

## Message from the Chief Financial Officer

# The SBI Group Decisively Advances Forward on the Occasion of Its 20th Anniversary, by Terminating Underperforming Legacy Operations

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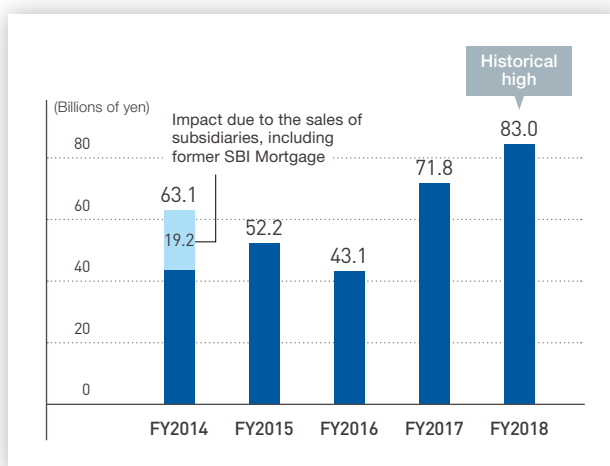


## Summary of FY2018 Financial Results

The fiscal year ended March 31, 2019 (FY2018) was a year in which the Group's adherence to a basic policy of the "Customer-centric Principle" and establishment of a business ecosystem produced positive results, leading to the achievement of record-high financial results on the occasion of the SBI Group's 20th anniversary. It was also a year in which we sought to reduce future risks by taking decisive measures to address unresolved issues in preparation for future sustained growth.

The business environment that the SBI Group faced was characterized by a heightened sense of uncertainty about political and economic circumstances worldwide, owing to factors such as the growing concern about the slowing of the Chinese economy due to the trade friction between the U.S. and China, and the bogging down of Brexit negotiations in the U.K. In the equity markets, which substantively influences our investment and securities-related businesses, there was a marked tendency for investors to avoid risk, especially in the emerging markets, leading to weak stock prices from October 2018 onward, accompanied by an increase in the U.S. long-term interest rates. As a result, the total domestic individual stock brokerage trading value of the two markets\* declined 16.3% year-on-year.

## Consolidated Profit Before Income Tax Expense (IFRSs) for the Past Five Fiscal Years



\* Japanese stocks listed on the Tokyo Stock Exchange and Nagoya Stock Exchange (including TSE Mothers, JASDAQ and NSE Centrex)

Even under such circumstances, in FY2018 the SBI Group achieved record-high consolidated business performance on an International Financial Reporting Standards (IFRSs) basis, with revenue up 4.3% year-on-year to ¥351.4 billion, profit before income tax expense up 15.6% year-on-year to ¥83.0 billion and profit attributable to owners of the Company up 12.6% year-on-year to ¥52.5 billion, which were all record highs since the adoption of IFRSs. The Group recorded impairment losses in FY2018, as it did in FY2017, for a total amount of approximately ¥9.7 billion. The fact that the Group was nevertheless able to achieve record-high profits is evidence that the basic earning capacity has increased, and that the Group can expect sustained growth, albeit some ups and downs owing to the market environment.

In the Financial Services Business, SBI SECURITIES, a pillar of the SBI Group's revenue, achieved record-high results in all profit categories, including operating revenue. Steady growth continued in the retail business with continuing increases in the number of accounts and customer deposit assets. Also, a breakdown of operating revenue shows that, with trading gains, primarily in the FX business, and underwriting, subscription and distribution commissions from the corporate business increasing, revenue other than brokerage commissions is also continuing to grow. In addition, SBI Sumishin Net Bank has made steady progress in the Financial Services Business, outside of the securities business, having achieved a substantial increase in profits, owing to growth in the balance of housing loans and other factors, and companies involved in the insurance-related businesses saw satisfactory increases in their numbers of policies in force. Overall, revenue rose 5.5% year-on-year to ¥229.2 billion, and profit before income tax expense increased 4.2% year-on-year to ¥66.6 billion.

In the Asset Management Business, SBI SAVINGS BANK of South Korea continues to support overall performance, and is achieving sustained growth, as indicated by a 24.6% year-on-year increase in profit before income tax expense. In addition, profit from a change in fair value of investee companies and profit on sales of investment securities of the Fintech Fund, SBI AI&Blockchain Fund and other funds remained at high levels, as experienced in FY2017. By FY2018, seven investee companies from the Fintech Fund, established in December 2015, carried out successful exit strategies, including IPOs, and have already shifted to the monetization phase. These strong results owe to the fact that SBI's venture capital funds are actively discovering startup companies with leading-edge technologies such as fintech, AI and blockchain, and have focused their investments in these growth fields. As a result, overall revenue rose 0.9% year-on-year to ¥118.6 billion, and while profit before income tax expense fell 9.5% year-on-year to ¥51.1 billion, it exceeded ¥50.0 billion for the second consecutive year.

**For the second consecutive year, the SBI Group achieved record-high profits by increasing basic earnings capacity, despite recording certain impairment losses**

In the Biotechnology-related Business, revenue decreased 11.2% year-on-year to ¥3.7 billion, and loss before income tax expense was ¥19.2 billion (loss of ¥37.3 billion in FY2017). Loss before income tax expense includes impairment losses of approximately ¥2.9 billion for Quark Pharmaceuticals, which is preparing for an IPO on the NASDAQ Market in the U.S., and approximately ¥4.6 billion for an equity method associate Kubota Pharmaceutical Holdings. We believe that future risk has been reduced, owing

to the recording of impairment losses as a result of a review of the pipeline development plans of both companies. SBI ALApromo steadily increased profits by expanding sales of products including foods with functional claims containing 5-ALA. In addition, photonamic, a pharmaceutical company based in Germany that sells in-house developed pharmaceuticals containing 5-ALA in Europe and North America, increased its sales and continues to be profitable. As a result, the Biotechnology-related Business as a whole is steadily progressing toward profitability. As a part of pursuing the "selection and concentration" process within the Biotechnology-related Business, the Group divested its shareholding in Kubota Pharmaceutical Holdings in May 2019.

## Focused Investment of Management Resources in Growth Fields to Seek Further Growth

The SBI Group's current fields of focus include investments and business development in the fintech-related fields for the Financial Services Business and Asset Management Business, as well as the digital asset business, centered on crypto-assets (cryptocurrencies) and blockchain. Furthermore, despite the fact that R&D expenses, primarily at Quark Pharmaceuticals in the U.S., are a financial burden to the Biotechnology-related Business, there is the potential to generate substantial income, depending on the results of those R&D activities.

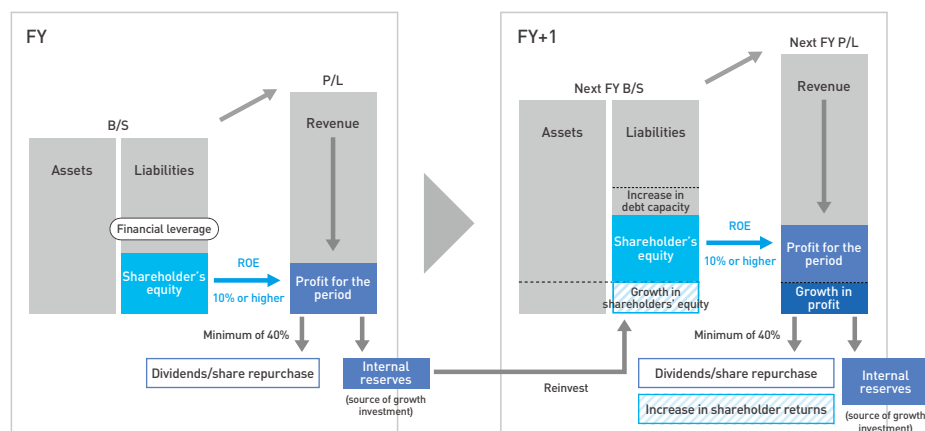
The SBI Group is developing various businesses, such as the Financial Services Business, Asset Management Business and the Biotechnology-related Business, but our basic policy for building these portfolios is to fulfill our role as a "Financial Innovator" and "New Industry Creator," as defined in our corporate mission, through focused investments in fields that are likely to grow to become core industries of the 21st century.

In fact, areas in which the Group has made focused investments to date are industries and sectors with high latent growth potential—such as the Internet and mobile-related businesses, financial businesses in high-growth countries in Asia, bio-related businesses—and more recently, fintech, AI, blockchain and digital assets, and the funds that we have established in the venture capital business are specific to these investment themes. Funds managed and operated by SBI Investment are the Group's primary investment entities, performing the role of pursuing and

## Stance on Shareholder Returns and Growth Investments

The Company secures a stable supply of funds through sustained business growth, and accumulates internal reserves to make further investments in growth fields, while returning a portion of these funds to its shareholders.

By coordinating the invested capital to attain ROE that exceeds shareholders' expected return ratio (the cost of shareholders' equity), we accomplish profit growth, dividend increases and an increase in capital in preparation for further growth investments.



discovering promising investee companies. When the technologies or products and services of such companies offer promising synergies with the SBI Group, we may proceed beyond a mere investment to steps such as business alliances with SBI Holdings or Group operating companies, to directly invest in and develop closer relationships with those investee companies.

The digital asset business is a field of focus, and in this field, companies affiliated with SBI Digital Assets Holdings engage in businesses involving crypto-asset mining, and funds that incorporate crypto-assets. The SBI Group has been involved with businesses handling crypto-assets since 2016, and today we are involved in most of the business fields necessary for building an ecosystem on a foundation of crypto-assets and other digital assets. Going forward, we will engage in business activities in these fields and enter the monetization phase. One of the SBI Group's strengths is the ability to quickly build an ecosystem for an emerging growth area. In the digital assets field, we will thoroughly pursue synergies within our existing financial ecosystem, with the expectation of monetizing this field at an early stage, owing to synergies with the Group companies.

### Financial Management that is Cognizant of the Cost of Shareholders' Equity

When we engage or invest in new businesses, we are mindful of

the capital cost. Since the SBI Group has set an ROE target of 10%, the first consideration is whether or not a business offers the profit potential to meet this target over the medium- to long-term period.

The Group continues to maintain ROE at a level above 10%, reaching 11.9% in FY2018, following that of 11.6% in FY2017.

We will continue to work to increase profits while making effective use of a certain level of financial leverage, and pursue business growth on the basis of capital efficiency.

Profit before income tax expenses has increased in each of the past three fiscal years, reaching a record high for a second consecutive year in FY2018, and is approaching our near-term target of ¥100 billion. We have secured necessary business capital through the continuous growth of individual businesses and accomplished overall Group growth, while reinvesting capital recovered through business "selection and concentration" in new growth fields. We will continue to carefully examine our businesses, taking into account factors such as return on investment (ROI), return on equity

(ROE) and the degree of impact on Group internal synergies, to make decisions on business entry, continuation or withdrawal, with a focus on businesses offering prospects for higher profit growth potential.

Through the business "selection and concentration" process, recovered capital will be reinvested in growth fields such as digital assets

## Shareholder and Investor Engagement Activities

Analysis of SBI Holdings' shareholder composition as of March 31, 2019 indicates that the total shareholding ratio of Japanese and foreign institutional investors is above 70%, with the shareholding ratio of foreign investors at a high level exceeding 40%. Major foreign institutional investors include Baillie Gifford, a company based in Edinburgh, Scotland, with a hundred-year history, JPMorgan Asset Management, an affiliate of JPMorgan Chase, and J.O. Hambro Capital Management, a U.K.-based asset management company. We consider it a great honor that the SBI Group is valued by the world's leading institutional investors. Through proactive engagement in IR activities, we are endeavoring to build and maintain an excellent relationship with these investors. Also, in order to meet the expectations of various stakeholders regarding the medium- to long-term growth of the SBI Group, we will enhance information disclosure, emphasizing transparency, fairness and continuity, and increase opportunities for constructive dialogue with our shareholders and investors.

We will continue to provide shareholder returns while considering the balance between shareholder returns and funds necessary for business growth. Although we have set a clear guideline of a minimum total shareholder return ratio of 40%, as calculated by the sum of the total amount of dividends and the amount of share repurchases, beginning in FY2018, we have incorporated into our basic policy on shareholder returns the possibility of adjusting the return ratio according to the level of fair value gains

and losses from operating investment securities, which does not involve cash flow. Having taken this into account, in view of the achievement of record-high profits since the introduction of IFRSs and the milestone of the SBI Group's 20th anniversary on July 8, 2019, we have declared an annual dividend for FY2018 of ¥100 per share (consolidated dividend payout ratio of 43.2%), including a 20th anniversary commemorative dividend of ¥5. Also, since the Company conducted share repurchases in the amount of approximately ¥19.4 billion from November 2018 to January 2019, the total shareholder return ratio for FY2018 was 80.7%. The Company will continue to actively provide shareholder returns while undertaking business expansion, remaining mindful of financial management that strikes a balance between growth and returns.

**As we work to meet expectations for medium- to long-term growth, we will increase opportunities for constructive dialogue with our shareholders and investors**

### Major Shareholders

Institutional investors	Shareholding ratio
Baillie Gifford	14.43%
JPMorgan Asset Management	8.04%
J.O. Hambro Capital Management	6.57%
Nomura Securities	5.49%
BlackRock	5.49%

Note: Prepared by the Company based on large shareholding reports (as of June 30, 2019)

### IR Activities (FY2018)

Activity	Times	Activity content
Financial results briefing for institutional investors and analysts	4	Financial results briefing held quarterly focused on financial performance and outlook
Non-deal road shows for overseas institutional investors	3	Meetings for overseas institutional investors conducted by the President and Executive Officers
Small meetings for domestic institutional investors	2	Small meetings for domestic institutional investors held semi-annually and conducted by the President and Executive Officers
Meetings for individual investors	6	Meetings held semi-annually in Tokyo, Osaka and Nagoya (from FY2019 also will be held in Yokohama and Fukuoka)
Current Management Information Briefing for shareholders	1	Briefing held shortly after the General Meeting of Shareholders every June
Individual meetings for institutional investors and analysts	As required	Meetings held as needed upon request from domestic and overseas institutional investors and analysts
Uploading of IR materials and videos to the Company website	As required	Posting of timely disclosure materials including financial results, press releases, videos, and information on CSR activities