

# Creating sustainable value

## Increasing Corporate Value by Enhancing Profitability and Strengthening the Financial Base

In the fiscal year ended March 31, 2014, the SBI Group set a new record for operating revenue, where every business segment achieved increases in revenue and income. Further efforts will continue to increase the corporate value of the SBI Group, by enhancing profitability and strengthening the financial base, specifically through a rigorous business selection and concentration process.



Representative Director, President & CEO

**Yoshitaka Kitao**

# “The SBI Group achieved significant increases in revenue and income in FY2013, resulting in a record high operating revenue.”

The business environment surrounding the SBI Group improved dramatically during the fiscal year ended March 31, 2014 (FY2013), as a result of the positive effects of the fiscal and monetary policies of the Japanese government and the Bank of Japan, perhaps better known as Abenomics, which corrected the strong yen and bolstered the stock market.

Above all, owing to a combination of an increase in expectations for an escape from deflation and the easing of margin trading regulations in January 2013, a sharp increase in trading volume on Japan's stock markets followed, which had an inordinate impact on investments and securities-related businesses, where the total individual stock brokerage trading value for Japan's major stock exchanges (Tokyo and Nagoya) was recorded at 2.4 times the level of the previous year. Additionally, the domestic IPO activity continued to recover, with the number of IPOs totaling 53 (excluding TOKYO PRO Market listings), which was one more than the previous year. Meanwhile, in the overseas markets, despite the uncertainties of the impact of a quantitative easing contraction in the U.S. and the uncertain economic prospects of some emerging market countries, the stock markets of the major countries held firm with a shift toward a recovery in the number of IPOs.

Under these circumstances, the SBI Group recorded substantial increases in revenue and income on a consolidated basis for FY2013. Since the International Financial Reporting Standards (IFRSs) was adopted in FY2012, a comparison on a year-on-year basis is now possible. Operating revenue (equivalent to net sales) increased by 50.9% on a year-on-year basis to ¥232.8 billion, which is a record high, even when compared to previous fiscal years when results were disclosed in accordance with Japanese accounting standards (JGAAP).

Although operating income did not exceed the record high of ¥49.6 billion in FY2005, as a result of the sluggish growth in the Asset Management Business' performance through the fiscal year-end,

## Average Daily Individual Brokerage Trading Value\* / End-of-month Nikkei Average





which factors will be discussed later, operating income increased sharply by 142.9% to ¥42.2 billion, resulting in a substantial growth for all business segments. Profit attributable to owners of the Company surged to ¥21.4 billion, or approximately 5.6 times the previous year level.

Referencing business performance by segment, in the Financial Services Business, SBI SECURITIES, SBI Japannext, SBI MONEY PLAZA, Morningstar Japan, and SBI Sumishin Net Bank (an equity method associate) recorded record high income, while SBI FXTRADE and SBI SSI achieved full-year profitability for the first time, resulting in a positive segmental performance. As a result, profit before income tax expense for the Financial Services Business increased 99.0% year-on-year to ¥37.3 billion.

In the Asset Management Business, although factors such as a buoyant IPO market and an upturn in stock prices drove a sharp increase in business performance, the share prices of the Group's bio-related portfolio companies that completed IPOs during FY2013 fell precipitously in the fourth quarter, resulting in a significant fair value valuation loss. As a result, full-year profit before income tax expense was limited to a 43.6% year-on-year increase to ¥9.0 billion.

### Main Financial Service Companies that Achieved Record High Profits

● SBI SECURITIES	Historical record highs in all profit categories
● SBI Japannext	Achieved operating profitability of 3.9 times year-on-year
● SBI FXTRADE	Achieved a full-year operating profitability in the second year since its establishment
● SBI MONEY PLAZA	Achieved operating profitability for two consecutive years since its establishment
● Morningstar Japan	Achieved an increase in profit for the tenth consecutive year on a parent-only basis
● SBI Insurance (after adopting IFRSs)	Significantly decreased deficits by ¥1.1 billion year-on-year
● SBI SSI	Achieved first full-year operating profitability since its establishment
● SBI Sumishin Net Bank	Significantly exceeded previous record high

Although the Biotechnology-related Business did not achieve full-year profitability owing to a slippage of the planned partial receipt of a contingency fee into FY2014 or later, loss before income tax expense improved by ¥1.5 billion year-on-year to ¥2.4 billion.

Since its establishment in 1999, the SBI Group has achieved dramatic growth in a diverse range of financial businesses. Even during the prolonged adverse business environment that ensued upon the collapse of Lehman Brothers in 2008, forward-looking business strategies were implemented, such as the rigorous pursuit of the development of a financial ecosystem and Group synergies, along with the acceleration of the overseas business development to become the “World’s SBI,” and the “Brilliant Cut Initiative” to boost profitability.

The SBI Group will focus on the following initiatives in FY2014 to drive further sustained growth.

### **Enhance profitability through rigorous pursuit of synergies within the domestic financial ecosystem**

In the Financial Services Business segment, where securities, banking and insurance are the three core businesses, the SBI Group will thoroughly pursue synergies as leverage to bolster its profitability, and will utilize big data to accomplish this task. By consolidating, analyzing and strategically utilizing a variety of data held by the Group companies as “group big data,” the continued enhancement of customer satisfaction and an expansion of the customer base will be undertaken.

In the first quarter of FY2014, SBI Insurance, the core company in the field of insurance which is one of the three core businesses in the segment, along with securities and banking, achieved its first quarterly operating income since the start of business operations in January 2008. The company will continue to pursue an improvement in the combined ratio, a measure of profitability, and will expand and upgrade its product offerings, with the objective of achieving full-year profitability on an IFRS basis in FY2015.

Additionally, the SBI MONEY PLAZA shop network, which offers face-to-face consultation on financial matters, will be further expanded. The SBI Group, which has utilized the Internet as its main channel to provide financial products and services, will thoroughly utilize this shop network as a common infrastructure in its pursuit to become Japan’s largest financial products distributor, by promoting the integration of its online and face-to-face services.

### **Pursue overseas expansion of the investment and financial services businesses through collaboration with prominent local business partners**

The Group’s overseas investment business is experiencing an increase in the entrustment of funds from government affiliated institutions. SBI Ven Capital’s fund that was launched in August 2014 was selected to be awarded funding from the National Research Foundation (NRF), a Singapore government agency. Also, SBI Investment KOREA was entrusted by South Korean government affiliated institutions to manage a total of five funds beginning January 2014.

Additionally, those networks, which were primarily developed in Asia through the investment business, are being utilized to engage in financial services businesses in collaboration with leading local partners. For example, in China, a preparatory company for the joint development of an online financial business in the China (Shanghai) Pilot Free Trade Zone was established in partnership with the Lujiazui Group and the New Hope Group.

### **SBI Biotech IPO and the acceleration of the overseas development of the 5-ALA related business to reach early profitability**

In the Biotechnology-related Business, SBI Pharmaceuticals is accelerating the overseas development of the sales and the research and development of 5-ALA related health foods and pharmaceutical products. Additionally, SBI Biotech is developing new medical treatments and pharmaceutical products that utilize leading-edge biotechnologies, in partnerships with leading research institutions in a number of countries, and is currently preparing for a near-future IPO.

# We are working to improve ROE through rigorous cash flow management.

## Brilliant Cut Initiative:

In the Brilliant Cut Initiative, the “58-facet brilliant cut” that produces the highest brilliance in a diamond symbolizes the 58 major business units of the SBI Group’s corporate ecosystem. With the objective of producing the highest brilliance as a Group, the SBI Group is shifting its management emphasis from the initial Group-wide expansion phase to a profitability phase.

## Generate cash flow and strengthen the financial base through business selection and concentration

The SBI Group articulated the “Brilliant Cut Initiative” concept in July 2010 and has implemented a shift from the previous prioritization of business scale expansion to a management emphasis on profitability. In March 2012, the third phase of the “Brilliant Cut Initiative” was engaged, where the focus is on rigorous business selection and concentration.

The basic selection and concentration policies are as follows.

- The Financial Services Business, Asset Management Business, and Biotechnology-related Business are defined as the three major businesses. As a general rule, regardless of their profitability, businesses and companies involved in other fields should be sold, integrated with other Group companies, or IPO’d.
- In the Financial Services Business, based on the presence of synergy or degree of synergy with one of the three core businesses of securities, banking, and insurance, management resources will be applied only to those businesses that provide meaningful synergy.
- Overlapping businesses will generally be consolidated.

In accordance with these policies, all shares of SBI VeriTrans (currently VeriTrans) were sold, the entire stake in the Wall Street Journal Japan were transferred to Dow Jones & Company, Inc., and all shares of SBI Capital Solutions, including the Group’s equity interest in funds managed by it, were transferred. Through these transactions, a total of more than ¥20.0 billion were recovered since March 2012. Furthermore, IPOs of subsidiaries that are not expected to generate strong synergies with the three core businesses are being actively prepared, and SBI AXES was listed on the KOSDAQ Market of the Korea Exchange in December 2012. Additionally, with reference to SBI Mortgage, owing to the June 2014 tender offer announcement by The Carlyle Group to acquire its shares, the SBI Group has decided to tender its entire stake.

The cash generated through such divestitures, initial public offerings or intra-group restructuring of non-core businesses will be utilized to strengthen the core businesses, and to reduce the high interest rate bearing debt to strengthen the financial base.

A focus on increasing the return on shareholders’ equity (ROE) will be made. Although the Company’s ROE reached 6.8% in FY2013, during the period before the global financial crisis, from FY2003 to FY2006, the average ROE was recorded at a significantly high level of 20.7%. Going forward, the initial target ROE will be 10%, and upon reaching that initial target, a return to pre-crisis ROE levels will be endeavored.

In July 2014, the SBI Group recognized its 15th anniversary. Moving forward, various policies and measures will be implemented to allow the organization to continue to grow in the medium-to-longer term to effect an increase in its corporate value, while reaffirming its corporate mission and organizational DNA that the SBI Group will bequeath as a legacy for its future. The continued support of the stakeholders will be greatly appreciated, as the SBI Group will continue to undertake new challenges.

Yoshitaka Kitao  
Representative Director, President & CEO