

Annual Report 2019

Year ended March 31, 2019



OAK
CAPITAL

Oak Capital Corporation

Message from the CEO

To our shareholders:

I would like to take this opportunity to sincerely thank all of you for your continued support. I hope you continue to enjoy good health and prosperity in the years to come.

In addition to building a robust investment banking business, Oak Capital followed its acquisition of an asset management company with that of a securities company in March 2019 as part of its management strategy of changing course and heading toward the diversification of its finance business. As a result, the Company has established a system capable of providing a wide range of financial services in three business fields: investment banking, securities and asset management.

Today, amid the increasing importance of the corporate value improvements required of listed companies, the environment in which Oak Capital operates is characterized by, for example, stock market fluctuations brought about by the global economic slowdown and market reviews of listed companies promoted by the Tokyo Stock Exchange. In the years ahead, the roles of investment banking and securities business in the management strategies of listed companies, such as in capital policy, the reorganization of industry, and M&A, will further gain in importance. While private and corporate fund management continues to be beset with difficulties due to the Bank of Japan's negative interest rate policy, the expectations are that the market for the asset management business field that undertakes fund management will increase in size and that there will be burgeoning demand.

As, historically, an independent investment bank, Oak Capital actively conducted risk investment, such as equity finance underwriting business, growth support investment and business revitalization investment, for listed companies in and outside Japan and achieved a certain degree of success. From now on, however, the Company will focus on emerging markets and companies listed on small and medium-sized enterprise stock exchanges while providing financial services for the purpose of improving corporate value, such as capital market investment banking and securities business as well as M&A advisory services. In our securities and asset management businesses, we will manage funds for individuals and corporations as well as form investment, IPO and other funds, while developing as an investment bank with securities and asset management functions capable of handling a wide range of fields.

Also from now on, we will further reinforce our core management strategy of growth, profitability and stability, as we continue to make investments aiming at increasing both the corporate value and shareholder value of our recipient companies.

In grateful anticipation of your ongoing support and patronage.

Hiroyasu Takei

Representative Director, Chairman and CEO

June 2019

Business highlights

Business Results Summary

The non-consolidated business results we have booked in the last business term (April 1, 2018 – March 31, 2019) are as follows: operating revenue (sales): 2.174 billion JPY (61.5% decrease vs. last year); operating loss: 863 million JPY (against operating income of 1.55 billion JPY last year); ordinary loss: 757 million JPY (against ordinary income of 1.38 billion JPY last year); net loss: 1.071 billion JPY (against net income of 1.112 billion JPY last year). Our net assets decreased by 1.94 billion JPY vs. last year to 7.879 billion JPY, and our total assets decreased by 2.155 billion JPY vs. last year to 8.109 billion JPY.

Our consolidated business results are as follows: operating revenue (sales): 2.23 billion JPY (60.6% decrease vs. last year); operating loss: 906 million JPY (against operating income of 1.549 billion JPY last year); ordinary loss: 957 million JPY (against ordinary income of 1.154 billion JPY last year); and loss attributable to owners of parent company: 979 million JPY (against profit attributable to owners of parent company of 886 million JPY last year).

In the fiscal year under review, there were major factors exerting downward pressure, such as the uncertain global economy and the trade friction between the United States and China, thus the domestic stock market trended downward over the second half, and stock prices stagnated. Consequently, since the Company's investment banking business was also affected, new investments and returns on investment were held over to the current fiscal year, resulting in significant decreases in income and profit compared with the previous fiscal year.

Growth Strategy

With regard to the external environment surrounding investment banking, which is a core Oak Capital business, it is thought that there will be a surge in corporate activities geared toward unprecedented growth and expansion because of the rising awareness of the need to improve corporate value. Leveraging our underpinning predominance due to the combination of equity financing underwriting and growth strategies, we will focus on listed companies in emerging markets and small and medium-sized stocks, while proactively working on new investment projects.

In addition to realizing sustainable growth, we will encourage the creation of innovative investment structures to build a stable earnings framework and a robust financial position. Developing our three businesses—investment banking and securities as well as asset management—we will target becoming a finance business group that is sought after and trusted by the markets.

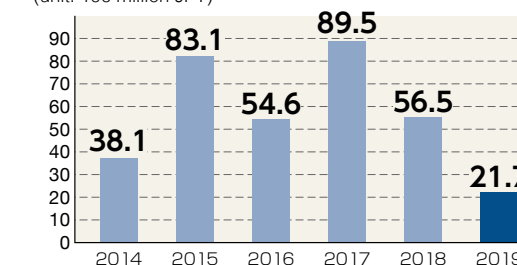
IR Programs

Aiming to foster interest in our business and investments as well as in our programs geared toward institutional investors, we also take part in IR events organized by the Tokyo Stock Exchange and large media outlets, creating opportunities to communicate with individual investors.

Business Results (non-consolidated)

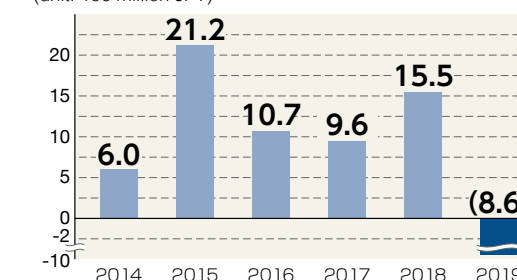
Operating Revenue (Sales)

(unit: 100 million JPY)



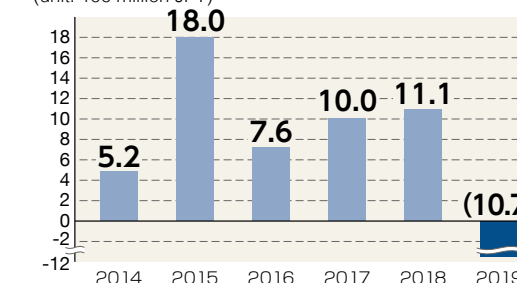
Operating Income

(unit: 100 million JPY)



Net Income

(unit: 100 million JPY)

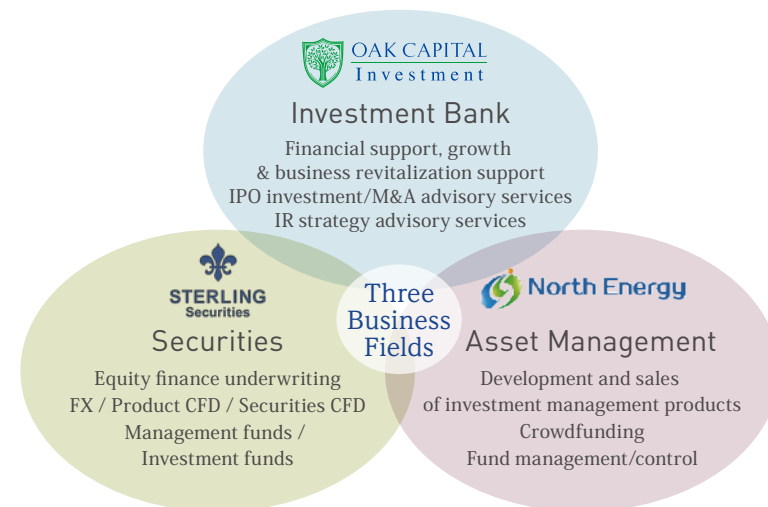


Overviews of Oak Capital's three businesses

Promoting Finance Business Diversification toward Becoming a Comprehensive Finance Business Group

As an independent investment bank, Oak Capital has been playing a number of important roles, such as in providing financing support through its assistance in the issuing of new shares conducted by listed companies in Japan and overseas, in M&A associated with business growth strategies, and in providing support and advice for financial strategies. Aiming to become a financial group that is further trusted and sought after by the markets and society, we are promoting the diversification of our finance business.

March 2019	Enters securities business by acquiring 100% of Togaku Securities Co., Ltd. (now Sterling Securities Co., Ltd.)
April	North Energy Inc. made consolidated subsidiary to develop asset management business
May	Three-business system established (investment banking, securities and asset management businesses)



Investment Banking Business



Oak Capital Investment Co., Ltd.

Address: 6F South Building of Sumitomo Fudosan Aoyama Building, 8-10-24, Akasaka, Minato-ku, Tokyo, JAPAN
Representative: Fuyuki Makino Representative Director

As a core company of the Group, we will develop investment banking and asset management operations in collaboration with Sterling Securities and North Energy.

In investment banking business operations, we share all the risks with companies and work toward solving management and business issues and achieving growth. Targeting companies listed on emerging markets and small and medium-sized stock markets, Oak Capital's investment banking business will provide wide-ranging advisory services, including equity finance investment operations, geared toward improving corporate value.

Business Outline

Investment Banking Business

(Investment Banking Business for Listed Companies)

- ◆ Equity finance investment
- ◆ Structured financing
- ◆ Growth strategy advisory services
- ◆ Business revitalization advisory services
- ◆ Financial strategy advisory services
- ◆ IR strategy advisory services
- ◆ M&A advisory services
- ◆ IPO support services

(Investment Business)

- ◆ IPO investments
- ◆ Value-raising investments

Asset Management Business

- ◆ Asset management for investors
- ◆ Development of asset management products for North Energy
- ◆ Formation of investment funds for investors

– Corporate Value Required of Listed Companies–

Financial Value

- The monetary value of a company, the monetary value generated by a company
- Net income, net assets, market capitalization, future value

Social Value

- Solving of social issues through business activities
- Social contributions, such as environmental conservation and donations

Shareholder Value

- Monetary value attributable to shareholders
- Market capitalization, dividends, stock prices, liquidity

Business Value

- Monetary value derived from corporate business activities
- Future value generated by business

Overviews of Oak Capital's three businesses

Securities Business



Sterling Securities Co., Ltd.

Address: 30F Kasumigaseki Building, 3-2-5 Kasumigaseki, Chiyoda-ku, Tokyo, JAPAN
Representative: Takashi Inujima Representative Director and President

The roles demanded of a securities business are to develop the high-quality financial products sought by investors—even when there is a risk of a slowing down in the global economy or in an era of low interest rates—and to provide stable investment products; these form the mission of a securities company.

Going forward, in addition to the securities business, we will expand into the investment banking and asset management businesses. As we provide fund management for domestic institutional investors and financial institutions, we are proceeding with negotiations on business tie-ups with European banks and will strive to enhance our asset management products overseas.

Business Outline

Securities Business

- (Products Offered)
 - ◆ FX: 8 currencies; product CFD: 7 types; securities CFD: 6 types
- (Fund Formation)
 - ◆ Growth stock funds ◆ IPO funds
 - ◆ Natural energy funds ◆ Business revitalization funds
- (Overseas Business)
 - ◆ Fund management by European partner banks

Investment Banking Business

- (Investment Banking Business for Listed Companies)
 - ◆ Equity finance investment business
 - ◆ Structured financing business
 - ◆ Growth strategy advisory services
 - ◆ Business revitalization advisory services
 - ◆ Financial strategy advisory services
 - ◆ IR strategy advisory services
 - ◆ M&A advisory services ◆ IPO support services
- (Investment Business)
 - ◆ IPO investments ◆ Value-raising investments

Asset Management Business

- ◆ Asset management for investors
- ◆ Development of asset management products for North Energy
- ◆ Formation of investment funds for investors

List of Licenses Held

- Type I Financial Instruments Business
- Type II Financial Instruments Business
- Investment Advisory and Agency Business
- Financial Futures Trading
- Commodity Futures Trading

List of Memberships to Organizations

- Japan Investor Protection Fund
- Japan Securities Dealers Association
- The Commodity Futures Association of Japan
- Type II Financial Instruments Firms Association
- The Financial Futures Agency of Japan

Asset Management Business



Address: 4-1-3, Kitashijo Nishi, Chuo-ku, Sapporo, Hokkaido, JAPAN
Representative: Norihiko Hara Representative Director and President

In collaboration with major credit companies and regional banks, as an asset management business North Energy manages and operates its own power generation facilities from the packaged sales and management of solar and small-scale wind power renewable energy power generation systems for individual investors and corporations throughout Japan. As of the end of February 2019, the company has 361 solar power generation facilities in operation.

In the current fiscal year, North Energy plans to sell for investors 150–170 newly built solar and small-scale wind power renewable energy power generation units. In cooperation with the Company, North Energy will increase the diversification of its products under management and investment products to include, for example, commercial real estate and transport vehicles.

Business Outline

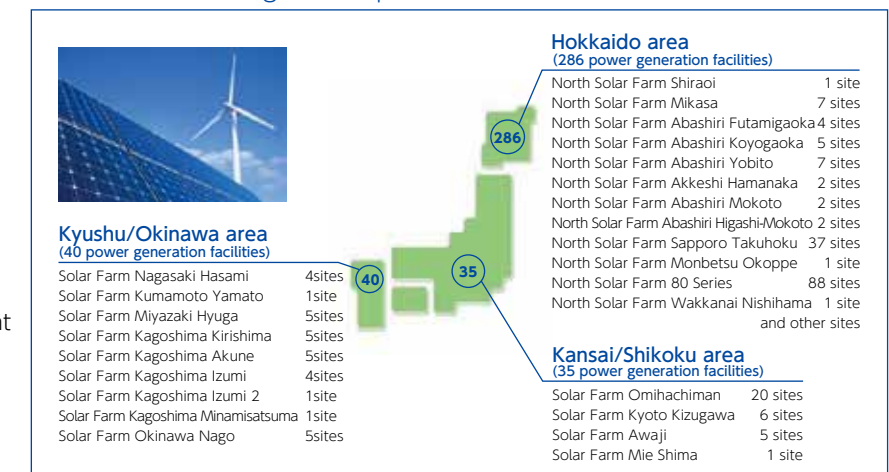
Asset Investment Business

- ◆ Management and operation of solar power generation facilities
- ◆ Packaged sales for investors of solar and small-scale wind power generation systems
- ◆ Development and sale of FinTech platform business/ managed asset products
- ◆ Fund management

Communications Business

- ◆ Mobile phone store management
- ◆ Mobile phone line sales
- ◆ Fixed phone line sales
- ◆ Partner sales promotion
- ◆ Wi-Fi rental services
- ◆ Inbound business

Total number of power generation facilities sold – 361 units throughout Japan –



Consolidated financial statements

Consolidated Financial Statements (Summary)

Consolidated Balance Sheet

(Million of yen)

	March 31, 2018	March 31, 2019
Assets		
Current Assets	7,285	6,393
Noncurrent Assets	2,574	2,104
Property, Plant and Equipment	313	285
Intangible Assets	2	242
Investments and Other Assets	2,258	1,577
Deferred assets	0	—
Total Assets	9,860	8,498
Liabilities		
Current Liabilities	425	918
Noncurrent Liabilities	114	141
Total Liabilities	540	1,059
Net Assets		
Shareholders' Equity	9,358	7,803
Accumulated Other Comprehensive Income	(38)	(364)
Total Net Assets	9,320	7,439
Total Liabilities and Net Assets	9,860	8,498

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Total Assets

Total assets at the end of the fiscal year under review decreased ¥1,361 million compared with the end of the previous fiscal year to ¥8,498 million. This resulted from the holding back of investment returns brought about by the stagnation in the domestic stock market. Since there were significant decreases in income and profit, cash and deposits decreased. Total liabilities increased ¥519 million compared with the end of the previous fiscal year to ¥1,059 million. The main reasons for the increase were the making of Togaku Securities Co., Ltd. into a consolidated subsidiary, which involved that company's liabilities, such as security deposits received. Total net assets decreased ¥1,880 million compared with the end of the previous fiscal year to ¥7,439 million. Factors contributing to the decrease included the recording of a loss attributable to owners of parent company and a decrease in unrealized holding gains on other securities.

Consolidated Statements of Operations

(Million of yen)

	April 1, 2017 - March 31, 2018	April 1, 2018 - March 31, 2019
Net Sales	5,654	2,230
Gross Profit	2,804	105
Selling, General and Administrative	1,254	1,012
Operating Income	1,549	(906)
Ordinary Income	1,154	(957)
Extraordinary Gain (Loss)	(30)	(10)
Profit (Loss) before Income Taxes	1,124	(968)
Total Income Taxes	238	10
Profit (Loss) Attributable to Owners of Parent	886	(979)

Consolidated Statements of Cash Flows

(Million of yen)

	April 1, 2017 - March 31, 2018	April 1, 2018 - March 31, 2019
Cash Flows from Operating Activities	320	(376)
Cash Flows from Investing Activities	(1,064)	(481)
Cash Flows from Financing Activities	(267)	(539)
Effect of Exchange Rate Change on Cash and Cash Equivalents	(10)	22
Net Increase (Decrease) in Cash and Cash Equivalents	(1,022)	(1,374)
Cash and Cash Equivalents at Beginning of Period	4,745	3,723
Increase in cash and cash equivalents from newly consolidated subsidiary	—	9
Cash and Cash Equivalents at End of Period	3,723	2,357

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Cash Flows from Operating Activities

Cash flows from operating activities amounted to cash outflows of ¥376 million. The main reason behind this was the recording of a loss before income taxes and minority interests.

Cash Flows from Investing Activities

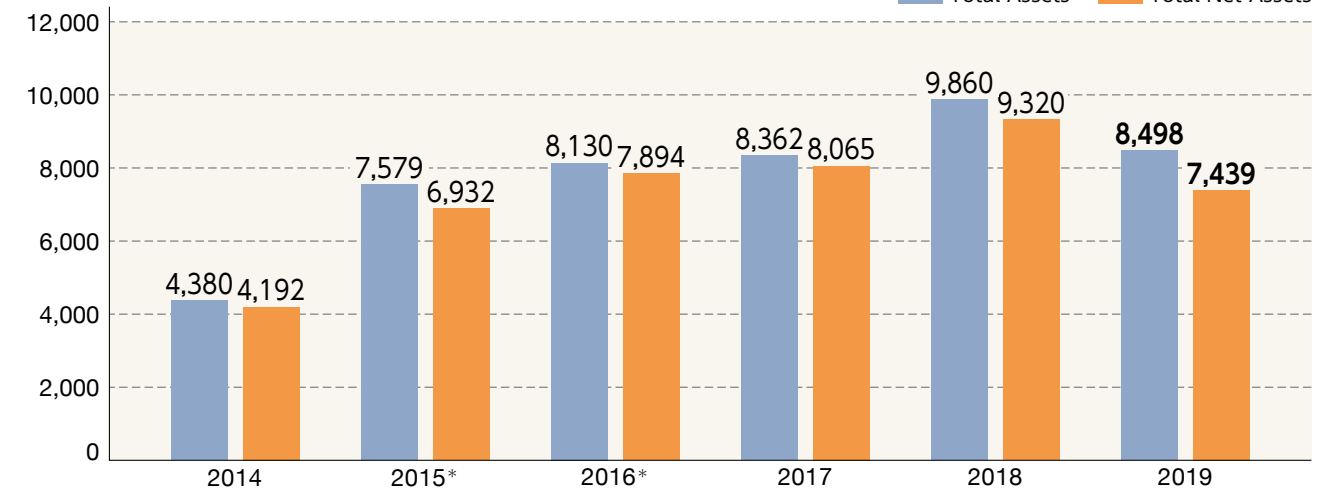
Cash flows from investment activities amounted to cash outflows of ¥481 million. The main reasons behind this were outflows due to loans and the acquisition of shares in a subsidiary company (Togaku Securities Co., Ltd.) in accordance with the change in the scope of consolidation.

Cash Flows from Financing Activities

Cash flows from financing activities amounted to cash outflows of ¥539 million. These were primarily due to the payment of dividends.

Total Assets and Net Assets

(Million of yen)



* Non-consolidated basis

Shareholder Return/Dividend Payments

As its basic policy on profit distribution, the Company regards the proper allocation to each stakeholder as a most important issue.

The Company strives to secure profitability so that dividends can be paid on an ongoing basis, taking into consideration business results, financial conditions and internal reserves held in preparation for future business development. In the years to come, in line with our basic dividend policy, we will work to improve shareholder return, including shareholder benefits, with a goal of a dividend payout ratio of 30% or more.

	2015.3	2016.3	2017.3	2018.3	2019.3
Dividend per share (Yen)	5	5	5	10	5
Dividend payout ratio (%)	13.1%	34.4%	26.6%	48.2%	—

Corporate Data As of April 1, 2019

■ Corporate Data

Company Name:	Oak Capital Corporation
Founded:	1868
Incorporated:	1918
Capital Stock:	¥4,282 million
Brokerage Lead Manager:	Daiwa Securities Co. Ltd.
Stock Exchange Listing:	2nd Section of Tokyo Stock Exchange 3113 (Listed in 1949)
Independent Public Accountant:	Nihombashi Corporation Certified Public Accountants
Correspondent Banks:	Sumitomo Mitsui Banking Corporation, Mizuho Bank Ltd. MUFG Bank, Ltd.

■ Board of Directors and Corporate Auditors

Representative Director, Chairman and CEO	Hiroyasu Takei
Director	Tsutomu Akita Head of Administration and Control Division
Director	Fuyuki Makino
Director*1	Tomoyasu Ozeki Former Partner of aAccenture Corp.
Director*1	Yoshinori Uda Former Representative Director and Vice President of NTT DoCoMo, Inc.
Standing Corporate Auditor	Hideya Takahashi
Corporate Auditor*2	Makoto Sakai Lawyer
Corporate Auditor*2	Motosuke Hirose
Corporate Auditor*2	Sonomi Ueno Lawyer and Certified Public Accountant

※ 1. Outside director, as provided in Article 2-15 of the Companies Act
 ※ 2. Outside corporate auditor, as provided in Article 2-16 of the Companies Act

Share Information As of March 31, 2019

Total Number of Authorized Shares	150,000,000
Total Number of Issued Shares	53,675,037
Number of Shareholders	24,017

Major Shareholders

Name of shareholders	Ownership of shares (Thousands of shares)	Share ownership ratio (%)
Hiroyasu Takei	1,909	3.56
An individual shareholder	1,635	3.05
Kyowa Seika Co., Ltd.	1,160	2.16
An individual shareholder	1,071	2.00
An individual shareholder	660	1.23
The Nomura Trust and Banking Co., Ltd. (Trust account)	601	1.12
An individual shareholder	600	1.12
Matsui Securities Co., Ltd.	558	1.04
UEDA YAGI TANSHI Co., Ltd.	476	0.89
An individual shareholder	375	0.70

Note) Percentage shareholding calculations exclude treasury stock (38,090 shares)

Memo for Shareholders

Fiscal year:	From April 1 to March 31 of the following year
General Ordinary Meeting of Shareholders:	June of each year
Date for confirming shareholders to receive dividends:	March 31 (September 30 for interim dividends)
Shareholder registry administrator:	Kasumigaseki Building, 2-5, Kasumigaseki 3-chome, Chiyoda-ku, Tokyo 100-6026, JAPAN IR Japan, Inc. Phone: +81-3-3519-6720

● Providing notification of changes in address, acquisitions of shares less than a single trading unit, additional purchases, etc.

Shareholders should please notify the securities firm with which they hold an account. Shareholders who have opened special accounts because they do not have a securities firm account should notify Sumitomo Mitsui Trust Bank, Limited, which is the account management institution for special accounts.