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Review of Shareholder Return Policy and Measures to Improve Capital Efficiency

JAFCO Group Co., Ltd. (hereinafter "the Company") hereby announce that our Board of Directors has decided at a meeting held on November 25, 2022 to review our policy on shareholder returns and to implement measures to improve capital efficiency, as follows.

- Background leading to the decision (concerning the proposal by Mr. Yoshiaki Murakami and the Company's measures for enhancing shareholder value)

  The Company received a request from Mr. Yoshiaki Murakami, Ms. Aya Murakami, who are major shareholders of a group company of City Index Eleventh, Inc. (hereinafter "City"), which is a major shareholder of the Company, along with Mr. Hironao Fukushima, a representative director of City (hereinafter collectively referred to as "Mr. Murakami and others") to meet with us regarding our management strategy and capital policy. Since the initial meeting with Mr. Murakami and others on August 5, 2022, we have held discussions with Mr. Murakami and others about enhancing our shareholder value through IR briefings at our quarterly earnings announcements and exchanges of opinions.

  The Company had been discussing various options for measures to enhance shareholder value as one of its management issues for some time. Based on serious consideration of the proposal by Mr. Murakami and others to sell shares of Nomura Research Institute, Ltd. (hereinafter "NRI") and a share buyback using the proceeds from the sale as an option, we held a series of discussions with Mr. Murakami and others. In addition to the sale of NRI shares and the share buyback, we received proposals from Mr. Murakami and others during the said discussions that the Company should reduce its investment ratio in its funds, enhance shareholder returns, reduce its net assets, and pursue a thorough improvement in ROE. As these proposals from Mr. Murakami and others did not differ significantly from the issues we had previously recognized in terms of improving shareholder value, we continued to hold dialogue with Mr. Murakami and others and seriously considered the content of their proposals by referring to their opinions as valuable shareholder opinions. Having gained their understanding of our measures to increase shareholder value, which consist of the "Short-term measures" and "Medium- to long-term goals" described below, we have reached the conclusion with Mr. Murakami and others to enter into a tender agreement today, which has led to this announcement.

  The policy announced on August 15, 2022 regarding the Company's response policies to large-scale purchase actions, etc. of its shares will be abolished upon the commencement of the tender offer for the share buyback as described in 2. of the "Short-term measures" and the completion of the tender offer and the tendering of shares in accordance with the relevant tender agreement .

- <u>Short-term measures</u>

1. The Company will sell all its shareholdings (23,968,100 shares) in NRI.
2. The Company plans to conduct a share buyback through a tender offer using ¥42 billion out of the

after-tax sales proceeds of 1. above.

The Company will promptly cancel acquired treasury shares so that its treasury shareholdings will be 3% of the total number of issued shares.

*See "Notice Regarding Share Buyback through Tender Offer" released today.

3. The Company will change the basic dividend policy accordingly from "3% of shareholders' equity (average of beginning and end of period)" to "the greater of 3% of shareholders' equity (average of beginning and end of period) or 50% of net income."

   However, for the fiscal year ending March 31, 2023 only, the dividends will be the greater of the following. As a result, the total return ratio for the current fiscal year will be 100%.

   a. ¥100 per share
   b. Dividend per share calculated by deducting the amount of the share buyback to be conducted in 2. above from net income, including the gain on the sale of NRI shares.

4. In line with the share buyback through a tender offer in 2. Above, the Company will reduce the necessary funds for business continuity from ¥120 billion to about ¥60 billion (after deducting interest-bearing debts, accrued taxes, and expected dividend payments at the end of March of each fiscal year).
5. The Company will improve capital efficiency through the above measures.

- Medium- to long-term goals

1. In order to implement ROE management, the Company will set a 10-year management goal of reducing net assets from the current ¥188.8 billion to approximately ¥120 billion.
2. The Company has positioned further improvement in fund performance through stronger investment management capabilities and an increase in fund size through stronger external fundraising capabilities in line with expansion of target markets as the axes of its growth strategy.
3. The Company will aim to reduce its investment ratio in new funds from the current 40% to 20% in 10 years. Accordingly, it will gradually reduce the necessary funds and consider a share buyback of any excess funds.
4. By improving capital efficiency through the above measures, the Company will aim to increase the total return ratio, including the share buyback, to between 60% and over 100% and ROE to between 15% and 20%.

In addition to the above, the Company plans to provide opportunities for dialogue between independent directors and institutional investors regarding its future capital and dividend policies and investment activities that contribute to ESG and sustainability goals.

<Background>

Since 2017, the Company has taken measures for shareholder returns step by step as its investment performance and financial base improved significantly due to a shift in investment policy to highly selective, intensive investment. In February 2021, the Company established a "Policy on Future Shareholder Returns," and has so far bought back a total of ¥50 billion in treasury shares based on this policy.

Although these measures drove our share price higher, the effect was only temporary, and the current stock price has undershot the level that reflects our growth potential. Given the highly profitable nature of private equity investment management, we take this assessment very seriously as startups are attracting attention also in Japan. As a result of serious consideration of countermeasures for this situation, we have positioned improvement of capital efficiency and promotion of growth strategies as our basic policy for enhancing corporate value, while steadily maintaining a solid financial base to support our growth strategy.

Please refer to the Appendix on the following pages for the details.

Appendix

1. Sale of our shareholdings in NRI and a share buyback

   Regardless of market conditions and the investment environment, the Company has to date invested approximately 40% of its funds’ total capital commitments from its own capital in order to establish funds of a certain level.

   In February 2021, the Company established a "Policy for Future Shareholder Returns" and decided to maintain a total of ¥120 billion in cash and deposits and NRI shares as a means to ensure a financial base that enables it to continue investing under any circumstances and consider a share buyback when this amount exceeds a certain degree. Since then, it has bought back a total of ¥50 billion in treasury shares in accordance with this policy.

   As of the end of September 2022, cash and deposits and stock valuation of our NRI shareholdings (after tax) totaled ¥103.8 billion, of which NRI shares accounted for approximately 60%. With the aim of improving capital efficiency, we decided to sell all of our NRI shareholdings and use the sales proceeds, after deducting the necessary funds for business continuity, including investments in funds, over the next three years for a share buyback.

   We plan to cancel the acquired treasury shares promptly so that the number of treasury shares will be 3% of the total number of issued shares.

2. Revision of dividend policy

   In March 2017, the Company established a "Basic Dividend Policy" and set a target dividend payment of 3% of shareholders' equity (average of beginning and end of period). Given that we had established a solid financial base due to the recovery of investment performance since 2014, and taking into account that private equity investment is susceptible to stock market volatility to a certain degree by nature, we determined that this was a level that allowed us to continue to pay dividends regardless of our business performance.

   From the viewpoint of enhancing the alignment of the Company’s profits with interests of our shareholders, as well as our ongoing efforts on continued dividend payment, we have now decided to change the above dividend policy to the greater of 3% of shareholders' equity (average of beginning and end of period) or 50% of net income.

   However, for the fiscal year ending March 31, 2023 only, the dividends will be the greater of the following:

   a. ¥100 per share
   b. Dividend per share calculated by deducting the amount of the share buyback to be conducted in 1. above from net income, including the gain on the sale of NRI shares.

3. Enhancement of corporate value through improvement in capital efficiency and promotion of growth strategies

   ▪ Promotion of growth strategies

   The Company aims to realize its mission of “Commit to new business creation and jointly shape the future” by making venture and buyout investments through funds.

   Although there is a strong sense of uncertainty over the short term, social needs for venture and buyout investments are increasing. In order to leverage the market potential to the fullest to make our business grow, we will improve our investment management capabilities to allow sustainable improvement in fund performance and strengthen fundraising capabilities in line with expansion of target markets. We will promote growth strategies by continuing to strengthen our organizational foundation that supports such investment management activities with the aim of realizing a sustainable society.

▪ Improvement of capital efficiency

In fundraising, which is susceptible to market conditions, the Company has been ensuring an appropriate fund size by investing its own funds. As a result, our investment ratio in funds is currently around 40%. Going forward, while gradually increasing the size of new funds in line with growth in target markets, we will gradually reduce the investment ratio in the new funds to 20% over the next 10 years. This will allow us to keep the necessary funds below a certain level as well as to maintain the balance of operating investment securities, while aiming to achieve a high level of capital gains. As an investment management company, we will pursue a unique investment management business model that enables us to earn stable management fees while continuing to generate high profitability.

We predict that the necessary funds required for continued investment will decrease as the Company gradually reduce its investment ratio in the new funds. In addition to the aforementioned revision of the dividend policy (the greater of 3% of shareholders' equity (average of beginning and end of period) or 50% of net income), we plan to further reduce the announced ¥60 billion in necessary funds (after deducting interest-bearing debts, accrued taxes, and expected dividend payments at the end of March of each fiscal year) in stages and allocate the excess amount for share buybacks.

The implementation of the aforementioned measures is expected to change our earnings structure and significantly improve capital efficiency. In the medium- to long-term, we will aim to raise the total return ratio, including the share buybacks, to between 60% and over 100%, and ROE to between 15% and 20%.

4. Significance of being listed

As an investment management company, the Company manages funds while making certain investments in these funds. Although high capital gains can be expected from fund investments, it is difficult to predict cash flow and is possible that fund procurement will be required for continued investment. This possibility will become more likely as our cash on hand will decrease due to the aforementioned measures. We believe that being a publicly listed company allows us to take advantage of more diverse financing opportunities in such cases.

In 1982, before going public, the Company established Japan's first venture capital fund (investment partnership), and as a pioneer in venture investment and buyout investment, we have been supplying risk money to unlisted companies. While being a going-concern listed company, we have introduced a partnership model whereby individual partners also assume fund management responsibility.

The Company will stablish an organizational foundation that ensures stable succession of management and human resources by improving governance as a publicly listed company, which is an open business entity, and continue to contribute to the realization of a sustainable society through its investment activities into the future.

The Company will work harder than ever to meet the expectations of shareholders as a listed company by enhancing capital efficiency and significantly improving ROE and the total return ratio through the measures announced today.

Goals of our financial structure, capital efficiency and shareholder returns
(As of the end of September 2022)

Unit: ¥Billions

Fund size, etc.	Present	After this shareholder return	Medium-to-long term (5-6 yrs)	Long-term (after about 10 yrs)
Total funds under management (AUM) [1]	387.7	387.7	570	670
Amount subject to management fees [2]	167.2	167.2	310	420
Annual management fees [3]	3.3	3.3	6.2	8.4
New fund size [4] (Japan/U.S./Asia total)	150	150	220	250
JAFCO's investment ratio in new funds [5]	40%	40%	25%	20%

Financial structure	Present	After this shareholder return	Medium-to-long term (5-6 yrs)	Long-term (after about 10 yrs)	
Cash and deposits	43.5	60	40	35	Necessary funds
NRI (after tax)	61.2	-	-	-	
Operational investment securities (incl. listed shares/after markdown)	89	89	95	85	
Net assets Approx.	190	145.3	135	120	

Profit level and capital efficiency	Present*	After this shareholder return	Medium-to-long term (5-6 yrs)	Long-term (after about 10 yrs)
Net income	11	11	16 - 20	22 - 25
ROE	6%	8%	Approx. 15%	Approx. 20%

*5 yr average excl. extraordinary gain/loss

Shareholder returns				
Total return ratio [6]	31-286%		60- over100%	60- over100%

Notes:
1. AUM: Total commitments to all funds managed by the Company in Japan, Asia, and the U.S.
2. Amount subject to management fees: Amount of the portion of AUM that generates management fees (AUM minus JAFCO’s interests in funds, etc.)
3. Annual management fees: Amount subject to management fees x 2%.
4. New fund size (Total of Japan, Asia, and U.S.): Total commitments to our funds established about once every 3 years in Japan, Asia, and the U.S
5. Investment ratio in new funds: Ratio of the amount the Company invests in its funds established about once every 3 years in Japan, Asia, and the U.S. to the funds’ total commitments
6. Total return ratio: Ratio of the sum of annual dividend payments and share buybacks to net income