Messages

Four top executives discuss the future

Toward return to a full-fledged growth trajectory

After reviewing our medium-term management targets and making a fresh start, the Group has embarked on various reforms aimed at shifting our business structure toward sustainable growth and further expansion of market value.

In this discussion, the four leaders guiding our group management will share their vision of the future through this “Second Foundation” from their respective standpoints, and explain the future growth strategies for the evolution and development of the Group’s business, as well as the financial strategies that will support these efforts.

Masahiko Otsuki
Executive Managing Director

Suguru Miyake
President and Representative Director

Takamaro Naraki
Executive Managing Director

Naoki Takeuchi
Managing Director

Toward return to a full-fledged growth trajectory

In December 2021, inappropriate internal behavior involving the bringing forward of sales reported were discovered in the Group's quarterly business results, leading to strict disciplinary action. Since the inappropriate incident, the Group has been committed to compliance-focused management by implementing measures to prevent recurrence, the development and penetration of our compliance foundation, and focusing on restoring unity within the Company. Throughout FY2022 and FY2023, we worked to establish a foundation to ensure the sound operation of the organization. Following these Initiatives, the Group aims to return to a full-fledged growth trajectory. Starting in FY2024, we have set forth three major growth strategies to realize further growth. We will pursue these growth strategies toward the achievement of 4th-period medium-term management targets. We are fully committed to regaining the trust and delivering value to our stakeholders.

Recover from inappropriate incident

Elucidation of cause	◎	• Vulnerabilities in the workflow related to sales reporting and recording • Excessive sales-oriented culture • Decline in morale
Implementation of measures to prevent recurrence	◎	• Clarification and standardization of sales report • Shift to a compliance-focused management policy
Strengthening of compliance system	◎	• Recruitment of CCO • Establishment of the Compliance Division • Thorough dissemination of the internal consultation and whistleblowing system: 74 consultations/reporting in FY2023
Cultural and organizational reform	○	• Establishment and thorough implementation of Purpose and Philiosophy • Compliance training
Restoration of employee morale	○	• Direct dialogues between employees and Directors (Holding of "Teach-in" meetings by President with all employees, etc.) • Employee survey results show that responses regarding the "Sense of Unity" increased from 4.2 to 4.8 in one year (out of 7 points) • Improvement in the number of transactions closed
Restoration of business model	○	• Cooperative relationships with partners remain good. • Reorganization of the department handling mid-cap mandates, which had a large number of departures, and the establishment of a dedicated department for promoting such projects • Promotion of direct marketing such as seminars, direct mails, etc., in accordance with guidelines
Improvement of corporate productivity	○	• Increase in M&A sales per employee
Curbing departures	△	• Implementation of enhancement measures of employee engagement • Regular interviews between employees and Directors • Introduction of management training for general managers, section managers, and group leaders • Introduction of 100% Supported Employee Stock Ownership Program, etc.

Growth strategy

1 Marketing

To save about 0.6 million SMEs that will go out of business despite being profitable, it is important to improve the contact coverage rate with potential sellers and potential buyers. While our approach continues to focus on reaching companies through our traditional business partner network, the Group is also strengthening a direct approach to companies, given that SME M&A has become more common as a management strategy. Through approaches tailored by scale and region, we aim to engage more potential sellers and facilitate optimal matches between companies by maintaining close communication with our clients. This approach seeks to increase the number of new mandates and transactions closed.

2 Improvement of corporate productivity

To guide more companies to closure, we position the reduction of lead time to closure and the improvement of success rate as key strategic priorities. However, our focus is not solely on efficiency, we also place great importance on ensuring a secure and safe M&A process and achieving high satisfaction with the outcomes. To address the challenge of balancing productivity with quality, we are leveraging our 30 years of accumulated knowledge and experience, combined with the adoption of digitalization. We believe this will enable a more efficient M&A process and better meet the needs of our clients. Our goal is to achieve a sustainable increase in sales per head with a good balance between productivity and quality.

3 Recruitment, development and retention of human resources

The recruitment and development of talented consultants are fundamental to our sustainable growth and medium- to long-term enhancement of enterprise value.

By enhancing the quantity, quality, and speed of recruitment, as well as improving early development and retention rates simultaneously, we aim to achieve the sustainable expansion and growth of our organization.

4th-period medium-term management targets — FY2027 Sales **¥76,200** million Ordinary profit **¥30,500** million

Long-term vision

M&A Sector See page 25 | Financial Sector See page 28 | Overseas Sector See page 28

Message from *Suguru Miyake*

Message from President

We are advancing the transformation of our business model to achieve a leap forward in our “Second Foundation”

As the Group progresses with 5-year medium-term management targets, EXCEED 30, we took a step toward returning to a growth trajectory in FY2023 by enhancing internal unity and increasing the number of transactions closed. In this session, I will explain our future business developments based on the direction and growth strategies the Group aims to pursue in light of the rapidly changing M&A market and industry trends.

Suguru Miyake
President and Representative Director

Message from President

Concentrating on Establishing a Compliance-focused Management System

Status of recovery from the inappropriate incident

Nihon M&A Center Group is a team of specialists that contribute to the survival and growth of companies through business development centered on M&A business. In 2022, we declared our Purpose of “To bring optimal M&A ever closer” as an expression of our raison d’etre. We established our “Philosophy” statement in 2023 in order to realize the Purpose statement among employees, forming the basis for our corporate culture and for our employees in their conduct and decision-making processes, and have since worked to share and instill these values within the Company.

On the other hand, in 2021, the inappropriate recording of sales was discovered within the Company, and differences in values and opinions emerged among our employees regarding this incident and the disciplinary actions. Under such circumstances, we have been able to restore the sense of unity among employees that had been lost by deepening each employee’s understanding of our “Purpose” and practicing our “Philosophy” in order to realize it.

From a structural standpoint, we declared both internally and externally a shift to a compliance-focused management policy, including the clarification and standardization of sales recording standards, and we feel that the foundation for compliance management is in place through the recruitment of a CCO, the establishment of the new Compliance Division, and thorough dissemination of the internal consultation and whistleblowing system, etc. Going forward, we aim to achieve sustainable growth and enhance our trust by instilling compliance at the cultural level within our organization.

Steady increase in the number of transactions closed, reaching a record high

As mentioned above, FY2022 was a year focused on building a structure to prevent recurrence while bringing together the disparate feelings of employees over the inappropriate incident and subsequent disciplinary actions. In FY2023, we finally took the first step in reviving our performance by restarting our medium-term management targets (FY2023-FY2027) in which we have revised our goals. However, the initial progress was slow, with performance struggling to grow as expected. This was mainly due to low average revenue per transaction. To maintain and increase average revenue per transaction, it was essential to recover the number of transactions targeting mid-cap companies (companies with sales of over ¥1.0 billion or profit of over ¥50 million).

Starting in the second quarter, cross-company initiatives for gaining mid-cap project mandates, led by the Centre for Growth Strategy Development, a specialized department focused on mid-caps, began to yield actual results, and it leading to an increase in average revenue per transaction. As a result, in our consolidated results for FY2023, aided by the recovery in the sense of unity among employees over the previous fiscal year, the number of M&A transactions closed reached 1,146, and sales exceeded ¥44.1 billion, achieving an increase in sales for the 14th consecutive year. Both of these figures were the highest we have recorded. Although profits increased at all levels, they didn’t reach the initial targets.

The fact that we could catch up with sales guidance, thanks to the record high number of transactions closed and recovery of the average revenue per transaction is regarded as a major achievement in FY2023. This achievement is attributed to the steady growth in network sales that we have been working on. Our strength is in network sales and we are achieving further growth based on stable partnerships with accounting firms. We also established new forms of partnerships with regional financial institutions. Specifically, in July 2023, we set up “NOBUNAGA Succession,” a joint venture with Juroku Financial Group, to engage in activities related to business and management succession support. In April of this year, we also established Kyusyu M&A Advisors Co., Ltd., advancing a joint venture with Higo Bank and E. Sun Venture Capital. Furthermore, we are expanding our partnerships with major financial institutions such as securities companies and megabanks. In June of this year, the Financial Services Agency announced the revised plans for the supervisory framework to encourage financial institutions to strengthen M&A support, which we view as a tailwind for our company. Going forward, we aim to further strengthen network sales and create new business opportunities. However, overall, there is still room for improvement, and we can say that our evaluation score is about 60.

Particularly in direct marketing, we have not been able to achieve sufficient results. This area needs to be addressed as a future challenge.

Unlike network sales, in which we receive referral for new mandates from financial institutions, securities companies, accounting firms, etc., direct marketing does not incur referral fees and thus offers a high gross profit margin. Previously, the Group’s contracted mandates were 60% through networks and 40% through direct marketing. However, due to an inappropriate incident in accounting, which limited proactive sales activities in direct business divisions, the ratio became imbalanced, leading to a

Message from President

deterioration in profit margins. In addition, the cost structure has also been inflated recently due to the impact of the pandemic and responses to the inappropriate incident, and a review from a profitability perspective is necessary. A perfect score of 100 is possible only if we make sure to improve our profit margin by strengthening direct marketing and reviewing the cost structure.

Strengthening direct marketing is also regarded as an important theme from a business strategy perspective. Unlike the past, the significance and effectiveness of M&A have become widely recognized in recent years. M&A is now considered more important by business owners as a method of business succession and growth strategy, making it crucial for us to directly contact executives who have M&A needs or concerns. In other words, we are now in a situation that could be described as the "BtoC shift of M&A,." As sales activities of competing emerging M&A intermediaries and others are specializing in direct marketing, direct marketing must be strengthened in order to secure market share.

Responding to changes in the market environment and realizing our Purpose

Thus, the M&A industry has undergone various changes, and new needs and challenges are spreading to the M&A market for SMEs, which is the Group's primary battleground. In this context, we have re-recognized our social responsibility and reinforced our commitment to realizing our "Purpose." First, I would like to look at the market and the industry, and discuss how the Group is expected to respond to these changes.

According to estimates of Yano Research Institute Ltd., the potential demand for business succession-type M&A, mainly among SMEs, is expected to peak in 2035 and remain at above 90,000 companies (sales over ¥100 million) for the 20 years from 2025 to 2045. Reflecting this trend, there has been a significant increase in SME closures due to the aging of business owners. Specifically, by 2025, about 2.45 million SME business owners will be over 70 years old, and among them, about 1.27 million companies will have no successors, of which around 0.6 million are said to be profitable companies. The forced closure of these 0.6 million profitable companies would result in a significant loss for Japan, as it would lead to the disappearance of advanced technologies, valuable manufacturing and services, or the loss of bearers of

As the M&A industry undergoes changes and new needs and challenges emerge, we are re-recognizing our social responsibility and responding to the changes.

reginal culture. To prevent this, subsidies are provided to the companies involved in M&A for business succession and tax incentives to the buyers, creating a tailwind for the market.

Another problem Japan faces is indeed the decline in the working population due to the birthrate falls and the population ages. The number of people aged 15 to 64, known as the working-age population, is expected to decline from about 80 million in 2010 to about 65 million by 2035 and about 50 million by 2050. Companies are required to respond to labor shortages, but investments in labor-saving, productivity improvement through employee training, and business innovation through digitalization are all challenging for small-sized companies to implement. Therefore, the government has set forth a policy to consolidate companies and promote industry restructuring to improve productivity. As a result, it is expected to lead to a surge in "industry restructuring-type M&A" around 2030, expecting its market expansion along with business succession-type M&A.

In Japan today, conditions remain extremely tough for medium-sized companies that want to expand their businesses, and it is becoming increasingly difficult to achieve sustainable growth and survive as a company through organic business activities alone. From the perspective of responding to the needs of the times, "shifting from organic growth to leveraged growth utilizing M&A," the Group will further focus on responding to industry restructuring-type M&A.

A Year to Take the First Step Towards Re-growth

Enhancing development of human resource and sales initiatives

While keeping a close eye on market changes, we have positioned FY2024 as the year in which we will take the first step toward re-growth. To further energize our sales activities, the Group is developing additional strengthening initiatives. First is the enhancement of human resource recruitment, the reduction of turnover rates and the improvements in retention rates.

Message from President

The theme for human resource recruitment is to enhance both quality and quantity. The management, including myself, participates in company information sessions and other events, and we are actively recruiting through such means as conducting interviews with immediate decisions, as well as promoting referral recruitment. In FY2024, we plan to increase the number of consultants by 120 on a net basis.

Retention of mid-career employees is an important theme for reducing turnover and improving retention. In Japan's job market, many people believe that changing jobs after the age of 40 is difficult. The average age of our employees is 34, and those in their late 30s who have gained experience at our company often find themselves at a crossroads, reassessing their future and career, which sometimes leads them to leave the Company. To address this issue, I launched the "Azabu Project," where I engage in dialogues about career paths with mid-career employees. "Azabu Project" provides an opportunity for me and mid-career employees to discuss our careers in depth over dinner at a restaurant in Azabu. Through this project, we aim to prevent mid-career employees from leaving the Company. In addition, there are mid-career employees who used to utilize the stock option plan, but there is no new stock option plan at present. We recognize that this change has had no small impact on retirements. Therefore, we introduced a 100% Supported Employee Stock Ownership Program. Furthermore, we now hold quarterly financial results briefings for employees to enhance engagement. These initiatives are aimed at improving retention rates among mid-career employees and preventing turnover.

To build a structure capable of meticulously managing the large number of human resources we have hired, and to ensure that we can achieve the goals of our medium-term management targets, we dismantled our five divisions and established 11 mission-based channels in FY2024. Under 11 channel leaders, 36 general managers, and 60 group leaders will be assigned to provide detailed human resource development by optimizing the number of subordinates to be supervised and managed and the number of projects to be handled.

The introduction of the channels is not only a human resource measure, but also is expected to increase efficiency and speed on the execution of the sales strategies that have been formulated by clarifying the jurisdictions, and enabling them to take ownership of the development of the business.

We aim to improve the overall performance of the organization by creating an environment in which each employee can seriously consider and develop their career.

In FY2024, in addition to human resource investment for active recruitment of consultants, we will make full-scale strategic investments to strengthen direct marketing, digitalization investments to improve productivity, and business investments to expand overseas business and financial sectors. Therefore, while we anticipate an increase in both sales and profit on a consolidated basis, we expect a temporary decline in the ordinary profit margin. I will explain this in more detail later.

Progress of the First Year of Medium-term Management Targets and Future Development

Achieving top-line expansion beyond guidelines

The ongoing medium-term management targets, EXCEED 30 (FY2023-FY2027), which were reviewed and reset in light of the delays in the growth strategy caused by the inappropriate incident, aim to achieve "sales of ¥76.2 billion" and "ordinary profit of ¥30.5 billion" in the final year of consolidated results.

As previously mentioned, in the first year of the target, we steadily increased the number of M&A transactions closed and achieved top-line expansion that exceeded the guideline (single-year target). We intend to continue to lead the plan in FY2024 with growth driven by top-line expansion. What is crucial is to increase the top-line while also ensuring steady growth of profit. Securing ordinary profit without growing the top-line is nothing more than a reduction in expenses. Although we can increase profits by curbing investment in human resources and sales marketing activities, this would hinder our ability to expand performance two or three years down to the line. In this sense, the fact that sales exceeded the guideline in the first year of the mid-term management targets is a significant breakthrough for me.

With the confidence gained from this increase in sales, in FY2024 we will proactively pursue growth-oriented investments, such as human resource recruitment as I mentioned. For that reason, we have set a conservative guideline for ordinary profit of ¥17.0 billion for FY2024, assuming a temporary decline in the ordinary profit margin. My expectation, of course, is to surpass the guideline, which we believe is fully possible through sales growth.

Productivity improvement towards achieving medium-term management targets

As a condition for achieving the EXCEED 30 final year (FY2027) targets, an improvement of productivity per head is particularly required. It is not easy to expand volume and raise average revenue per transaction at the same time, and efforts are required just to maintain the current average revenue per transaction.

We plan to improve productivity by increasing the number of transactions closed per consultant while maintaining average revenue per transaction. Specifically, we aim to keep average revenue per transaction between ¥38 million and ¥40 million, with a goal of achieving more than three transactions closed per consultant.

To achieve this, we will work on reducing the lead time of the process and improving the success rate. This will also contribute to customer satisfaction.

Thoughts Behind the "Second Foundation," and What We Aim to Achieve

Responsibility as a leading company

Against the backdrop of a favorable market environment, the M&A industry has seen a rapid increase in the number of M&A intermediaries in recent years. Currently, more than 600 M&A intermediaries are active in Japan, of which about 85% are considered to be startups or small companies established within the past two years with four or less employees. In a situation that can be described as chaotic, there has been a decline in moral and business quality, and revitalizing the soundness of the industry as a whole has become a major challenge. The Small and Medium Enterprise Agency issued the "M&A Guidelines for SMEs," which provide guidelines to improve the soundness of the industry. In 2021, the M&A Intermediaries Association was established within the industry, with me serving as the first representative director, to promote appropriate, fair, and smooth M&A transactions through self-regulation and other efforts.

Once again, returning to the Group's Purpose "To bring optimal M&A ever closer," our goal is to build communities in which all businesses can engage in M&A with confidence, and we believe that it is our responsibility as a leading company to enhance the business quality, customer satisfaction, and compliance throughout the industry to achieve this goal.

Amid the changes of the industry with the increase of industry restructuring-type M&A and the rise of new M&A intermediaries, we are conscious of the need for clear differentiation. The Group's approach to M&A is far different from that of other companies. For us, M&A is more than just business. We believe that "Companies are places to form lasting bonds," not only for its founders and employees, but also for all people involved in the business and their families, and our role is to undertake a succession plan for them. This requires commitment, and we also expect both sellers and buyers to have a sense of commitment as well. That is why we take in initial fees, work diligently, and provide the highest quality of work. The Group's stance is to achieve the world's highest success rate, and to aim for the world's highest level of customer satisfaction. I continue to convey this stance to our employees through our Purpose.

Two new meeting bodies as a place for succession planning

When the Group marked the 30th anniversary of our foundation in 2021, based on the keywords of our "Second Foundation," all of us took a new step forward with the spirit that "we are all founders".

The term "Second Foundation" represents not only aiming for a further step up from the growth path since our founding. Second Foundation has two meanings.

First meaning is "transformation toward the times."

We recognize that we need to change our business model in response to changes in the market from the potential demand for business succession-type M&A and the expansion of industry restructuring-type M&A, as I mentioned in the beginning, as well as the resulting change in the awareness of business owners, and the M&A industry's change with the increase in M&A intermediaries. In this context, we hope that all employees in the Group will become a founder of our "Second Foundation," and that we will all achieve sustainable growth together.

The second is the succession of management.

As I look ahead to the future of the Group, the theme that I personally must keep in mind is implementing a succession plan to develop and appoint my own successor. I turn 72 this year, and while I am currently in good physical and mental health, I must prepare for the time when my energy and strength decline, leading me to step down from my current position. I started this initiative about three years ago and have been steadily moving forward with the creation of a company group that fit the new era. This is another meaning embedded in the term "Second Foundation."

In FY2023, we established and began operating the M&A Strategic Meeting, which oversees our operating companies in the M&A domain, and the Financial Strategic Meeting, which oversees our operating companies in the fund management domain under the Management Meeting, as the management organization of the holdings structure. These two meeting bodies will work to coordinate the strategic aspects of their respective domains, with the aim of demonstrating synergies. Moreover, these meeting bodies will not only play an interim holding company-like role within the entire Group but also function as a place for succession planning to produce successors to group management.

In 2023, I appointed Masahiko Otsuki as the Representative Director of Japan Investment Fund Inc. under the Financial Strategic Meeting, and in 2024, Naoki Takeuchi took over as President and Representative Director of Nihon M&A Center Inc. under the M&A Strategic Meeting. I believe the quality of decision-making within these meeting bodies has significantly improved compared to when I was at the helm, and we are nearing a situation where we can have a succession at any time.

Message from President

Forming common understanding through materiality and ESG

Considering the level of importance to the Company and stakeholders, and to address social challenges through our business, the Group has identified the key theme to be focused on as materiality (priority issues). This materiality consists of seven items: "Further advancement as an integrated M&A company," "Innovation," "Secure and safe M&A," "Contribution to society," "Promotion of human capital management," "Strengthening of information management," and "Strengthening of governance foundations." We are aiming for sustainable results by reviewing materiality as necessary, in light of changes in the external environment and the status of internal initiatives.

We will maintain a balance between compliance, sustainable growth, and return of profits. We will continue our corporate activities in a manner that will satisfy all of you.

In the reassessment of materiality, the members of the Management Committee express their opinions from their respective standpoints to form a common understanding. I believe this process is very meaningful. Furthermore, by publicly announcing the materiality, we expect that it will help us form a common understanding with our shareholders, investors and other stakeholders, and contribute to building good relationships with them.

The same can be said for our approach to ESG/sustainability themes. In dialogues with institutional investors in the U.S. and Europe during overseas IR roadshows and other occasions, particular emphasis is placed on efforts in ESG management, which serves as a major evaluation criterion. From this perspective, we recognize that ESG/sustainability is an important theme. For example, we actively promote Diversity & Inclusion, holding an annual Diversity & Inclusion event for employees. Additionally, we are advancing research for corporate valuation that incorporates ESG factors.

Through the business activities, we will focus on contributing to environmental conservation, providing social value, and maintaining strong governance, while striving to form a common understanding that will be supported by many people. The initiatives toward ESG/sustainability are essential elements of enhancing enterprise value and we regard them as important parts of our efforts to build a sustainable future.

A Future Shared with Stakeholders

We are dedicated to improving our performance to increase the level of returned profits, and we will reward the support of our shareholders and investors through improved capital efficiency.

Thanks to your support, the Group is now at the starting line of re-growth, gaining confidence in the steady expansion of both the number of transactions closed and sales. Going forward, we aim to catch up in terms of profitability during the EXCEED 30 period, and to connect our growth investment to the next leap forward.

As in the previous year, we will maintain a high degree of balance among compliance, sustainable growth and return of profits, and continue our corporate activities to satisfy our stakeholders. In this fiscal year, we introduced a restricted stock remuneration plan. This will be operated together with the 100% Supported Employee Stock Ownership Program mentioned earlier, and I'm sure that they will help to realize management in which both Directors and employees are united with our shareholders.

We hope that all of our stakeholders will look forward to the future that the Group will realize and continue to support us over the long term. We will continue to pursue sustainable growth and value creation through close cooperation with our stakeholders. We will develop our corporate activities continuously and build the future together with you.

Message from *Naoki Takeuchi*

Messages from Chairman of M&A Strategic Meeting

We will expand the growth opportunities with a focus on the future of the M&A market

Naoki Takeuchi
Managing Director

Recreate Legendary Growth of the Past in New Forms

"A company is not a thing" as the foundational belief

I joined the Company in 2007, holding the belief that "a company is not a thing" as my foundational principle. At that time, I belonged to the Corporations Department and was mainly engaged in matching operations between sellers and buyers. Since the foundation phase, President Miyake has expanded the M&A business by demonstrating his outstanding skills in network sales to financial institutions and accounting firms. In the process, it became necessary to strengthen direct sales, and the Corporation Department was established. I took on the role of leading direct sales, and together with Miyake, I have been striving for the growth of the Group by strengthening both network and direct sales.

In my personal experience with many customers, I have come to realize that a company is not a "thing" but a "place to form lasting bonds." I believe that our mission in the M&A business is to continue weaving the existence of the "company" into the future, which was founded by the founder's hopes and has involved many people and received their support.

Succession formed by two meeting bodies

In FY2023, we established the M&A Strategic Meeting and the Financial Strategic Meeting as the management organization of the holdings structure. As the chairman of the M&A Strategic Meeting, which oversees our operating companies in the M&A domain, I have taken on the role of President and Representative Director of core subsidiary, Nihon M&A Center Inc. from FY2024. These two meeting bodies function as organizations to promote cooperation among operating companies in their respective domains, creating synergies from the strategic aspect. At the same time, they are responsible for succession planning within the group management, focusing on developing the next generation of senior executives.

Under the leadership of Miyake, the Group has experienced rapid growth and business expansion over the 18 years since going public in 2006. Miyake, now 72 years old, will eventually need to pass the helm of management to his successor, but it will be difficult for the successor to take over the entire

Messages from Chairman of M&A Strategic Meeting

management of the Group by himself after such a rapid expansion. The important task ahead is a succession plan in which Miyake's high management qualities are inherited by multiple leaders. The establishment of the two meeting bodies is positioned as a foundational step in this succession process.

Over the past year, the M&A Strategic Meeting has engaged in a series of open discussions, sharing information related to human resources in the M&A domain as a whole and implementing active personnel exchanges across operating companies, including appropriate transfers and assignments. As an extremely effective meeting body, I believe we have been able to improve the functioning of the organization.

Theme based on current challenges and medium- to long-term outlook

There are three major challenges currently facing the M&A business: increasing sales per head, marketing to client companies, and recruiting and developing human resources.

The first challenge is to increase sales per head. Before the inappropriate incident, the sales per consultant with sales target at Nihon M&A Center was ¥112 million in FY2020, but this figure has since dropped to ¥83.9 million (FY2023 results). We see sales per head as an important indicator of customer satisfaction, so we need to increase it promptly. We are currently working to improve productivity in the M&A process in order to improve the number of transactions closed per consultant.

Specifically, we aim to improve the success rate and reduce the lead time to closure. To improve the success rate, it is important to manage processes and business quality. Therefore, we have established the "Business Processes Department," to take the lead in more effective matching activities, analysis of break cases, and strategies to avoid such breaks.

To shorten lead time, we focus on the "preparatory" process, which involves corporate evaluation and business analysis, as well as the "matching" process, which connects sellers and buyers together. First, in the "preparatory" process, we are streamlining the execution of corporate valuation, business analysis, and pre-due diligence by using digitalization to automate the risk identification and the organization of issues. In the "matching" process, the newly established "Matching Promotion Department" monitors case information in Salesforce and is responsible for improving operational efficiency. The "preparatory" process and the "matching" process proceed serially now, but we are thinking of changing it to a parallel progression to shorten this process. However, shortening the negotiation and execution processes could increase the risk of future issues, so in these processes, it is important to take sufficient time on grasping information, filling in terms and conditions, and promoting mutual understanding, without shortening lead time.

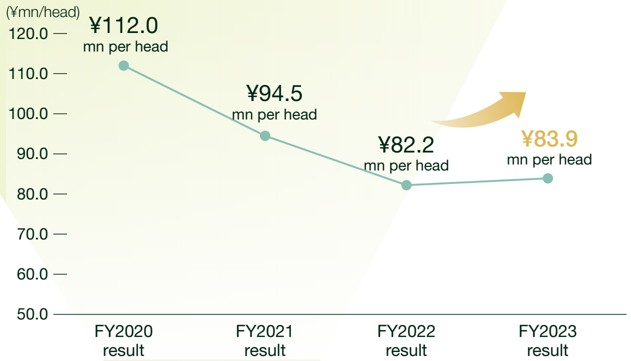
Digitalization is also being utilized in the sales field. A data utilization platform service utilizing Salesforce realizes effective information sharing through uniform management of the progress of M&A transactions and customer information. In addition, the introduction of an AI meeting analysis service has improved operational efficiency, from recording, transcribing, and summarizing interviews to automatically linking them to Salesforce.

Through these efforts, we aim to improve the number of transactions closed per consultant by shortening the preparatory and matching processes, respectively.

In addition, we plan to continue our current initiatives targeting mid-cap companies through the "Growth Strategy Development Centre," while increasing the introduction rate of services such as PMI (post-merger integration) support for buyers and the Tokyo Pro Market IPO support. Our goal for FY2024 is to return the sales per employee with sales target at Nihon M&A Center to ¥90 million, with a further recovery to the ¥100 million range in FY2025.

Sales per employee with sales target at Nihon M&A Center

(Calculated based on average number of employees at start and end of fiscal year)



*Excluding referral fees and outsourcing expenses

The second challenge is the marketing of client companies. In order to save about 600,000 SMEs from going out of business despite being profitable over the medium- to long- term through M&A, we need to build a database of companies that are willing to be matched with a potential seller. M&A is not merely a commodity transaction, but there must be an emotional match between sellers and buyers.

This database is an accumulation of not only quantitative corporate information, but also quantitative and qualitative information on management strategies that our consultants acquire by going deep into the history and future vision of the buyer. This makes it possible to match companies that combine logic (theory) with emotion. The database of buyers

Messages from Chairman of M&A Strategic Meeting

is targeted at financially sound companies among approximately 117,000 SMEs with sales of ¥1 billion yen or more, of which we already have connections with about 40% of business owners. Over the next four years, we intend to establish connections with the remaining approximately 60% and complete the database of buyers.

Another challenge is to improve the coverage rate of sellers. To save about 600,000 SMEs from going out of business despite being profitable, we need to conduct 60,000 M&A transactions per year for 10 years. However, the M&A business of the entire Group, including BATONZ, covers only about 2,000 cases per year. Even when combined with the number of transactions by other M&A boutiques in the industry, the total is likely around 5,000 to 6,000 cases, and coverage of the M&A industry as a whole is only about 10%.

In contrast, as Miyake also mentioned, our clients come through two main channels: referrals from partner networks and direct marketing. Currently, from the two perspectives of improving profitability and securing market share, we view strengthening direct marketing as an urgent priority. In developing our direct marketing strategy, we have established an "Area & Industry Strategy." We divided the metropolitan area and regions into smaller areas, tailoring marketing strategies to the characteristics of each area, as well as implementing industry-specific approaches.

Furthermore, as a leading company, we believe it is necessary to transform our existing business mindset and strategies and share the M&A business expertise and service quality we have cultivated with other M&A boutiques through "co-creation." By doing so, the Group aims to remain the industry's leader and achieve a game-changing transformation. For such business development, we believe it is important to properly communicate our vision and strategy internally and externally to gain understanding. To this end, we have appointed a member with experience as the Head of Marketing Department at Recruit Group as our CBO to lead branding strategies and project aimed at boutiques.

The third challenge, recruitment and development of human resources, is critical to our success.

Sharing Know-how and Service Quality with M&A Boutiques in the Same Industry. We Aim to Achieve a Game-Changing Transformation Through "Co-Creation."

Regarding recruitment, we are actively pursuing recruitment activities to achieve the medium-term management targets. In particular, the trends in the industry are changing drastically, and we will continue to actively recruit business professionals who resonate with our mission, not salespersons who are solely motivated by money or incentives. In terms of the recruitment of new graduate entrants, we ranked 2nd in the category "Contribution to personal development" of the "Most worthwhile internship for students in 2024"* for FY2024. We will continue to leverage our advantage as the industry's largest player and actively engage in recruitment activities.

For the development, we have dismantled the conventional sales organization with five divisions and shifted to a mission-based organization consisting of 11 channels. Under 11 channel leaders, 36 general managers and 60 group leaders were assigned to provide detailed human resource development based on specific missions by optimizing the number of subordinates and the number of projects to be handled. Furthermore, the HR Strategy Department and Sales Headquarters together enhance the skills of each individual by "standardizing" sales methods and expertise.

*Online poll on website for company recruitment information Shukatsu Kaigi

Laying the foundation for a "Second Foundation" for the next 20 years

The Group, aiming to become "the Top Global Integrated M&A Company," will expand its business domain and capture new growth opportunities by addressing social and client challenges surrounding M&A.

Through these efforts, we will strengthen the core of our M&A domain, while simultaneously expanding our financial domain and promoting the overseas development of our Japan-originated M&A business model. we hope to realize our "Second Foundation" with an eye to the next 20 years, and recreate the legendary growth of the past in new forms. To accomplish this, we will steadily achieve the medium-term management targets over the next four years and lay the foundation for future growth.

Message from *Masahiko Otsuki*

Messages from Chairman of Financial Strategic Meeting

Entering a new stage of solving social issues with the keyword, “From Closing Deals to Growth”

Masahiko Otsuki
Executive Managing Director

Realizing Growth of SMEs Through Financial Power

What I have learned through my experience of turning “Zero” into “One”

After working for a financial institution, I joined the Group in 2006 and was in charge of mainly buyers in the Corporation Department. Later, after serving as Head of the Corporations Department and Head of Sales Headquarters, eventually overseeing the M&A-related business. From there, I went on to set up the current financial division, and looking back on my career, I think that I have experienced many roles in which I “did something new” within the Group. In the time I joined, business succession-type M&A among SMEs, we currently involved in, was still not widespread in Japan. Promoting this type of M&A among SME owners was truly a job turning “zero” into “one.” Similarly, launching overseas sector in the ASEAN region, where the business model of an M&A intermediary for SMEs had not yet existed, was also a job of turning “zero” into “one.” In the process of growing our business in this way, I am proud to say that I have played more of a role in turning “zero” into “one.”

Personally, I find great fulfillment in identifying solutions to existing challenges, implementing them, and generating new value and results. It suits my nature as well. If it is just a difficult challenge, I would take on tasks even though no one else has succeeded before. I approach my tasks with this mindset.

Expanding into the new frontier of financial services

Why are we expanding into the financial domain in the first place? I believe that the Group operates in the business of solving social issues. Over 30 years since our founding, we have supported the succession of SMEs through M&A. As pioneers in the industry, as mentioned earlier, we have made M&A more widely known to the public and now handle over 1,000 M&A transactions annually. As the industry’s leading company, we recognize that we are now at the stage where we are moving on to the next stage toward solving social issues.

Regarding this next challenge, I have set the keywords “from closing deals to driving growth.” We became the first listed M&A intermediary company in Japan to go public in 2006,

and at that time, the number of transactions closed was less than 100 cases. However, this number has now grown to over 1,000. More M&A intermediary companies are going public, and M&A support organizations are emerging one after another, leading to a rapid increase in the total number of M&A transactions closed across Japan. The increase in the number of M&A transactions closed signifies progress in solving Japan's social issues, and it is a challenge that we, as a leading company and related parties, must continue to focus on. However, I believe that as a leading company, we should also aim for the next stage.

Going forward, it is essential to not only rescue companies from closure or liquidation through business succession-type M&A and eliminate macroeconomic losses on a GDP basis, but also to enhance positive aspects such as their strengths and unique features, guiding them toward growth. The role of our Financial Division is to realize this growth through the power of equity.

For the Group, expansion into the financial domain is also a differentiation strategy against our competitors. There has already been a significant influx of new entrants in the M&A business, and expansion into peripheral business or overseas operations may also be replicated by others eventually as long as they are M&A-related businesses. However, combining financial and M&A business represents a business development that will bring about a position on a different level that is difficult for others to follow.

Current "Financial Strategic Meeting"

The "Financial Strategic Meeting", which oversees the financial domain, includes Japan Investment Fund Inc. (J-Fun), Japan Private Equity Co., Ltd. (JPE), Search Fund Japan, Inc. (SFJ), and AtoG Capital, Inc. (AtoG). Each of these companies is an independent fund management company, and unlike the "M&A Strategic Meeting," confidentiality obligations prevent the coordination of operations or sharing of project information. Therefore, within this Meeting, we focus on case studies, sharing know-how, and exchanging opinions, while maintaining confidentiality.

AtoG Capital, Inc. (AtoG), which joined the Meeting after being established in December 2023 with 100% investment from the Company, is a new fund that acquires ASEAN-based sellers, reorganizes their governance and financial structures, and then sells them to Japanese companies. This business model was conceived during the expansion of our overseas operations.

Our overseas business primarily supports matching Japanese companies seeking overseas expansion with ASEAN companies looking to sell to Japanese firms until the deal is closed. ASEAN is a region with promising growth, and we have expanded into five countries: Singapore, Malaysia, Vietnam, Thailand, and Indonesia. Among these, Singaporean companies are the easiest for Japanese companies to acquire. Singaporean companies have well-established governance structures that align with the compliance and governance standards required by Japanese listed companies.

On the other hand, Vietnam and Indonesia have high growth potential, but have governance challenges that make them high acquisition risks for Japanese companies. However, it is precisely in these regions that Japanese companies need to enter for growth. Therefore, our concept is to acquire these companies through AtoG, resolve their governance issues, and prepare them for easy acquisition by Japanese firms.

Traditionally, when Japanese companies considered acquiring ASEAN companies, governance issues often led to lengthy processes to reach execution. However, through AtoG, we can introduce ASEAN companies with established governance structures. Thus, AtoG plays an important role in the Group's overseas operations. By combining AtoG with our overseas operations, we hope to support M&A between Japanese and ASEAN companies as well as the expansion of Japanese companies into ASEAN.

A fund committed to the growth of acquired companies

As a core company of the Financial Strategic Meeting, J-Fun is a fund that is getting active now. Generally, in M&A between operating companies, the companies involved in the M&A have a parent-subsidiary relationship, and the subsidiary's management is influenced by the parent company's policies. However, the fund is "neutral" and is solely focused on the "growth" of the acquired company. This is the difference between when the buyer is an operating company and when it is a fund in M&A. In the former case, for example, when the business environment deteriorates, the survival of the parent company is often prioritized and the acquired business is sometimes liquidated. In contrast, there are many cases of the fund's portfolio companies who have managed to persevere and survive and even during the COVID-19 pandemic, despite facing adverse business conditions. For instance, Takumiya Corp., a tourism souvenir business in Ishikawa Prefecture and the first investment project of J-Fun, faced significant financial challenges when the COVID-19 pandemic struck shortly after its acquisition. However, it overcame the hardships of the pandemic-stricken tourism industry and achieved growth together with the fund, earning high praise from local financial institutions that are LP (investors).

Another example of an exit case within J-Fun is FUJIBAMBI Co., Ltd., a long-established confectionery manufacturer in Kumamoto Prefecture that faced succession issues. The

Messages from Chairman of Financial Strategic Meeting

company was so well-known in the prefecture, to the extent that virtually no one was unaware of it. However, this fame made it difficult to find a buyer within the prefecture, and, at the same time, they have psychological resistance to being acquired by an operating company outside the prefecture.

A business development combining financial and M&A brings about a position on a different level that is difficult for other companies to follow.

Therefore, J-Fun first acquired the company, neutralized the owner's influence, and, by co-owning the shares with a group company of the main bank, succeeded in preserving the image of a company within the prefecture. Additionally, a long-standing challenge for the company was how to expand its product reach outside the prefecture. After the acquisition by J-Fun, various value enhancement measures were implemented, breaking the impasse and achieving record-high sales and profits. Subsequently, to realize further growth, an exit was realized with Kyushu Railway Company (JR Kyushu) as the buyer. In selecting the exit partner, our priority was not just to maximize the return for the fund, but also to partner with a "trusted, Kyushu-based company" with the eye to future growth. As a result, Fujibambi, despite its history and brand, was previously a deficit-ridden owner-operated business in Kumamoto Prefecture at the time of acquisition, but has now grown into a company with record-high sales and profits as a subsidiary of JR Kyushu. I believe this is one case by which we were able to prove J-Fun is a fund for regional development. Through J-Fun, we enhance the management capabilities of core local companies and foster their growth. The mission of J-Fun is to revitalize the regional economy and strengthen the competitiveness of local businesses.

"J-Search" expands career paths for employees

The search fund handled by SFJ is a system where individuals (searchers) aspiring to become business owners take over a business with the support of investors through the fund and become involved in management themselves. In other words, it can be described as "entrepreneurship through M&A," and is gaining attention as a new form of entrepreneurship. The search funds are highly regarded as a socially significant investment model that connects talented managerial candidates with attractive companies, and it is reported that over 700 search funds have already been established worldwide. However, the number is rapidly increasing, especially in the United States, where the search fund originated, to the extent that statistical data cannot keep up. During a recent marketing survey conducted during a visit to the U.S., we received information that the number of search funds might be as high as 3,000 to 5,000. Additionally, the increasing establishment of search funds in Japan has also been reported.

The Group is now working with regional financial institutions on the concept of expanding this search fund in a region-specific manner under the name of "J-Search (Japan Search Fund)." The idea is to establish small-scale search funds jointly with local financial institutions, gather searchers under the large framework of "J-Search," and match them with local seller companies and aspiring business owners.

In realizing this, we believe that our group employees, who have a strong passion for serving the region and SMEs and a keen interest in management, could also become searchers, in addition to recruitment through public offerings or via local financial institutions. In other words, the concept envisions "J-Search" also becoming the next career step for our employees.

The Group's business expansion in the financial domain is a challenge that is positioned as a "Second Foundation." We aim to enhance the management capabilities of SMEs and to create blue-chip companies in the region, through private equity funds, J-Fun and JPE. Additionally, we will use SFJ to solve business succession challenges and promote the rejuvenation of management. Furthermore, through AtoG Capital, we will support the overseas expansion of Japanese companies.

Going forward, to disseminate the fund's mechanism nationwide, we will first focus on materializing the "J-Search" concept. At the same time, we plan to accelerate our initiatives to expand beyond just funds to cover the entire spectrum of financial services, including bridge finance and asset management. In the way, we will further develop the financial domain of the Group.

Message from *Takamaro Naraki*

Message from Executive Managing Director, Administration Headquarters

Urgent need for cost structure reform and active recruitment to achieve the medium-term management targets

Takamaro Naraki
Executive Managing Director, Administration Headquarters

Review of FY2023

The Group is currently working toward its 4th-period medium-term management targets, aiming to achieve consolidated net sales of ¥76.2 billion and consolidated ordinary profit of ¥30.5 billion by FY2027.

In this context, the consolidated results for FY2023 showed net sales of ¥44,136 million and ordinary profit of ¥16,518 million. Although net sales achieved the medium-term management targets, ordinary profit fell short by approximately ¥500 million.

The main reasons for this shortfall were an increase in cost of sales due to a higher percentage of M&A transactions closed being introduced by the network, which is one of our strengths, and an increase in personnel costs. On the other hand, there were some improvements in expenses. Previously, travel expenses had been steadily increasing due to the growing number of consultants, but in FY2023, these expenses decreased by ¥270 million compared to the previous year. I feel that this reflects not only the thorough business travel criteria, but also a growing cost-consciousness among all employees.

We collect information in line with current strategies on the status of these expenses in a timely manner and share it with the Board of Directors and Management Meeting to encourage vigorous discussions and support precise decision-making. We intent to flexibly execute the four investments (strategic, human resource, digitalization, and business) for the future from a medium- to long-term perspective, while reducing unnecessary and non-urgent expenditures, to achieve the 4th-period medium-term management targets.

Capital allocation policy

In FY2023, we conducted two rounds of share repurchases, totaling ¥7 billion, resulting in a total payout ratio of 200%, including dividends. ROE also returned to a level exceeding 20%. We believe that the Group is making steady progress toward achieving an ROE of 25% by the final year of the 4th-period medium-term management targets.

In addition, at the Annual General Meeting of Shareholders held in June 2024, we received approval to pay a portion of the remuneration for designated directors in company

Message from Executive Managing Director, Administration Headquarters

Views on Shareholder Returns and Capital Costs

shares. Going forward, to implement management more aligned with shareholder perspectives, we plan to grant restricted stock to Directors, thereby minimizing the impact on the stock market while increasing the shareholding ratio of Directors.

Shareholder return policy

As a comprehensive M&A company, the Group's basic policy is to further expand the financial base by providing high-value-added services to our customers and to actively return profits earned through this growth to our shareholders.

Based on this policy, we regard the return of profits to our shareholders, who have high expectations for the growth of the Group, as one of our important initiatives. On the other hand, we terminated the shareholder benefit program after the June 2024 delivery of shareholder benefit gifts. This is not only because it contributes to the principle of shareholder equality, but also because it has become difficult to stably secure the total amount of rice as a shareholder benefit gift and the administrative burden has increased due to undelivered benefit gifts as a result of address changes and other reasons. Following this termination of the benefit program, a special dividend of ¥6 is planned for FY2024 in addition to the regular dividend of ¥23, and the pay-out ratio is expected to be 83.6%.

Concept of capital costs

The primary business of the Group is the single business of an M&A intermediary, which is labor intensive. Since sales increase in proportion to the number of consultants, the Group's invested capital is not recorded on the balance sheet, but is represented by personnel costs on the statements of income. Therefore, the primary management targets of the Group are not ROIC (Return on Invested Capital), but rather consolidated sales and consolidated ordinary profit at this point in time.

Constant recruitment of talented human resources and active investment in those hired will drive the Company to achieve high growth

As I mentioned earlier, since the increase in the number of consultants is directly related to sales and profit, how we can continuously recruit a large number of high-potential consultant candidates as much as possible is a crucial key for the Group's sustainable growth and medium- to long-term enhancement of enterprise value. At the same time, we believe that investment in human capital is an essential factor in enhancing the competitiveness of our organization, including continuous skill and career development to maximize the abilities and growth of hired consultants, improvement of engagement, and promotion of diversity & inclusion.

We will also commit to further reforming our cost structure in order to maintain a high growth rate that significantly exceeds our capital cost.

Shareholder equity and ROE (return on equity)

Shareholder equity (¥mn) ROE (%)