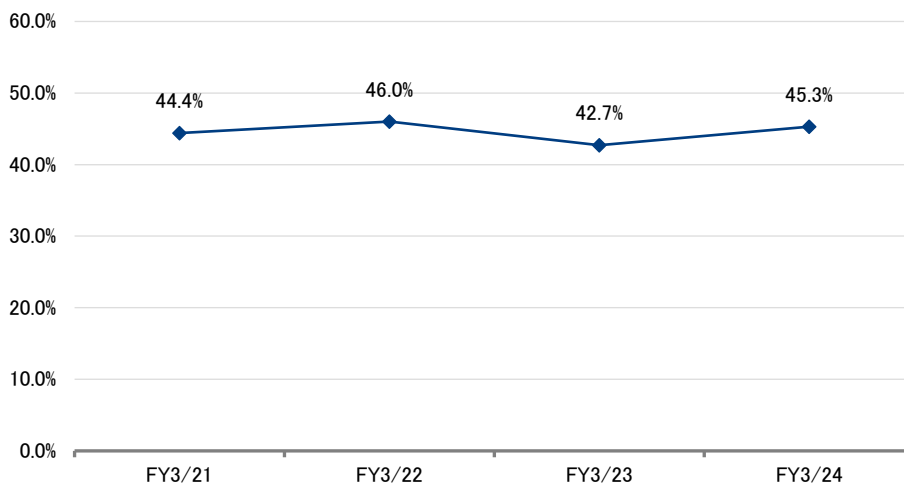


Source: Prepared by FISCO from the Company's results briefing materials

Company overview

Private Equity, which targets investments in startup companies, sets a high management fee rate compared to the Company’s other investment strategies, and so can be said to be correspondingly highly profitable. Although it is difficult to make a general comparison due to differences in business models and main customers, at FISCO, we think that in addition to the high profitability of the Company’s traditional investment strategies, its inclusion of alternative assets in its investment target portfolio is also a factor behind its performance. Profits are the basis for calculating the share price and are the source of dividends, so in this sense, they are very important for investors, so the Company’s investment strategy portfolio business model, which can create profits efficiently and stably, can be said to be very appealing to them.

Trend in the operating profit ratio



Source: Prepared by FISCO from the Company’s financial results

Results trends

Revenue and profits increased significantly, and management fees and term-end AUM set new record highs. In addition to the increase in management fees, the rapid growth of performance fees also contributed.

1. FY3/24 results overview

In the FY3/24 consolidated results, operating revenue increased 23.5% YoY to ¥16,498mn, operating profit rose 31.1% to ¥7,476mn, ordinary profit grew 28.6% to ¥8,090mn, and profit attributable to owners of parent increased 44.2% to ¥6,519mn, so revenue and profits grew significantly. The market environment as a whole is trending favorably, and among the four pillars, which are the Company's focus areas, AUM increased steadily in all of them except in Private Equity. Term-end AUM increased 25.9% to ¥1,889.3bn to set a new record high, and in this situation, management fees also rose 12.0% to ¥14,258mn. In addition, as the market environment as a whole is performing well, performance fees grew significantly, up 463.8% to ¥2,054mn, which contributed to the increase in operating revenue. Much of the Company's investment portfolio has accompanying performance fees. When the market environment is favorable, performance fees increase rapidly, which can be expected to have the effect of pushing-up results on a consolidated basis, and at FISCO we think this is also an appealing aspect of the Company's business model. While management fees and performance fees are increasing steadily, the Company is appropriately controlling the increases in human resources costs and other costs, so operating profit increased 31.1%, which is a higher growth rate than that of the top line. As a result, the operating profit rate rose 2.6 percentage points to 45.3% and profitability further increased. Base earnings, which is an indicator of profitability that the Company prioritizes as showing a sustainable and stable business foundation, increased 5.7% to ¥6,348mn to set a new record high. Profit attributable to owners of parent also increased significantly, up 44.2%, due to the recording of a gain on the sale of investment securities of ¥1,335mn. This was the sale of investment shares, including medical- and quantum computer-related. It would seem that the Company's efforts to develop new business areas are contributing to the steady increase in profits.

FY3/24 consolidated results

	FY3/23		FY3/24		YoY
	Results	Vs. operating revenue	Results	Vs. operating revenue	
Operating revenue	13,360	100.0%	16,498	100.0%	23.5%
Operating expenses and SG&A expenses	7,656	57.3%	9,022	54.7%	17.8%
Operating profit	5,704	42.7%	7,476	45.3%	31.1%
Ordinary profit	6,289	47.1%	8,090	49.0%	28.6%
Profit attributable to owners of parent	4,521	33.8%	6,519	39.5%	44.2%

Source: Prepared by FISCO from the Company's financial results

Base earnings

	FY3/23	FY3/24	YoY
AUM (average balance) (¥100mn)	15,126	16,743	10.7%
Management fee rate (net of commissions)	0.73%	0.70%	-0.03pt
Management fees (net of commissions) (¥mn)	11,077	11,727	5.9%
Ordinary expenses (¥mn)	5,071	5,378	6.1%
Base earnings (¥mn)	6,005	6,348	5.7%

Source: Prepared by FISCO from the Company's financial results

Results trends

(1) Japanese Equity

At the end of FY3/24, AUM had increased 37.8% YoY to ¥1,313.1bn. The stock markets trended strongly, including the launch of new NISA, and the AUM of every investment strategy, except the market neutral investment strategy, steadily increased. In particular, in focus all cap investment strategy, which has a large AUM of ¥784.4bn, the market value of investment assets increased in the strong market environment, and also there were additional funds established from large overseas institutional investors in the second half of the fiscal year. Amid the rising interest among overseas institutional investors in Japanese equities, the additional funds were entrusted to the Company based on the strong performance of its Japanese Equity strategy. Also, with the establishment of the SPARX Corporate Value Creation Japan Equity Fund in May 2023, the AUM of the value creation investment strategy grew rapidly from ¥2.5bn at the end of the previous period to ¥107.8bn. The decrease in the AUM of the market neutral investment strategy was mainly due to the relative decline in needs for this strategy in the context of the markets' upward trend, and at FISCO, we don't think there has been any change to the effectiveness of this investment strategy itself.

(2) OneAsia

At the end of FY3/24, AUM had increased 40.2% YoY to ¥126.2bn. In South Korea and the Asia region, the market environment is a whole trended favorably. In addition, the Company's investment philosophy was further disseminated to fund managers in overseas offices, which also contributed to the increase in AUM.

(3) Real Assets

At the end of FY3/24, AUM had increased 7.9% on the end of the previous period to ¥285.5bn. The Company progressed investments in solar power generation facilities and other renewable energy power generation businesses at 347 locations throughout Japan. Its various investments, including in a biomass power generation project in October 2023 and in solar power plants that are operating stably, contributed to the increase in AUM. In terms of topics, the SPARX Green Battery Storage Fund was newly established in February 2024 as an initiative to contribute to the realization of a carbon-neutral society. This fund is also expected to contribute to the increase in AUM in the future.

(4) Private Equity

At the end of FY3/24, AUM had decreased 15.0% on the end of the previous period to ¥164.3bn. AUM decreased due to the completion of the investment period for the Mirai Creation No.2 Fund and the resulting change of the amount used as the basis for calculating management fees. In the Space Frontiers Fund, Fund I became fully invested, so Fund II was established in April 2024. Fund II is expected to contribute to AUM in FY3/25. In Japan also, the Company successfully completed its first TOB for the Japan Monozukuri Mirai Fund in January 2024. After delisting it and increasing its corporate value, it intends to relist it, and going forward, its policy is to increase AUM through a TOB via this fund, and to actively consider accumulating profits through sales of shares at the time of relisting.

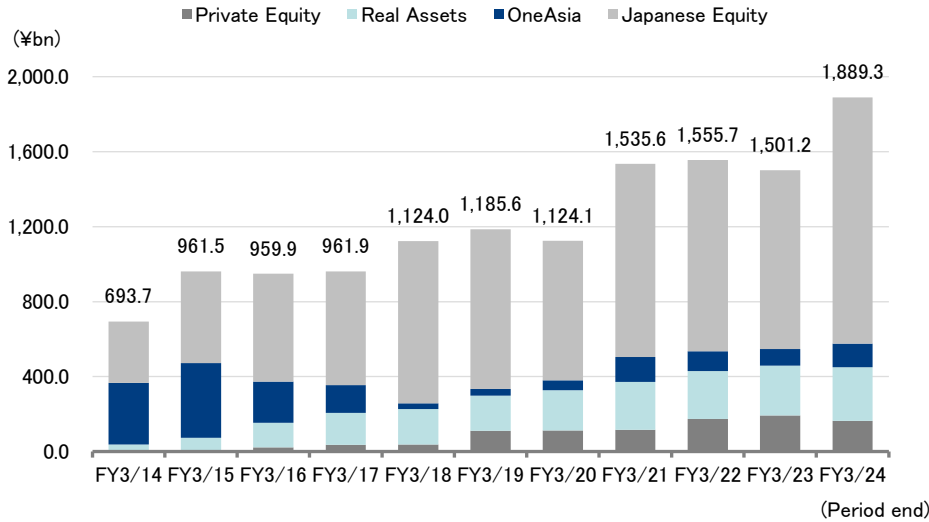
2. Past results trends

(1) Assets under management

OneAsia's term-end AUM had temporarily decreased significantly, but it has been recovering in the last few years, and in particular it benefitted from favorable market conditions in FY3/24, increasing significantly by 40.2% YoY. Japanese Equity has also grown steadily as a whole, although there have been periods of decline due to a weak market environment. The AUM of Real Assets and Private Equity are growing steadily overall. Total AUM is being maintained at a high level, showing the excellence of the Company's investment philosophy and investment management method of "Macro is the Aggregate of the Micro," and at FISCO we think that it will continue to receive the support of investors.

Results trends

Trends in AUM for the four pillars

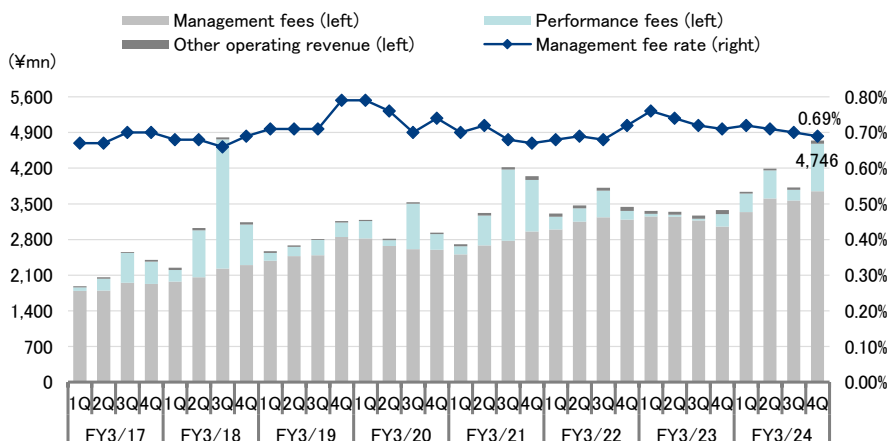


Source: Prepared by FISCO from the Company's results briefing materials

(2) Operating revenue

For operating revenue, management fees have steadily increased by setting funds that realize high returns through thorough company research and that have comparatively high fee rates. Funds managed in line with the investment philosophy of “Macro is the Aggregate of the Micro” will be able to maintain high returns going forward as well, so FISCO believes that management fees will also continue to be high as a result. Also, in FY3/24, the rapid increase in performance fees contributed to the increase in operating revenue. Many of the Company's fund have accompanying performance fees, so when market conditions are favorable, operating revenue can be expected to grow rapidly due to the increase in performance fees, which at FISCO we think is another appealing point of its business model.

Quarterly trends in operating revenue



Source: Prepared by FISCO from the Company's results briefing materials

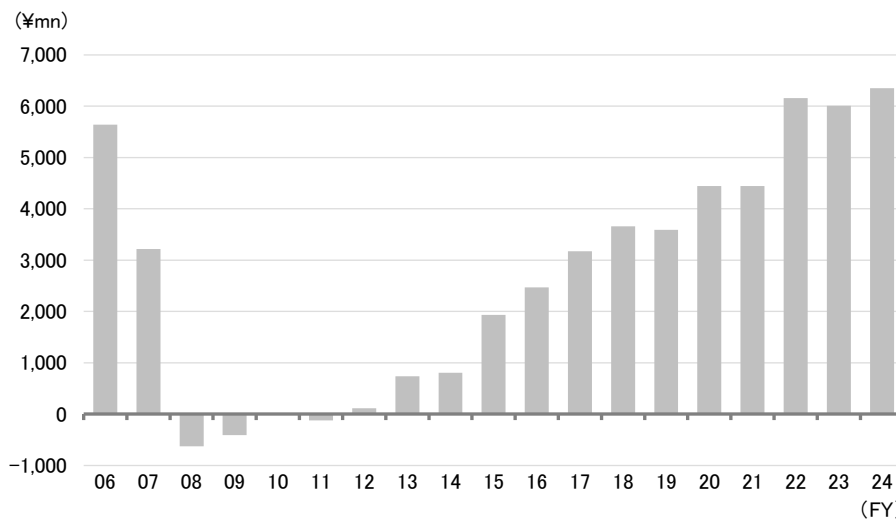
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Results trends

(3) Base earnings

Base earnings, an indicator of ongoing, stable profitability (management fees net of commissions paid – (minus) fixed expenses and other ordinary expenses), had been negative temporarily in FY3/08 due to the global financial crisis, but have been trending upward ever since. It is worth noting that the Company's base earnings have steadily increased amid an extremely high level of uncertainty in the financial market outlook due in particular to the impact of COVID-19, the Ukraine situation, and central bank fiscal policies in various countries on corporate earnings. When considering points such as the Company's power of discernment created from its unique investment philosophy has enabled it to increase AUM even when market conditions are soft, and that it is controlling costs appropriately, we can expect base earnings to trend strongly in the future as well.

Trends of base earnings



Source: Prepared by FISCO from the Company's results briefing materials

3. Financial condition and management indicators

Total assets at the end of FY3/24 were ¥46,112mn, up ¥6,729mn on the end of the previous period. This was mainly due to a ¥38mn increase in cash and deposits in current assets and a ¥5,852mn increase in investment securities in fixed assets. Total liabilities increased ¥1,356mn to ¥14,692mn, mainly because of a ¥700mn increase in income taxes payable in current liabilities and a ¥2,000mn increase in long-term borrowing in fixed liabilities. Total net assets increased ¥5,372mn to ¥31,419mn, with the main factors being a ¥4,073mn increase in retained earnings and a ¥1,489mn increase in the valuation difference on available-for-sale securities, while the capital surplus decreased ¥404mn.

For the financial condition, the current ratio was 414.4%, the fixed ratio was 60.4%, and the equity ratio was 68.2%. Both the current ratio and fixed ratio are sound and we do not see any problem with the Company's long- or short-term liquidity. Its capital adequacy ratio is also high.

Results trends

Consolidated balance sheets and management indicators

	(¥mn)		
	FY3/23	FY3/24	Change
Current assets	26,594	27,130	536
Cash and deposits	22,028	22,066	38
Fixed assets	12,788	18,981	6,192
Investment securities	10,437	16,289	5,852
Total assets	39,382	46,112	6,729
Current liabilities	7,340	6,547	-793
Short-term loans payable	2,000	2,000	0
Fixed liabilities	5,995	8,145	2,149
Long-term loans payable	5,000	7,000	2,000
Total liabilities	13,335	14,692	1,356
Total net assets	26,047	31,419	5,372
Retained earnings	16,886	20,960	4,073

Source: Prepared by FISCO from the Company's financial results

4. Outlook for FY3/25

The outlook for FY3/25 is as follows. In investment trust management, discretionary investment management and investment advisory services, the Company's main business, results are substantially impacted by economic conditions and the market environment, so results forecasts are recognized as difficult and are therefore not disclosed. However, it started at the end of April 2024 with record high AUM of ¥1.8933 trillion, and in addition, the outlook for the market environment is excellent, so at FISCO we think that management fees are likely to continue to trend at a high level. The newly established Space Frontiers Fund II and SPARX Green Battery Storage Fund are expected to contribute to the increase in AUM.

Alongside the stock markets maintaining their bullish performance, at FISCO we expect performance fees to grow and management fees to also trend strongly, driven by Private Equity.

■ Medium- to long-term growth strategy

Is focusing on further improving profitability and increasing market capitalization, targeting AUM of ¥3 trillion by March 2026

As its medium- to long-term growth strategy, the Company has set the target of doubling the AUM of its four pillars of Japanese Equity, OneAsia, Real Assets, and Private Equity, from ¥1.5356 trillion at the end of FY3/21 to ¥3 trillion by March 2026. At the same time, it is focusing on developing the new business areas. It has designated energy (including hydrogen), healthcare, and fintech as growth areas as they are expected to have high growth potential, and its policy is to increase the return on capital, while developing new business areas, through the efficient allocation of management resources. While increasing the four pillars' AUM and pursuing improved ROE, in the medium- to long-term it is targeting operating profit of ¥10.0bn and market capitalization of ¥100.0bn.

Medium- to long-term growth strategy

(1) Strategy toward increasing the four pillars' AUM

(a) Japanese Equity

The Company is strengthening its initiatives for its long-short strategy, which is growing again, and its long-term selection investment strategy. Particularly for its focus all cap investment strategy, its policy is to actively increase AUM by targeting the high levels of interest from overseas institutional investors. In addition, to increase AUM from traditional strategies, such as focus all cap investments, the Company is focusing on increasing the corporate value of the companies it invests in through engagement strategies for which it has a competitive advantage, including its value creation investment strategy. By utilizing both traditional strategies and alternative strategies, the Company intends to further refine its own uniqueness.

(b) OneAsia

This is seen as a market that can be expected to grow significantly in the medium- to long-term, and the Company is investing in it via funds in companies that can grow considerably with an eye to the societal changes occurring in Asia. Specifically, it is establishing new funds that mainly invest in the Indian and Indonesian markets and then expanding the scale of these funds in order to realize their growth as foundation funds. It also continues to focus on educating fund managers in each location and intends to disseminate the Company's investment philosophy on a global level to build a high-quality management structure.

(c) Real Assets

The Company is steadily accumulating a track record of investments in renewable energy, and in this situation, it is also accumulating knowledge about the energy field. Utilizing this knowledge, its policy is to gradually shift the focus of development from solar to biomass, geothermal, and other types of green energy from which high investment returns can be expected. At the same time, it is also actively developing investment strategies that will generate stable revenue, such as green hydrogen and corporate PPA, with a view to the period after the feed-in tariff system.

(d) Private Equity

The Company continues to focus on investing in startup companies in Japan and overseas from entrance points such as "intelligent technologies," "robotics," "technologies contributing to the realization of a hydrogen society," "electrification," "new materials," "carbon neutrality," and "SDGs." It is accumulating performance fees and further increasing the profitability of Private Equity by investing in carefully selected targets. Also, in FY3/24, the Company completed its first TOB via a fund. Going forward, its plans to increase AUM through TOBs via funds and to actively consider generating profits by selling shares at the time of relisting.

(e) New areas

The Group has designated energy (including hydrogen), healthcare, and fintech as new growth areas for a new era premised on the use of AI and plans to make further investments in these areas within the scope of a certain level of shareholder's equity and internal Group resources. In "energy," it is conducting various demonstration experiments on how to use hydrogen energy and realizing them in the form of a concrete business. It is also focusing on energy storage facilities as investment targets, as can be seen by the establishment of the SPARX Green Energy Storage System Fund. It is expanding the new energy areas with a focus on hydrogen and battery storage facilities. For healthcare as well, in FY3/24 it recorded profits in the form of a sale of equity interests. Going forward, it will continue to invest in these types of new areas and strengthen the fund business.

Medium- to long-term growth strategy

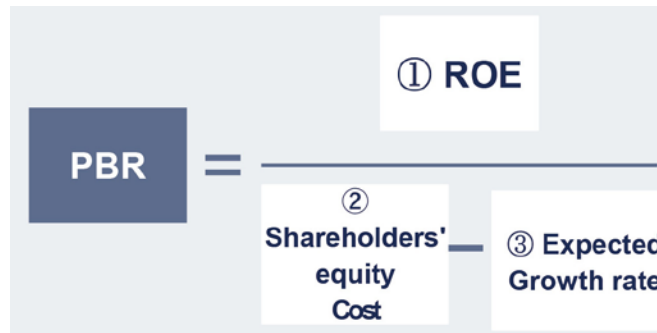
(f) Summary

Going forward, FISCO projects that Japanese Equity AUM will steadily increase and that it will also increase particularly in Private Equity and Real Assets. As discussed above, this is because Private Equity is able to find appealing startups that have been overlooked by investors through thorough company research and outstanding hypothesizing. Private Equity is expected to be highly profitable and it can discover appealing investment targets, which is why we think it is able to steadily raise funds from investors. It has newly established the Space Frontiers Fund II, so AUM can be expected to further increase. For Real Assets, systematically supported by the strengthening of developments such as the SDGs and decarbonization, it is anticipated the societal needs will grow more and more for renewable energy like solar power, wind power, geothermal power, and hydrogen energy. In addition to increasing AUM, the Company also plans to actively invest in projects that will generate high revenue, including geothermal and biomass projects, and this is expected to improve profitability.

(2) Responses to realize management that is conscious of capital costs and the share price

Following a request from the TSE, the Company has been conducting management that is conscious of capital costs and the share price, and it has stated that it will continue to work to further improve its corporate value. After breaking down PBR into three elements of ROE, the cost of shareholders' equity, and the expected growth rate, the Company is working to further improve ROE by expanding its existing strategies, reduce the cost of shareholders' equity, and improve the expected growth rate by introducing new investment strategies.

Breaking down PBR into three elements

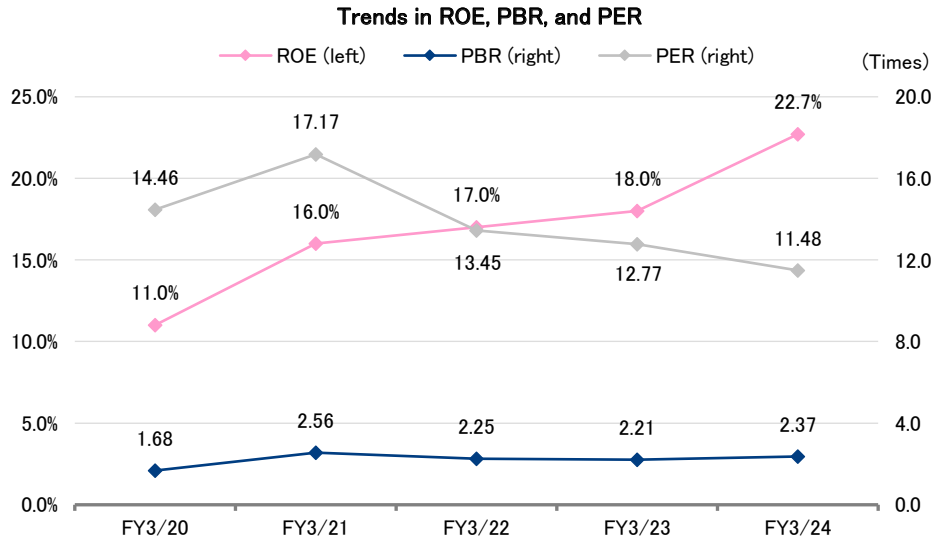


Source: The Company's results briefing materials

Looking at the Company's ROE, PBR, and PER in the previous 5 periods, ROE has trended at a level above the earnings rate required by shareholders (the Company's awareness of this is a cost of shareholders' equity of 9% to 12%), while PBR has trended stably at a level above 1x, and in FY3/24, ROE was 22.7% and PBR was 2.37x. The ROE and P/B ratios are already at acceptable levels, and it is aiming to further improve them by progressing the basic strategies mentioned above. Conversely, its PER of 11.48x (FY3/24) is below the average of the TSE Prime Market (18.3x). To improve its PER, the Company is strengthening efforts to take on challenges in new areas, so investors' expectations for profit growth in the future are rising. Also, it is thought it will pursue a growth strategy and further highlight its appeal to investors, including by further enhancing its information disclosure and holding briefings with investors. By further enhancing these IR activities, if it not only improves PER but also reduces investors' awareness of risk with regard to the Company, the cost of shareholders' equity can also be expected to decrease. In addition to these efforts to decrease the cost of shareholders' equity, by carefully explaining to investors aspects such as its high-level governance structure that utilizes the Company's independence, which is one its strengths, and its business model that generates both stable and high levels of revenue, it intends to remove any uncertainties that investors feel about the Company.

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Medium- to long-term growth strategy



Source: Prepared by FISCO from the Company's results briefing materials

Toward further improving corporate value, the Company has announced its Capital Allocation Plan (FY3/25 to FY3/27). With regard to investment in new businesses and seed investment in its existing strategies, the plan is to implement growth investment based on the amount of operating cash flow. Specifically, it anticipates investing ¥8.0bn (net amount based on investment recovery; calculated based on previous results). Investments from within the operating cash flow will maintain financial soundness while raising investors' level of expectation for profit growth. For shareholder returns, its policy is to continue to return profits to shareholders while considering financial stability and sustainability. The dividend total amount includes acquisitions of treasury shares, and it allocates a total of approximately ¥10.0bn to shareholder returns (calculated based on the recent shareholder returns' results). It is also further increasing ROE, PBR, and PER by actively conducting growth investment at the same time as aiming to enhance shareholder returns.

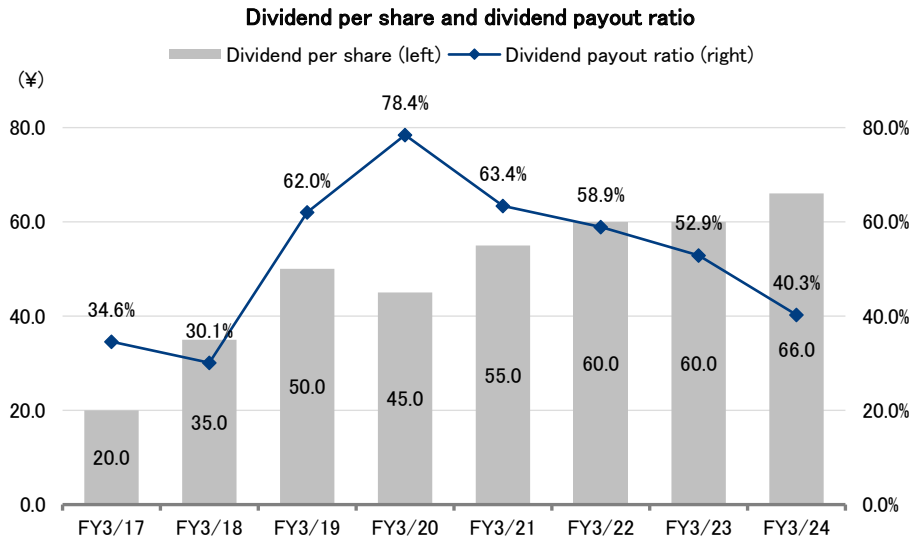
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Shareholder returns policy

Has maintained a high payout ratio; expected to continue shareholder return policy

The SPARX Group considers that returning profits, etc., to shareholders through an appropriate capital allocation, while also aiming for sustainable growth and the medium- to long-term improvement of corporate value, to be one of its important management issues. With regard to this, the Company has a basic policy of comprehensively considering performance trends, financial position, payout ratios and the timing and method of returns. Based on this policy, in FY3/23 it paid a dividend per share of ¥60.0 (dividend payout ratio, 52.9%). For FY3/24, based on the increase in base earnings and other factors, it will increase the dividend by ¥6.0 YoY for a record high dividend per share of ¥66.0 (dividend payout ratio, 40.3%). It is also actively acquiring treasury shares. Recently, in November 2023, it resolved to acquire treasury shares with an upper limit of 330,000 shares (¥500,000,000) and completed the acquisition of treasury shares in February 2024. So in addition to dividends, it seems the Company's approach is to enhance shareholder returns through actively acquiring treasury shares and other methods.

The FY3/25 dividend forecast has not yet been confirmed, as the Company has not disclosed results forecasts. But at FISCO, we think it will continue to be at a stable level as it has maintained a high dividend payout ratio in the past and also as results are forecast to trend strongly.



Note: Due to the implementation of a share merger in October 2022, figures before this time have been adjusted to reflect the effects of the share merger.

Source: Prepared by FISCO from the Company's financial results



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