

[With QA] Kosaido Holdings - New funeral hall operations strong, contributing to consolidated profit growth
Funeral business also continues to see stable revenue growth

[LEAD]

The following is a transcript of the Kosaido Holdings Co., Ltd. financial results presentation for the third quarter of FY03/24, released on February 9, 2024.

[Speaker]

Mr. Hiroshi Kurosawa, President & CEO, Kosaido Holdings Co., Ltd.

[Text]

1-01 Q3 FY03/24 Consolidated Financial Results

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- In the Profit-Generating Funeral Services Segment, the funeral business has continued to show stable revenue growth since the beginning of the fiscal year. New funeral hall operations in the Q3 were also strong, contributing to consolidated profit growth.
- In the Information Segment, there was a change in the COVID-19-related special demand in the previous period, and the decline in net sales due to the delay of large BPO projects to the fourth quarter impacted the decline in Q3 cumulative net sales.

	Q3 FY03/24 [Nine months]	Q3 FY03/23 [Nine months]	YoY change		Q3 FY03/24 forecast (2024/1/31)	Compared to forecast		*Reference Q3 FY03/24	YoY change
			Change	Rate of change (%)		Change	Rate of change (%)		
Net sales	25,076	26,199	-1,123	-4.3	26,320	-1,244	-4.7	9,346	-3.8
Operating profit	3,631	2,416	1,215	50.3	3,583	48	1.3	1,814	48.8
Ordinary profit	3,650	2,374	1,276	53.7	3,559	91	2.5	1,808	54.3
Profit attributable to owners of parent	2,931	1,902	1,029	54.1	2,878	53	1.8	1,471	51.2



Hiroshi Kurosawa (hereinafter, “Kurosawa”): Hello everyone, my name is Kurosawa, President and CEO of Kosaido Holdings. Thank you for joining this presentation today. I am both happy and humbled to hear that we are attracting interest not only from investors who have long taken an interest in our company, but also from many new people.

While recognizing that Kosaido Holdings is attracting greater attention, we will work with a sense of urgency to ensure we can meet your expectations.

Today I will talk about our financial results for the third quarter of FY03/24. In terms of the figures, although both operating profit and current net profit have veered away from previously disclosed forecasts by about 50 million yen, they are almost in line with our projections.

Looking at Kosaido Holdings as a whole, despite our best efforts in our more established businesses, such as Information and HR, they did not perform so well. But since some sales will be reflected in the fourth quarter, I believe that our results for the full year will be fairly good.

The Funeral Services business is performing well with the opening of new funeral halls. In addition, both the new and old funeral halls were originally rented for 220,000 yen, but since December the price for the old funeral halls has risen to 270,000 yen. This price has been set based on our analysis that having people use our new funeral halls as much as possible will help us get off to a good start in the coming fiscal year.

While the price rise was a big plus point, the external environment was unfavorable. In the Funeral Services business, it feels as though the negative and positive factors have canceled each other out, finishing on a slightly positive note. A deterioration in the external environment simply means that sales and profits tend toward the negative direction in terms of financial results, but the actual merits or demerits are a slightly different story.

Less people have passed away this year than in the previous year. Of course, it is good that people don't die, but as for our business results, the numbers have dropped. I am sure you have all been experiencing the very warm and mild weather we have had. I believe that this is the reason why so few people have passed away. That concludes a broad summary of our third quarter.

1-02 Q3 FY03/24 Financial Results Summary by Business Segment

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	(Millions of yen)													
	Net sales				Compared to forecast				Operating profit					
	Q3 FY03/24 [Nine months]	Q3 FY03/23 [Nine months]	YoY change Change	Rate of change (%)	Q3 FY03/24 forecast (2024/1/31)	Change	Rate of change (%)	Q3 FY03/24 [Nine months]	Q3 FY03/23 [Nine months]	YoY change Change	Rate of change (%)	Q3 FY03/24 forecast (2024/1/31)	Change	Rate of change (%)
Public Funeral Services	3,978	3,907	71	1.8	4,106	-128	-3.1	570	556	14	2.5	620	-50	-8.1
Profit-Generating Funeral Services	6,156	4,491	1,665	37.1	6,098	58	1.0	2,368	1,479	889	60.1	2,257	111	4.9
Asset Consulting	202	—	202	—	161	41	25.5	69	—	69	—	27	42	155.6
Information	10,344	12,815	-2,471	-19.3	11,178	-834	-7.5	-217	-127	-90	—	-158	-59	—
HR	4,393	4,985	-592	-11.9	4,774	-381	-8.0	44	-35	79	—	116	-72	-62.1
Adjustments, etc.			0	—		0	—	795	543	252	46.4	722	73	10.1
Total	25,076	26,199	-1,123	-4.3	26,320	-1,244	-4.7	3,631	2,416	1,215	50.3	3,583	48	1.3

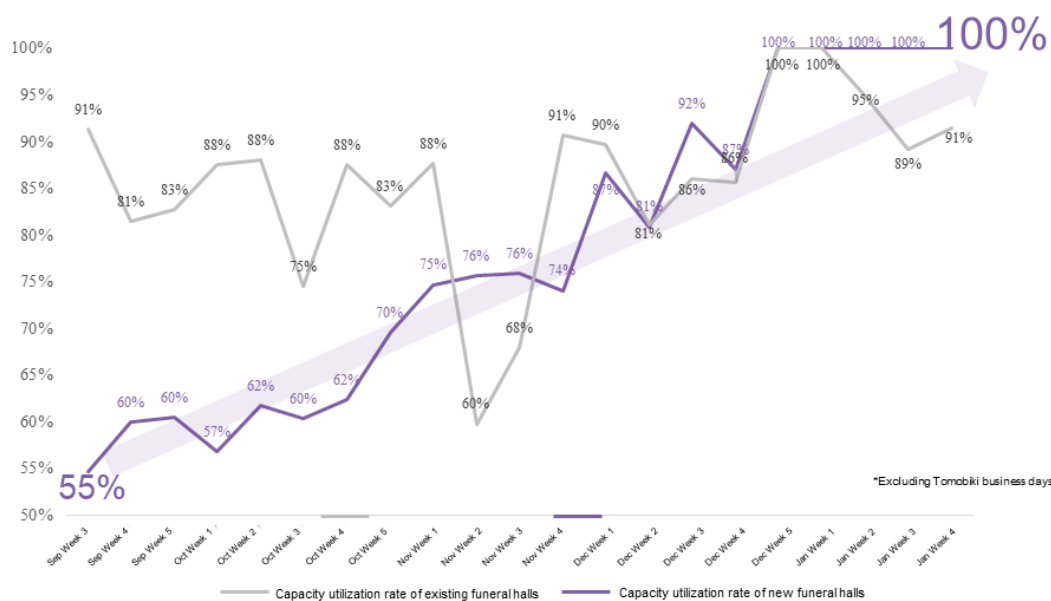
↑ ↓ ... YoY change

- The HR Segment saw a decline in revenue, but cost reductions ensured profitability.
- Thanks to increased net sales from the opening of new funeral halls and higher capacity utilization, Profit-Generating Funeral Services revenues compensated the company's overall revenue.
- In Asset Consulting, we recorded achievements including real estate brokerage projects.

These points that I have just talked about are also reflected in the segment figures. The Asset Consulting segment has started to show results in real estate brokerage deals and other projects. Operating profit was 69 million yen because about 150 million yen fell into non-operating profit, so in real terms, operating profit was just over 220 million yen. As such, we expect to achieve our full-year forecast of approximately 300 million yen.

1-03 New Funeral Hall Capacity Utilization

1-04 New Funeral Hall Capacity Utilization



- The capacity utilization rate of new funeral halls remained steady in Q3, reaching 100% from the last week of December.



Now let's look at new funeral hall capacity utilization. The purple line on the graph shown on the slide is the capacity utilization rate of new funeral halls, and the gray line is the capacity utilization rate of existing funeral halls. Compared to the previous year, both the old and overall capacity utilization rates remained about the same. You can see that even though the overall number of cremations is decreasing, because there aren't enough funeral halls to begin with, they are unable to keep up with demand.

As reported earlier, it is 270,000 yen to hire one of the old funeral halls and 220,000 yen for the new. New funeral halls are beginning to be hired out more, resulting in this kind of capacity utilization rate. January is the busiest month with capacity utilization at 100% every week. Yesterday it was 96%, and while we are not at 100% every day, it is without a doubt at a very high rate.

We have said that we would like to present our medium- and long-term plans for what kind of expansions, investments, and extensions we plan to make to our crematorium sites, either at the end of the fiscal year or when we announce our new Medium-Term Business Plan. Although we are unable to announce these plans at this time, I am pleased to report that we have obtained extremely useful data as a result of our most recent expansion.

We have come to realize that for some of the funeral halls which we thought would be very busy, may not be so much in demand. Some of the old funeral halls have hindered overall performance, but conversely, some of the funeral halls which we thought did not have such great potential are now fully booked, regardless of whether they are new or old.

I think the increase in the number of funeral halls has made it clear just how much latent demand there actually is. Naturally, we plan to secure more floor space in areas with greater potential demand. I am pleased to report that we have obtained data that will enable us to make the expansion plans we are currently formulating even more accurate.

1-04 Status of New Businesses

1-05 Status of New Businesses

Funeral Business

* ... Two companies: Kosaido Lifewell, Gran Ceremo Tokyo

- FY03/24 Performance (2 companies* combined)

(Millions of yen)

	Q1					Q2					Q3					Q3 (Cumulative)				
	Actual	Plan	Diff. from plan	Prior year	Diff. from prior year	Actual	Plan	Diff. from plan	Prior year	Diff. from prior year	Actual	Plan	Diff. from plan	Prior year	Diff. from prior year	Actual	Plan	Diff. from plan	Prior year	Diff. from prior year
Netsales	329	343	-14	44	285	383	360	23	209	174	507	387	120	376	131	1,219	1,090	129	630	589
Operating profit	45	20	25	-59	104	35	31	4	-39	74	68	43	25	15	53	148	95	53	-83	231

Primary cause

[Diff. from plan] We continued investment Advertising expenses in Q2, leading to an increase in the scale of sales.

[Diff. from the prior year] There were upfront costs because the previous fiscal year was the first year for the newly launched funeral business.

Asset Consulting Business

- The number of inheritance procedures and inheritance declarations handled increased, and is trending favorably.
- Small-scale real estate-related projects (brokerage, etc.) are also progressing and were recorded as net sales in Q3.

Furnaces

- In-house maintenance and furnace design is progressing smoothly.



This is the status of other new businesses. The Funeral business, which started in July of the previous two fiscal years, is expected to exceed projections this fiscal year, with an operating profit of more than 200 million yen. As noted on the slide, Q3 cumulative operating profit was 148 million yen. This means that the funeral company, which was founded only two years ago, has generated an operating profit of approximately 150 million yen.

Normal funeral service companies own their own funeral halls and receive rental income from end-users, which are included in their operating profits. However, all of our subsidiary's funeral hall rental fees are included in Tokyo Hakuzen's funeral hall sales.

As a funeral services company in a Group, the Funeral business is not short of competitive clout. However, if it were not a Group company, it would be a company that provides funeral services on a rental basis. So,

despite being somewhat handicapped in terms of numbers, the funeral services company is up and running in its second year, reaching an operating profit of 200 million yen.

Our target operating profit is more than 6 billion yen, so although 200 million yen is not a huge figure, we feel that we have the potential to increase it even further. I really think this is a great new business for us.

As mentioned before, the Asset Consulting business recorded a cumulative operating profit of 69 million yen as of the third quarter. About 150 million yen is recorded as non-operating profit, so I should point out that we have actually accumulated 210 million yen in operating profit. This company was also just launched this year, so I think it is great that it has achieved this kind of operating profit in its first year.

We will continue to focus on the three pillars of the new businesses of our subsidiaries, namely the Funeral business and the Asset Consulting business, already underway as part of our growth strategy, as well as further expanding our floor space, which generates large revenues. This will in turn lead to growth for Kosaido Holdings.

The same applies to the Furnaces business, which we have previously stated is a fairly long-term initiative and one which will not likely produce results during the period of the Medium-Term Business Plan. Although it is difficult to explain fully here today, we are making progress on separate activities. To give an overall image, we are progressing at a faster pace than we initially expected.

Without going into the figures, this concludes our progress on new businesses.

2-01 Towards further improvement of our stock price

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The following items will be included in the next Medium-Term Business Plan.

(Planned to be announced May 2024 | The Medium-Term Business Plan 3.0 is to be flexibly reviewed, and we will formulate a new three-year plan for [FY2024-FY2026])

Introduction of ROA targets


- We will set return on asset (ROA) targets as a management indicator.
- Appropriate controls on the balance sheet

Rough draft of our long-term investment plan (crematorium expansion plan)

- Fulfilling our public mission based on the "users first" principle
- Establishing mid-to-long-term expansion and investment plans

Introduction of progressive dividends

- Progressive dividend: We are considering maintaining or increasing the dividend level during the Medium-Term Business Plan period.

 For achieving sustainable growth and medium-to-long-term improvement of our corporate value



On January 31, we disclosed our revised earnings forecast. As well as explaining the content of this disclosure, I will also talk about our medium-term goals for Kosaido Holdings as a whole.

In past financial results briefings we have said that we are considering introducing targets for financial indicators, etc., and we have also been asked if we could divulge our plans for crematorium expansion, even just a rough overview. And every time we have replied saying that we hope to do so by the next Medium-Term Business Plan.

In the previous financial results briefing, I stated my hope to steadily increase dividends during the period of growth for the next Medium-Term Business Plan.

This slide summarizes what has been said so far. Of course, this is not the only content we will announce in our next Medium-Term Business Plan. We will crunch the numbers and present a solid plan which has otherwise been somewhat vague so far, and include some firm numerical targets.

2-02 Introduction of ROA targets (Proposed)

2-02 Introduction of ROA targets (Proposed)

We will set ROA target above expected rate of return (WACC)

ROA $>$ **WACC**

5.58% \Rightarrow 7.3% or more $>$ 7.26%

End of FY03/23 Results End of FY03/25 Target (Planned) End of FY09/2023 Calculated by the Company

*ROA is calculated with the following formula.

$$\frac{\text{Profit attributable to owners of parent}}{\left(\frac{\text{Total assets at the end of the FY under review} + \text{Total assets at the end of the previous FY}}{2} \right)} \times 100$$

*Cost of equity is recognized as 11.72%, and was calculated with CAPM.

$$\text{Risk-free rate} + \text{Beta value} \times \text{Risk premium} = 11.72\%$$

■ Consolidated Balance Sheet (Millions of yen)				■ Major Factors of Increase/Decrease in Q4 FY03/24			
Accounting period	FY03/23 Results	FY12/23 Results	FY03/24 Forecast	Increase factors		Decrease factor	
Total assets	71,134	70,061	72,278	Total assets	3,256	-1,038	
Current assets	27,998	25,406	28,413	Current assets	3,007		
Non-current assets	43,134	44,655	43,866	Non-current assets	249	-1,038	Investment securities -1,038M
Liabilities	29,699	29,745	29,745	Liabilities	0	0	
Current liabilities	12,443	12,511	12,511	Current liabilities			
Non-current liabilities	17,256	17,234	17,234	Non-current liabilities			
Net assets	41,434	40,315	42,533	Net assets	2,781	-563	Net unrealized gain on available-for-sale securities -563M

Reduction due to dividends, etc. ⊕ Profit growth

⇒ We are also gradually converting surplus assets to cash.

We are now starting work on each task to achieve the targets in FY03/25.

More and more people have been asking if it isn't time to introduce targets for financial indicators. As mentioned in the previous disclosure, we are discussing this internally with the hope of including targets in the next Medium-Term Business Plan.

ROA was 5.58% at the end of FY03/23 which was still below the weighted average cost of capital (WACC). If things continue as they are, we will probably finish up at around 6.9% this quarter. Since the year-end dividend is paid in June, financial indicators for the current period do not include the effects of asset reduction

due to dividends. By setting targets properly from the beginning of the next fiscal year and onward, we will be able to do business transparently with benchmarks and metrics that will surely meet everyone's expectations.

There is also a discussion within the Company that ROIC should be set as a target. We are currently discussing a rough draft of our long-term investment plan, which we intend to include in our next Medium-Term Business Plan, and our road map for dividends.

Because our core business is extremely well-funded, we tend to have a surplus of cash. On the other hand, we also have plans for investment, with for example, the new businesses and expansions I mentioned earlier. If all of our cash is used for dividends, funds must be raised from outside sources, such as some form of equity financing or bank borrowing.

I think it would be good for our shareholders to be able to see our growth with a sense of security, so if we do have an investment plan, it's better to take our time to get it right. If such plans are properly formulated, we will eventually be able to take a good look at how our assets are decreasing.

ROIC is calculated using equity capital and interest-bearing debt as the denominator, but in reality, when we think about what assets correspond to that business debt, most of it is probably cash.

So for the time being, although it is a bit of a rough, approximate estimation, I think it would be more accurate and easier to understand to say, until the investment plan is fully finalized, that investors can rest assured that all assets, including cash, are above the WACC.

While we are still considering how to set this goal, it could be that we do in fact choose to go with ROIC. Our stock price has to date experienced a certain amount of volatility. We have shown growth, working hard to show how we intend to grow going forward which has in turn resulted in a higher share price.

In terms of making these moves more reproducible and sustainable, if we have a higher ROA, even if we have slightly too much cash on hand, I think this will be significant because it allows us to say that people can expect the same things as before.

This is what I would like to keep in mind from the beginning of next fiscal year as we develop our business. As for whether or not this can be done overnight, since Kosaido is a company with an extremely long history, the investment securities held during the cross-shareholding remain on the balance sheet, as do our plants' non-current assets.

Deciding whether to invest these basically as cash, or return them to shareholders will improve financial indicators, and from the perspective of society as a whole, will always lead to investing resources in production.

Of course, even if we wanted to convert assets into cash today, it is not something we can do right away. Even if we put aside the merits and demerits of cross-holdings, it is not the behavior of adults to say, "I don't know about others. I will do whatever I want to do. Let's sell it tomorrow." We can't just do things off the cuff, instead we have to properly talk about what and how we intend to do things.

At the moment, there are no restrictions or circumstances that make reducing the balance sheet difficult. We thought that it might take some time to figure out the schedule for transferring surplus assets from securities to cash and converting non-current assets to cash.

Therefore, we announced the sale of investment securities on January 31 in order to do what we can from this fiscal year. In fact, at the time, we issued a fairly large number of share acquisition rights and paid stock options, amounting to over 1 million shares in the third round of share acquisition rights.

Under current accounting standards, the difference between the capital that should have been paid and the appraised value of the stock when the rights are issued is recorded as stock issuance costs. However, the market capitalization at the time of issuing the third share acquisition rights was 68 billion yen. This was less than 70 billion yen.

Given this situation, we have set a condition that the rights can only be exercised when market capitalization reaches 100 billion yen, or in other words, the exercise of rights can only be done when we can provide 30 billion yen in profits to shareholders.

The cost of issuing these shares was quite high, so a memorandum of understanding was entered into between the allottee and Company stating that the rights would not be exercised unless the funds generated one-off, non-operating income of comparable size. As a result, although the market capitalization had reached 100 billion yen much earlier, the cost of issuing the shares was not recorded.

With the introduction of this KPI, the Company expected to generate a profit of approximately 900 million yen or more, and so, compared to the current earnings forecast, even if the stock issuance costs were recorded, they would not result in a downward revision. Therefore, the Company was able to exercise the acquisition rights in accordance with the memorandum, leading to the timely disclosure on January 31.

As stated in the disclosure, there is a difference between recorded profits and expenses incurred with a surplus of more than 100 million yen. Furthermore, although we have achieved a positive result of just over 50 million yen in the third quarter, we will not make an upward revision with respect to this 150 million yen increase, but rather we have left our forecast unchanged as the fourth quarter will be big in terms of numbers.

2-03 Revision of the earnings forecast for FY03/24 [Disclosed on January 31, 2024]

Revision of the earnings forecast for FY03/24

2-03 [Disclosed on January 31, 2024]

		Q1				Q2				H1 (cumulative)														
										(Millions of yen)														
	Actual	Forecast (Rev. '20)	Compared to previous forecast Change	Rate of change (%)	Prior FY results	Change	Rate of change (%)	YOY		Actual	Forecast (Rev. '20)	Compared to previous forecast Change	Rate of change (%)	Prior FY results	Change	Rate of change (%)								
Net sales	7,644	7,644	-	-	7,832	-188	-2.4		Net sales	8,086	8,086	-	-	8,657	-571	-6.6	Net sales	15,730	15,730	-	-	16,488	-758	-4.6
Operating profit	746	746	-	-	467	279	59.7		Operating profit	1,071	1,071	-	-	730	341	46.7	Operating profit	1,817	1,817	-	-	1,197	620	51.8
Ordinary profit	818	818	-	-	463	355	76.6		Ordinary profit	1,024	1,024	-	-	740	284	38.4	Ordinary profit	1,842	1,842	-	-	1,202	640	53.1
Quarterly profit	646	646	-	-	356	290	81.3		Quarterly profit	814	814	-	-	573	241	42.1	Quarterly profit	1,460	1,460	-	-	929	531	57.2

		Q3				Q4				Full year (cumulative)														
						Forecast (Jan 31)				Forecast (Jan 31)														
	Actual	Forecast (Rev. '20)	Compared to previous forecast Change	Rate of change (%)	Prior FY results	Change	Rate of change (%)	YOY		Forecast (Jan 31)	Forecast (Rev. '20)	Compared to previous forecast Change	Rate of change (%)	Prior FY results	Change	Rate of change (%)								
Net sales	9,346	10,589	-1,243	-11.7	9,711	-365	-3.8		Net sales	14,765	13,521	1,244	9.2	10,469	4,296	41.0	Net sales	39,841	39,841	0	0.0	36,668	3,173	8.7
Operating profit	1,814	1,766	48	2.7	1,219	595	48.8		Operating profit	2,497	3,357	-860	-25.6	1,864	633	34.0	Operating profit	6,128	6,940	-812	-11.7	4,280	1,848	43.2
Ordinary profit	1,808	1,717	91	5.3	1,172	645	54.3		Ordinary profit	2,431	3,334	-903	-27.1	1,810	621	34.3	Ordinary profit	6,081	6,893	-812	-11.8	4,185	1,896	45.3
Quarterly profit	1,471	1,418	53	3.7	973	498	51.2		Quarterly profit	1,969	2,022	-53	-2.6	2,139	-170	-7.9	Current profit	4,900	4,900	0	0.0	4,042	858	21.2

Although both operating profit and ordinary profit will decrease by -812M due to stock compensation expenses incurred in January, there will be no change in net profit because an equivalent amount of gain on sales of securities is expected in Q4.



This concludes the report that led to the disclosure on January 31. Since the expenses and revenues were one-off, we will enter the second year of the current Medium-Term Business Plan on April 1 without these expenses or revenues happening again. I would like to report that no negative factors have become apparent in the Medium-Term Business Plan.

That was an explanation of the third quarter financial results and the timely disclosure made on January 31. The following slides are almost identical to the materials disclosed at the time of the second quarter financial results.

I would like to point out that there is no change in our intention to grow steadily under our Medium-Term Business Plan and to increase returns to our shareholders.

A3-02 ESG Activity Report [Society] - Social Responsibility of the Cremation Business

As we are engaged in a business with a high level of public interest, we are all too aware of our social responsibility in terms of ESG these days.

ESG Activity Report [Society]

A3-02 - Social Responsibility of the Cremation Business

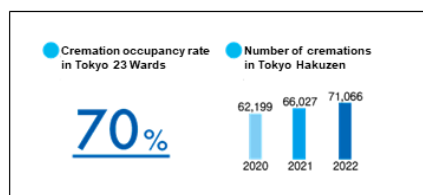
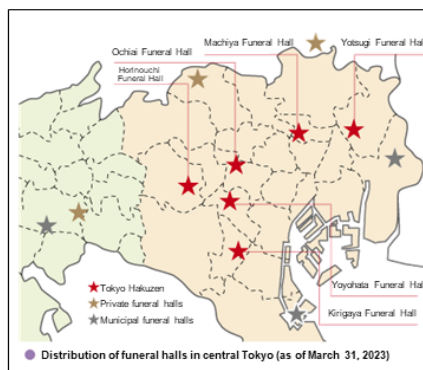
Basic Concept

The Company conducts our business based on the spirit of "Kosai," which means "contributing to society at large." Especially in Tokyo Hakuzen's cremation business, we contribute to the local community at large by carrying on this spirit and putting it into practice.

Originally, crematorium operations in Japan were regulated by the Act Concerning Graveyard, Burial, etc. and managing entities were generally local public organizations. Even if operations were more difficult, the operator had to be a public interest corporation or a religious corporation. But because Tokyo Hakuzen has been doing business in Tokyo since before this law came into force, **Tokyo Hakuzen, a private company, is operating six crematoriums.** Tokyo Hakuzen's crematoriums have a long history. They were built between the Edo Period (1603-1867) to the Meiji Era (1868-1912). Today, these facilities stand at convenient locations in Tokyo.

64* furnaces are operating at Tokyo Hakuzen funeral homes, handling approximately 70,000 cremations a year. This accounts for about 70% of deaths in Tokyo's 23 wards. Therefore, these locations receive many visitors, around 700,000. (*As of July 2023)

For more than 100 years since our establishment, we have been an indispensable business upholding the social infrastructure in the metropolis of Tokyo and fulfilling our social responsibility, but without public assistance, because we are a private company. In addition to contributing to the local community, our cremation business supports its development.



ESG Report [Society]

A3-03 - Social Responsibility of the Cremation Business

Social Responsibility of the Cremation Business in a High-Death Society

Both local communities and Japanese society as a whole are facing a high number of deaths, and the seriousness increases by the year. As shown in these materials, nationwide deaths will peak by around 2040, and the number in Tokyo will continue increasing until 2065.

In 40 years, the number of deaths in Tokyo will increase to about 1.7 times
2022: 120,000 ppl ▶ 2060: 200,000 ppl

(From this document: Q3 FY03/24 Highlights)

*See next page for death statistics and trends.

In a society already facing a high number of deaths, those of us in the cremation business must take prompt action. However, public facilities operated by local governments cannot cope and there are already cremation waiting lists. In the future, the facilities may become more incapable of holding the funeral services requested by bereaved families.

In response, Tokyo Hakuzen is working to accurately understand social issues and problems from our unique business perspective as a private company, and we are striving for sustainable operations that do not rely on public funds. Tokyo Hakuzen, with a history spanning 100 years, takes the accelerating trend of a high number of deaths in Tokyo's large population seriously. We believe that it is our social responsibility to make efforts to build a society where we can always perform cremations and funeral processions without delay.

We also clearly recognize that without Tokyo Hakuzen, funeral processions in Tokyo would not be possible. Carrying on our business for the next 100 years and in perpetuity beyond is also connected to our company's great significance for society. We aspire to be a company that society always recognizes for its contributions, while establishing bonds of trust with society and members of the local community, and maintaining an awareness of the requirements for appropriate behavior according to our corporate responsibilities.

■ Specific measures to eliminate waits for cremation
[Announced in December 2023]

As a provider of cremation infrastructure in the greater Tokyo area, we have expanded our operating days and extended operating hours during the winter season in order to resolve the recent social issue of increasingly long waits for cremation.

By maximizing operation of the 64 furnaces at our six funeral homes, and maintaining a furnace capacity utilization of 70% or less, we have established a system that enables cremations to take place at the date and time requested by the user. We will continue to respond flexibly as only a private company can.



We have all seen the news reports showing that many people are waiting to be cremated. Meanwhile, 40 years from now, the number of deaths in Tokyo is set to rise by 170%. I believe that our mission is to dispel people's concerns about whether Tokyo's infrastructure is sufficient and whether our civic life can carry on uneventfully.

We have included this information in our financial results presentation because it is read by people who are interested in our Company, but in the future we will also carefully consider and put forward ideas that will be easier to understand even for those who are less interested in the Company. The public relations budget for this purpose has already been factored into the current Medium-Term Business Plan.

This concludes my talk about the third quarter financial results. Thank you very much.

Q&A: Amount of fourth quarter discrepancy

Q: How much was the fourth quarter discrepancy in the Information Segment?

Kurosawa: The sales amount is slightly more than 800 million yen.

Q: Are there any problems? For example, why the delay and what certainty is there that this amount will come in the fourth quarter?

Kurosawa: Sure, no there aren't any problems.

Q&A: Balance while increasing ROA

Q: What is your overall approach? For example, in increasing ROA, does management want to focus more on growing profits or on capital policy? Of course, there needs to be some kind of balance. For example, what kind of return do you want to make, what level of assets do you want to hold? If you have any insight on the current situation, please let us know.

Kurosawa: As you say, I think it is a balance. If your question is about the degree, I am not sure if this answers your question. We started our new businesses with a long-term investment plan, and while planning is important, we are now fully focused on marketing with the goal of making our new businesses a success.

We are now trying to implement this investment plan, even if it is a little rough around the edges. This is important because it will give us a return. Now that we have targets, I think it's a matter of arithmetic, and the question becomes about the assets, or capital investment, or whether to reduce them.

The way to make reductions would naturally be through shareholder returns. I think this will happen if we make reductions without investing. The next Medium-Term Business Plan will be more advanced than the current one, and I hope that we will be able to show you the first stage, as well as a one-year plan, as it eventually takes shape.

As a part of this, I am hesitant to discuss it too much because it is so rough, but as we have seen with the last Medium-Term Business Plan, it does include a rough estimate of the amounts that could be made by adding a certain number of square meters in floor space.

In the next Medium-Term Business Plan, there is a high chance we will announce that we will continue at the current pace to eventually increase corporate value, but by saying that ROA will outweigh WACC will convey the message that we will carry on as we are doing so now.

I think we'll have to wait a little while longer before we can say we could possibly achieve more, so pushing ourselves harder.

Q: Is it correct to say that, to some extent, in your mind you have an idea of profit growth, and the portion that would become surplus capital through such profit growth would be returned to the stock market? Is this a rough understanding of the balance of things?

Kurosawa: Yes, exactly as you say.

Q&A: Plans for funeral halls going forward

Moderator: The question is, "I heard that there will be 61 to 62 funeral halls available in December, but when will the 71 funeral halls that were originally planned be available?"

Kurosawa: The reason why we reduced the number of funeral halls was because this is the number we were likely to achieve given the results forecast we presented. We switched to a more popular type of funeral halls to increase capacity.

As pointed out, with regard to funeral hall capacity reported at the beginning of this report, we thought we had confirmed higher potential demand for some funeral halls than previously expected.

From our point of view, we reduced the number of some types of halls because we were afraid that even if we increased the number, they wouldn't be popular and capacity would drop, but there is room for growth in the future by increasing the number of halls.

As for the time of year, it is generally safer to carry out expansion in the winter. As someone who is trying to meet expectations for achieving results, I am concerned about implementing this expansion in the spring and summer months when capacity is not at its height.

Therefore, we will talk about the number of funeral halls that may be available in the future and present this again, but it may change from this December to February.

Q&A: Factors behind the upswing in the Funeral Services business in the third quarter

Consolidated Financial Forecast for FY03/24 | 2-04 Quarterly by Segment

Q1						Q2						H1 (cumulative)									
	Actual	Previous Period (Non-10)	Change	Consent to process (Rate of change %)	Risk FY results	Variance		Actual	Previous Period (Non-10)	Change	Consent to process (Rate of change %)	Risk FY results	Variance		Actual	Previous Period (Non-10)	Change	Consent to process (Rate of change %)	Risk FY results	Variance	
Net sales	7,644	7,644	-	-	7,832	-188	-2.4	8,086	8,086	-	-	8,656	-570	-6.8	15,730	15,730	-	-	16,488	-758	-4.6
Public Funeral Services Segment	1,207	1,207	-	-	1,148	59	5.1	1,306	1,306	-	-	1,288	18	1.4	2,513	2,513	-	-	2,435	78	3.2
Profit-Generating Funeral Services Segment	1,796	1,796	-	-	1,255	541	43.1	2,000	2,000	-	-	1,478	522	35.3	3,796	3,796	-	-	2,734	1,062	38.0
Asset Consulting Segment	0	0	-	-	0	0	0	48	48	-	-	0	48	-	48	48	-	-	0	48	-
Information Segment	3,160	3,160	-	-	3,838	-678	-17.1	3,262	3,262	-	-	4,258	-996	-23.4	6,422	6,422	-	-	8,096	-1,674	-20.7
HI Segment	1,480	1,480	-	-	1,589	-109	-6.8	1,469	1,469	-	-	1,632	-163	-10.0	2,949	2,949	-	-	3,221	-272	-8.0
Operating profit	746	746	-	-	467	279	37.1	1,071	1,071	-	-	729	342	48.9	1,817	1,817	-	-	1,197	620	51.6
Public Funeral Services Segment	58	58	-	-	112	-54	-48.2	168	168	-	-	144	24	14.3	226	226	-	-	256	-30	-11.7
Profit-Generating Funeral Services Segment	641	641	-	-	434	207	47.7	716	716	-	-	449	267	36.9	1,357	1,357	-	-	884	473	55.5
Asset Consulting Segment	-29	-29	-	-	0	-29	-	7	7	-	-	0	7	-	-22	-22	-	-	0	22	-
Information Segment	-156	-156	-	-	-185	29	-	-110	-110	-	-	-37	-73	-	-266	-266	-	-	-221	-45	-
HI Segment	-23	-23	-	-	-45	22	-	21	21	-	-	-29	50	-	-2	-2	-	-	-73	71	-
Adjustments	254	254	-	-	150	104	69.3	271	271	-	-	202	69	34.2	525	525	-	-	352	173	64.1

Q3						Q4						Full year (cumulative)									
	Actual	Previous Period (Non-10)	Change	Consent to process (Rate of change %)	Risk FY results	Variance		Forecast (Jan 31)	Previous Period (Non-10)	Change	Consent to process (Rate of change %)	Risk FY results	Variance		Forecast (Jan 31)	Previous Period (Non-10)	Change	Consent to process (Rate of change %)	Risk FY results	Variance	
Net sales	9,346	10,589	-1,243	-11.7	9,711	-365	-3.8	14,765	13,521	1,244	9.2	10,469	4,296	41.0	39,841	39,841	0	0.0	36,668	3,173	8.7
Public Funeral Services Segment	1,465	1,593	-128	-8.0	1,472	-7	-0.5	1,830	1,702	128	7.5	1,651	179	10.8	5,808	5,808	0	0.0	5,559	249	4.5
Profit-Generating Funeral Services Segment	2,360	2,302	58	2.5	1,756	604	34.4	2,511	2,569	-58	-2.3	1,894	617	24.6	8,667	8,667	0	0.0	6,383	2,284	35.8
Asset Consulting Segment	154	113	41	36.3	0	154	-	335	376	-41	-10.9	0	335	-	537	537	0	0.0	0	537	-
Information Segment	3,922	4,756	-834	-17.5	4,719	-797	-16.9	7,938	7,104	834	11.7	5,232	2,706	31.7	18,282	18,282	0	0.0	18,047	235	1.3
HI Segment	1,444	1,825	-381	-20.9	1,764	-320	-18.1	2,151	1,770	381	21.5	1,692	459	27.1	6,544	6,544	0	0.0	6,677	-133	-2.0
Operating profit	1,814	1,767	47	2.7	1,219	595	48.8	2,497	3,357	-860	-25.6	1,864	633	34.0	6,128	6,940	-812	-11.7	4,280	1,848	43.2
Public Funeral Services Segment	344	394	-50	-12.7	300	44	14.7	560	510	50	9.8	357	203	39.9	1,130	1,130	0	0.0	913	217	23.8
Profit-Generating Funeral Services Segment	1,011	900	111	12.3	599	412	68.8	1,014	1,125	-111	-9.9	752	262	34.8	3,382	3,382	0	0.0	2,235	1,147	51.3
Asset Consulting Segment	91	49	42	85.7	0	91	-	242	284	-42	-14.8	0	242	-	311	311	0	0.0	0	311	-
Information Segment	49	108	-59	-54.6	94	-45	-41.9	1,117	1,058	59	5.6	521	596	114.4	900	900	0	0.0	393	507	129.0
HI Segment	46	118	-72	-61.0	38	8	21.1	183	111	72	64.9	9	174	1,023.3	227	227	0	0.0	-26	253	-
Adjustments	270	197	73	37.1	189	81	42.9	-616	269	-885	-	223	-839	-	179	991	-812	-81.9	764	-585	-76.6



Q: Could you expound on the Funeral Services business for the third quarter? The Public Funeral Services segment slightly underperformed because the number of deaths was lower than expected, so can you explain the reasons why operating profit in the Profit-Generating Funeral Services segment has risen from the original projections of 900 million yen to 1 billion yen. Is it dependent on capacity, or unit price perhaps?

Kurosawa: It is because of the increased price of the funeral halls, from 220,000 yen to 270,000 yen.

Q: In that case, will the higher price contribute fully to sales in the fourth quarter?

Kurosawa: That is correct. The forecast is as stated in the presentation materials.

Q&A: Accuracy of capacity forecasts

Q: Has capacity deviated from your most recent forecast of 100%?

Kurosawa: On average, capacity utilization rates for both old and new funeral halls are basically in line with projections. This 100% is only for the capacity utilization rate of new funeral halls launched at a price of 220,000 yen.

The average capacity for the older funeral halls, for which we recently raised the price to 270,000 yen, was 91%, which is about on par with our target when we formulated the budget.

Q&A: Positioning of Information and HR businesses in the process of improving ROA

Moderator: The question is, “How are you positioning the Information and HR businesses in your efforts to improve ROA over the medium term? Is it still under consideration?”

Kurosawa: We expect to achieve our goals. We will continue to improve our income statement going forward.

As for idle assets, we must use them at a rate that is closer to our target. To give you a hint of the scope and challenges for this, although the Printing business is shrinking, the plants we have in Urawa, Saitama are not physically getting smaller, so the question is how we can utilize the idle space.

If there is a point in time when the rate of return crosses the negative impact on financial indicators, it may be possible to switch plants, but there is no indication of this happening at the moment and it has not been raised as a plan.

Additionally, there is the re-utilization of real estate at a former factory site in Toyonaka, Osaka. Although the amount on the balance sheet is not that large because we have also taken impairment losses, in reality, it is not so small that it can be ignored if we are to achieve our financial targets. We will continue to explore ways to reuse this real estate effectively.

Although the location is very close to the airport, we don't know what will happen to the airport in the future, so we have to think about when to use it.

However, until that time comes we will look at every possible way to use the real estate. In conclusion, there is no plan in place for effective utilization at this stage.

Q&A: Number of funeral halls

Moderator: The questions is, “Since the number of funeral halls will decrease between December and February, does this mean that you will not be too concerned about the target of 71, but instead increase floor space for popular funeral halls?”

Kurosawa: Earlier I mentioned that in December of this year we would increase the number of rooms, which we feared would be unpopular and cause a drop in capacity. But I think it's a good idea to increase the number because there are some halls where the capacity utilization rate won't drop even if the number of rooms increases. The exact number has not been determined at this time.

Since construction does not take too much time, we will look at capacity during the spring and summer and decide on the most appropriate balance.

Q&A: Nationwide expansion of Crematorium Business

Moderator: The question is, “From a long-term perspective, you have stated that you will expand the Crematorium business nationwide, but is it correct to say that you won't push ahead with this in the next Medium-Term Business Plan?”

Kurosawa: That's right, at this stage we are not looking to push ahead. Although there are various ways we could roll out the Crematorium business nationwide, I do not intend to talk about it as one of our growth businesses.

Naturally, the furnaces in our crematoriums are replaced from time to time, so it would be a shame if these profits went to another company. Since we currently have the workers who can build our furnaces, we intend to build our own.

If a municipality outside of Tokyo were to purchase a cremation furnace, it would have to choose from an extremely small number of manufacturers. As one of the few crematorium manufacturers, if we don't have a track record of putting our furnaces into operation in some crematoriums, we won't even be considered as a competitive option in the first place.

We can be a viable option, so we should seize the opportunity to get local governments outside Tokyo to purchase our products. If these look like they will sell, we should do so with our current workforce. If sales are likely to grow from this, we will take the risk to form a dedicated team under the Medium-Term Business Plan which will generate fixed costs.

The furnaces we developed will not be available in funeral homes for another two years, so we will not be able to show any numerical targets during the Medium-Term Business Plan period.

Q&A: The price of the new and old funeral halls

Q: I have a question regarding the price of the new and old funeral halls. You say that the new funeral halls are being used more than the existing ones, but are there any cases where other funeral halls are being used because of the higher prices? What feedback, if any, have you received from your customers in terms of changes in the competitive environment?

Could you tell us about your thinking for the future regarding the price of the new funeral halls set at 220,000 yen?

Kurosawa: Regarding the question of whether customers have moved to other funeral halls, despite the increase in the number of funeral halls, the capacity utilization rate is high and comparable to that of the previous year with the number of funeral halls used increasing significantly. In other words, I think it shows that people who had chosen other funeral halls have now come to us, or those who wouldn't have had a funeral now choose to do so. In short, I don't believe people are leaving because of price.

In terms of the price for the new funeral halls, I think we will naturally look at whether to raise or lower the price while appropriately monitoring capacity utilization rates.

Currently, the price of a funeral home with crematorium in Tokyo is 240,000 yen, which is higher than 220,000 yen, so I would say that it is almost certain the price will go up. We will decide how much to raise the price based on the situation.

As mentioned earlier, we may increase the number of slightly smaller funeral halls in the future, in which case the price will be 180,000 yen. So, if the same sized funeral hall priced at 220,000 yen is split into two at 180,000 yen each, then 360,000 yen is of course a higher price.

These are some of the options we have. In the future, we intend to adopt a smart pricing strategy that will allow us to generate solid profits in the sense that we will have the resources to make better investments.