

# STRATEGY UPDATE 2013

September 2013

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AKATSUKI FINANCIAL GROUP, INC.

(Stock code: 8737)

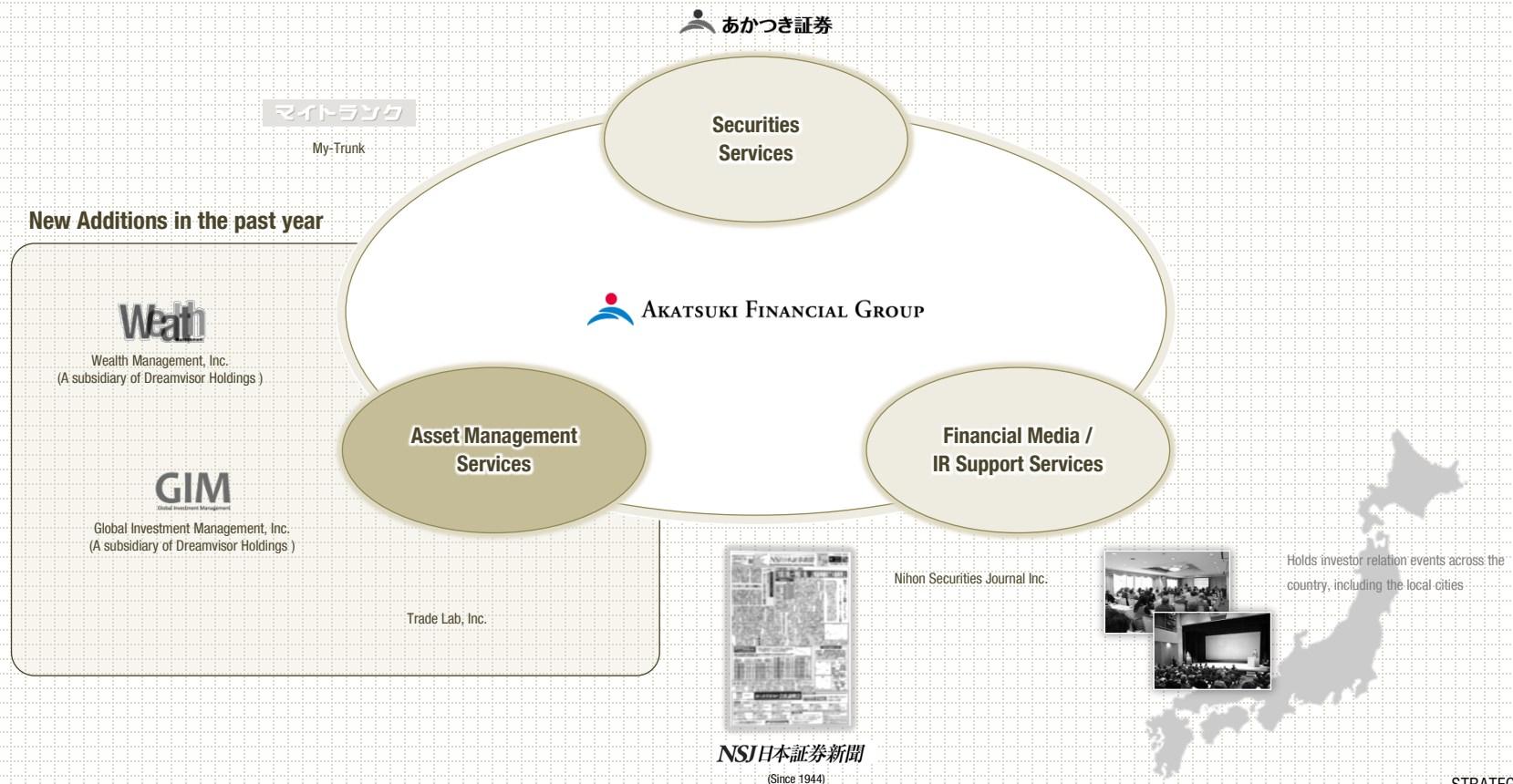
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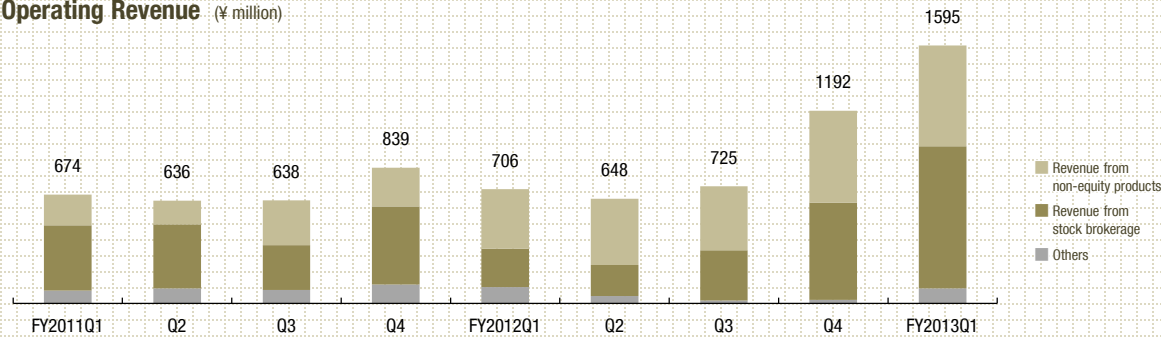
# 1. Recent Developments

- ▶ Since the new management team took over in 2011, we have been diversifying our business model
- ▶ In addition to Securities Services, which is traditionally our core revenue driver, we have added Asset Management Services into our business portfolio as a new customer channel
- ▶ We suspended the dividend payout in 2006 but resumed dividend payments in September 2013
- ▶ With the integration of the Osaka Securities Exchange and the Tokyo Stock Exchange our shares have been trading on the Second Section of the Tokyo Stock Exchange since 16th July 2013



## 2-1. Current Situation of our core Securities Services - Recent financial summaries

### Operating Revenue (¥ million)

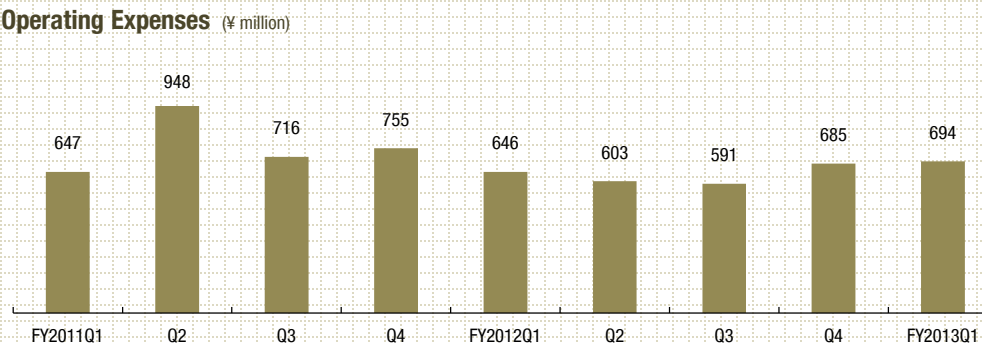


Operating Revenue

**up 126%**

(Y-Y % change)  
\*FY2012Q1 vs. FY2013Q1

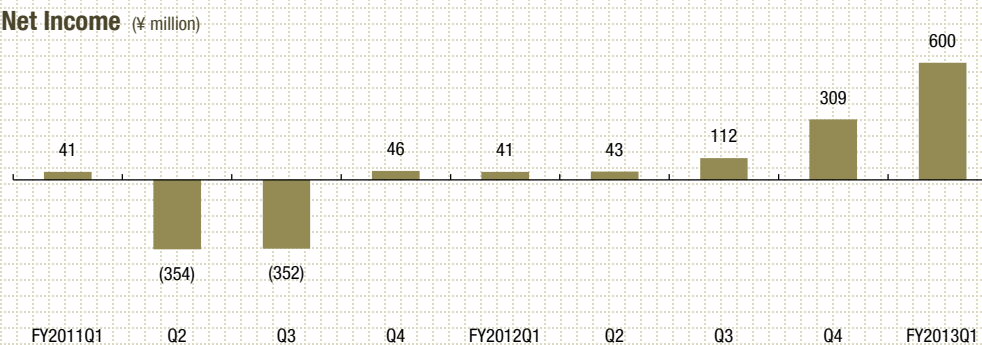
### Operating Expenses (¥ million)



Operating Expenses

**Maintained at a lower level than the past**

### Net Income (¥ million)



Net Income

**Significant Increase**

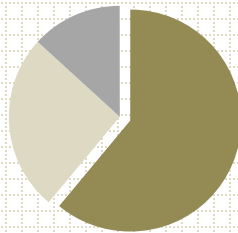
(Y-Y)

Note: Operating Expenses=selling, general and administrative expenses (exclude shares of holding company costs and incentive payment)

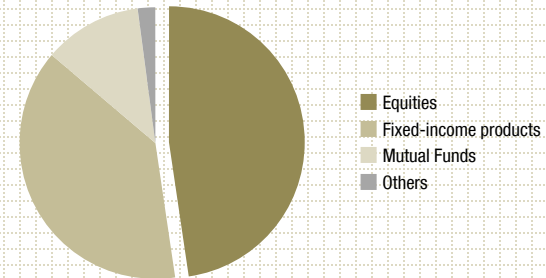
## 2-2. Current Situation of our core Securities Services - Change in profit structure (1)

- Our profitability is maintained by a diversification of our sales strategies into a more balanced mix of underlying - actively mutual funds, bonds and equities coupled with the implementation of a merit-based HR management system

1H 2011 operating revenue

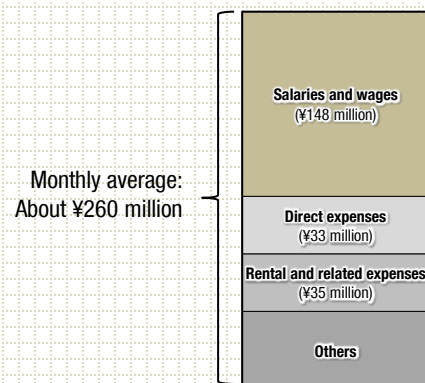


2H 2012 operating revenue



- Implementation of stringent cost cutting measures

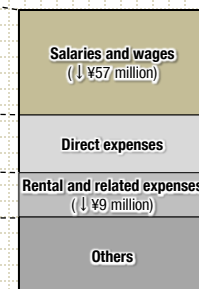
1H 2011 monthly operating expense\*



2H 2012 monthly operating expense\*

Voluntary retirement scheme,  
consolidation / shutdown of  
unprofitable businesses

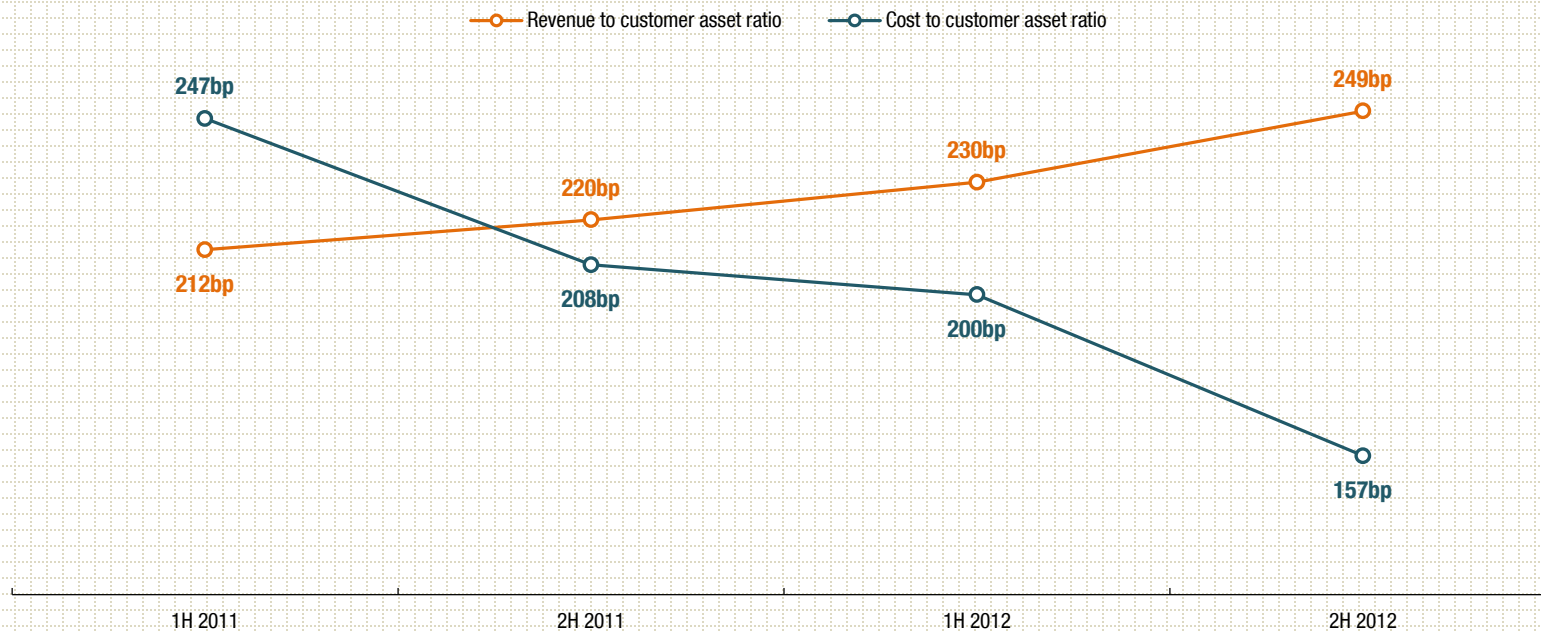
Relocation of our headquarters



Note: Operating Expenses=selling, general and administrative expenses (exclude shares of holding company costs and incentive payment)

## 2-3. Current Situation of our core Securities Services - Change in profit structure (2)

Revenue / expense of our customer assets (half-yearly)



Note: Revenue = operating income, Expense = selling, general and administrative expenses (exclude shares of holding company costs and incentive payment), Customer assets as at period end

### 3-1. Medium / Long term direction - Macro background

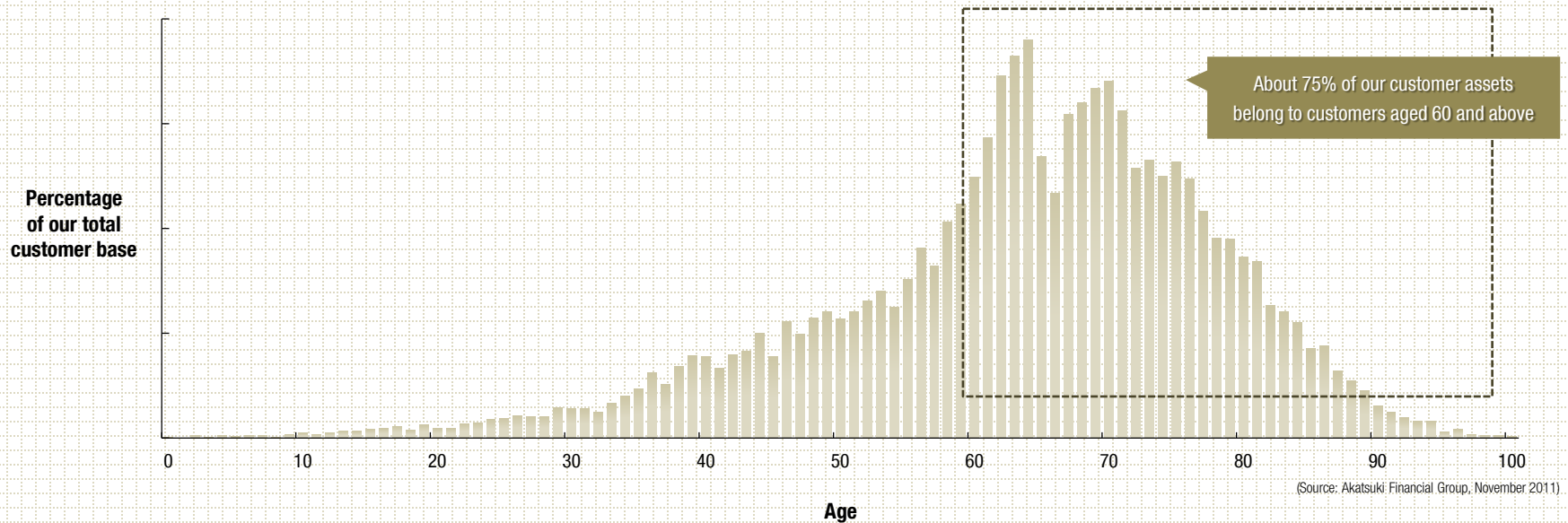
- ▶ Pressure on operating revenue due to the different needs of new, younger customers and the ageing of our core customers are the biggest medium term challenges
- ▶ This trend likely to continue and exert tremendous pressure on traditional face-to-face securities companies

#### Our response

**Medium / long term direction ① : To expand our customer base to strive to become one of the top tier securities companies in the country**

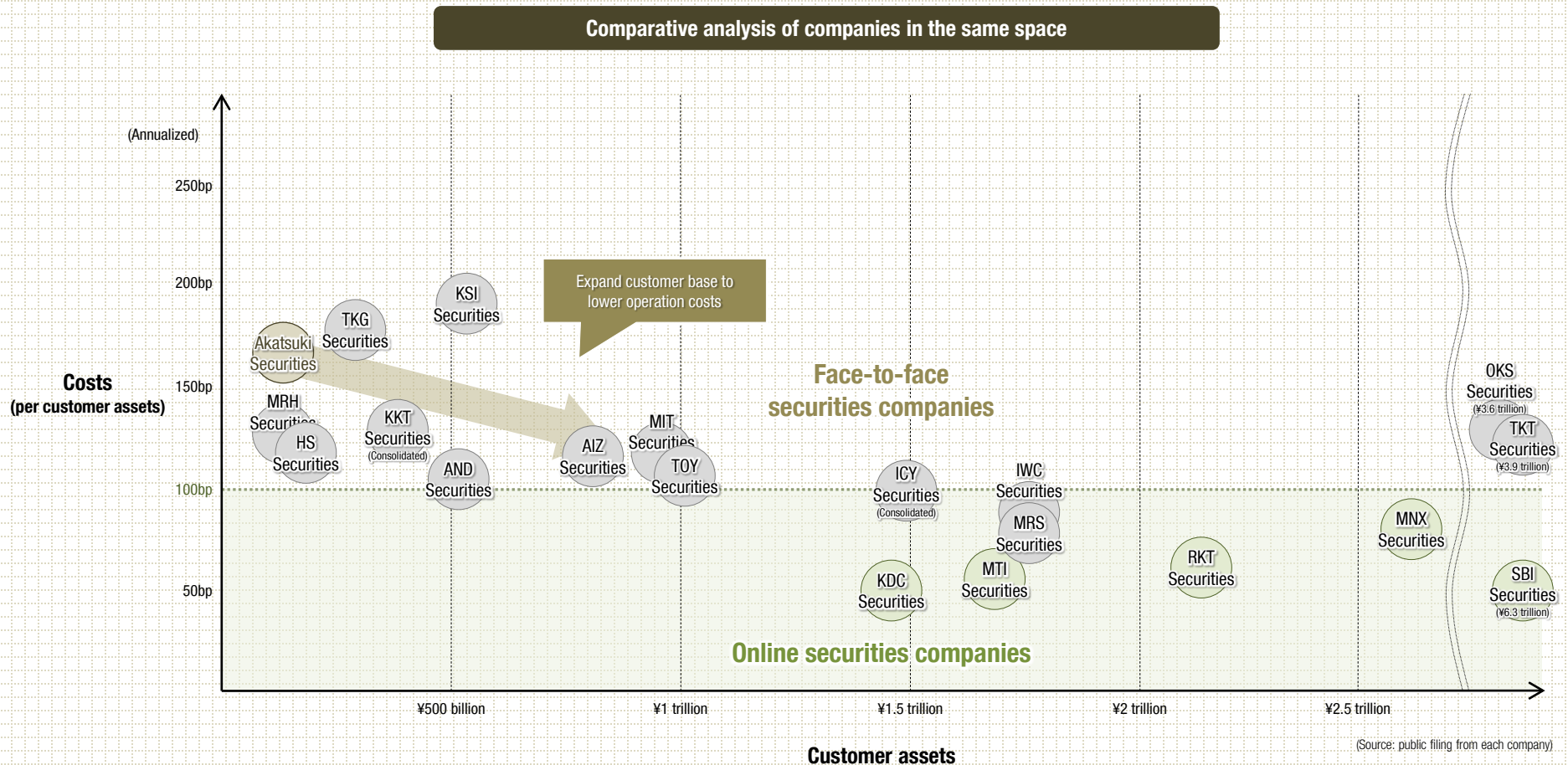
**Medium / long term direction ② : Leveraging our strengths to diversify customer channels and business areas**

#### Age distribution of our customer base (reference)



## 3-2. Medium / Long term direction - Expansion of our core Securities Services

- ▶ In addition to organic growth we will pursue partnership strategies (including M&A) with other traditional face-to-face brokerage and asset management companies



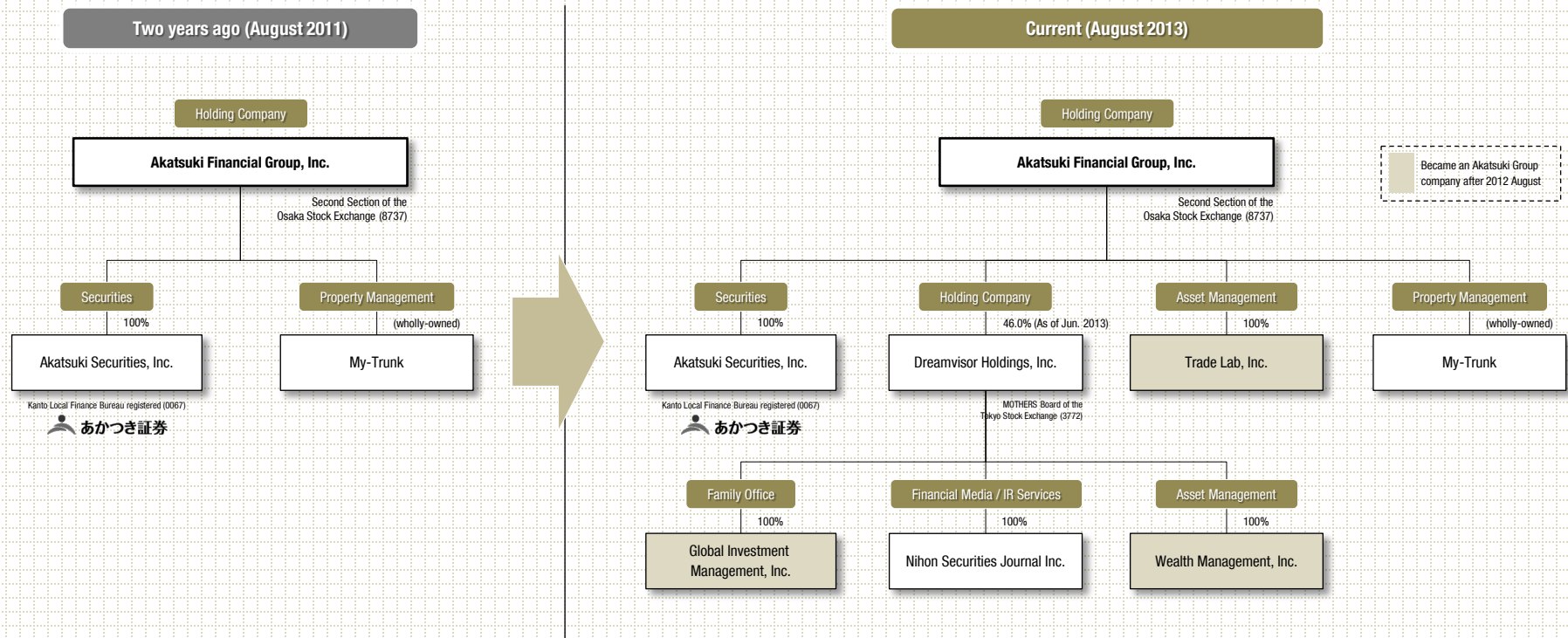
Note: Cost = General and administrative expenses(the result of full year ended FY2013), Customer asset is the result of end of FY2013. (Non-consolidated unless noted.)  
Akatsuki Securities' cost is extracting only securities business - excluding the payment for holding company that is a shared costs, excluding accrued bonuses



### 3-3. Medium / Long term direction - Diversification of customer base and business portfolio

- ▶ Diversify our customer channels and business areas to Asset Management Services and Financial Media to augment our business model to include asset-based revenue model (in addition to transaction-based model)

#### Group Chart



### 3-4. Medium / Long term direction - Overview of new members of our group

#### ■ Wealth Management, Inc.



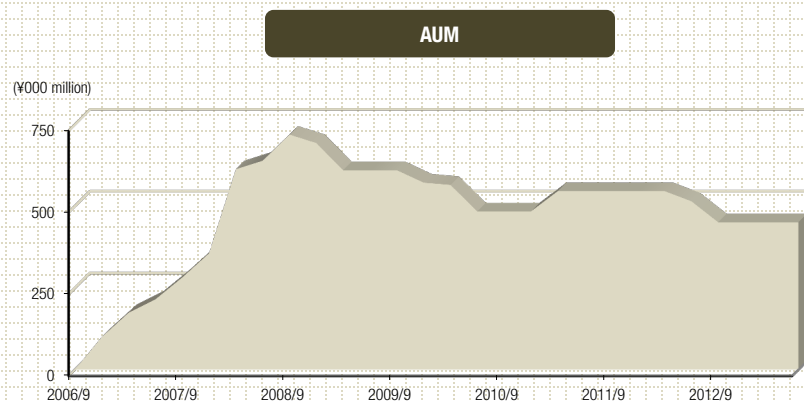
A subsidiary of Dreamvisor Holdings, Inc..

Founded in April 2006 as a boutique asset management company managing and advising mainly real investors focusing a range of underlying assets, such as physical real estate, real estate secured loans, ranging from core to opportunistic. It was responsible for providing exclusive asset management services to the Japanese assets of the global fund of Lehman Brothers.

Wealth Management Inc. also provides investment banking, asset management advisory services to operating companies for institutional investors with respect to financial instruments relating to real estate for sale. (Please refer to Appendix for details)

#### Regulated under:

- Real Estate Dealer (Tokyo (2) No. 86765)
- Financial Products Dealer (Kanto Finance Bureau No. 579)  
[Investment Advisory, Agency]
- Money Lender (Tokyo (2) No. 30512)



#### ■ Global Investment Management, Inc.



A subsidiary of Dreamvisor Holdings, Inc..

Established in October 2008 targeting institutional and high net-worth individuals providing family office services, asset management services, investment projects due diligence, tax and legal planning services and business and capital policies and real estate consulting. (Please refer to Appendix for details)

#### Regulated under:

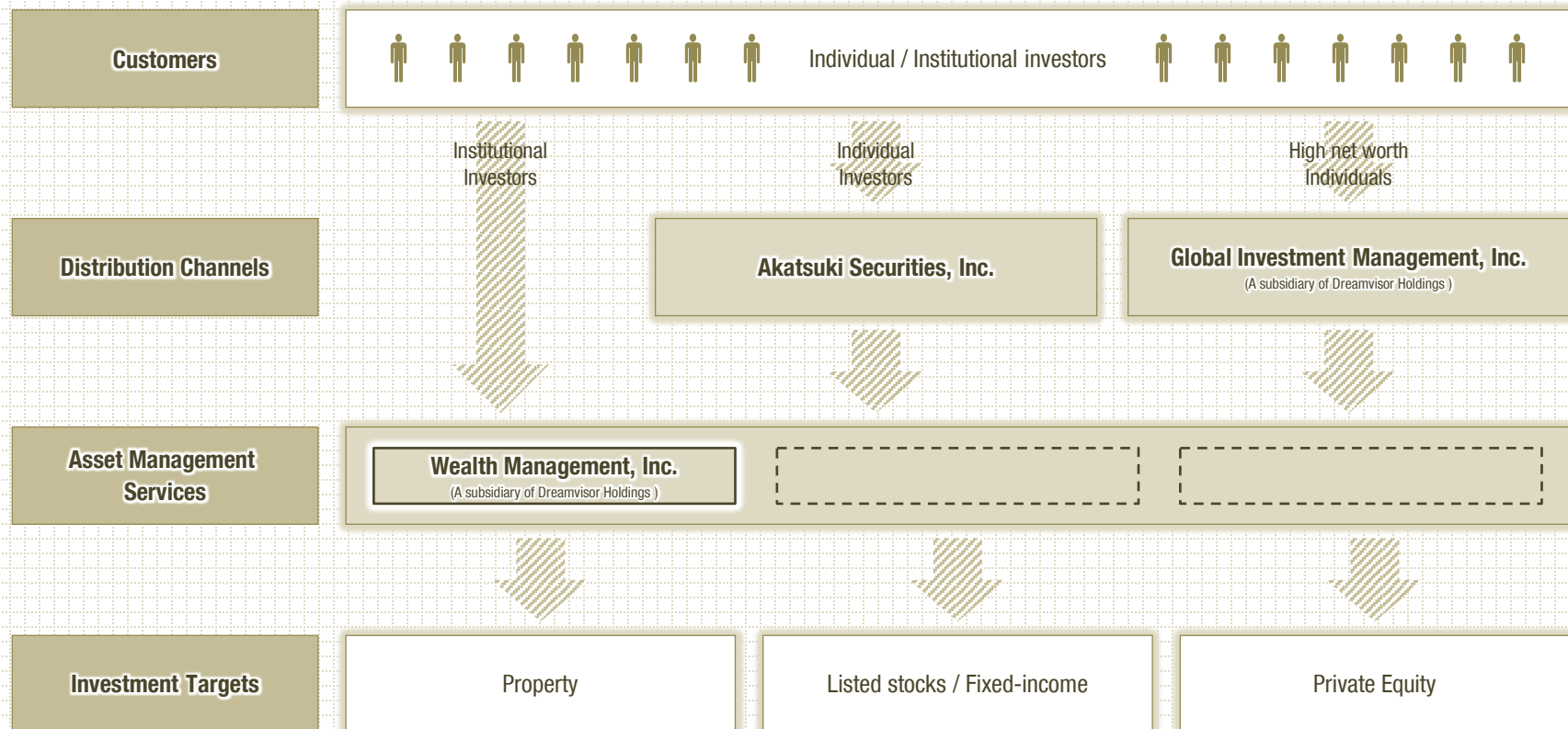
- Real Estate Dealer (Tokyo (1) No. 89735)
- Financial Products Dealer (Kanto Finance Bureau No. 2062)  
[Investment Advisory, Agency]

#### ■ Trade Lab, Inc.

Provides asset management services to high net-worth individuals, Trade Lab specializes in small and mid-cap listed equities fund management services

### 3-5. Medium / Long term direction - Our overall financial services strategy

- ▶ Expansion of our customer base to include institutional and high net-worth investors
- ▶ High value-add to our customer base is achieved through Asset Management Services which enhances our product origination capability



## 4. Current situation and future direction of our Financial Media / IR Support Services

- ▶ We are able to reach a wide range of investors through Nihon Securities Journal
- ▶ We continue to enhance our high value-add IR support services, corporate investigation reporting, etc.

### Financial Media Services



In 1944, Nihon Securities Journal was first published as a gazette newspaper of the Japan Exchange Group, Inc. (then known as Japan Stock Exchange)

As a financial newspaper, NSJ covers all aspects of business news – stocks, foreign exchange, mutual funds and commodities futures, etc.. NSJ is widely read by individual and institutional investors and distributed in securities companies and companies throughout Japan.

In addition, the "monthly average share price" of various listed companies published by NSJ has been adopted by the Japanese Internal Revenue Service as an authoritative basis for tax purposes.

### IR Support Services



(IR seminars)

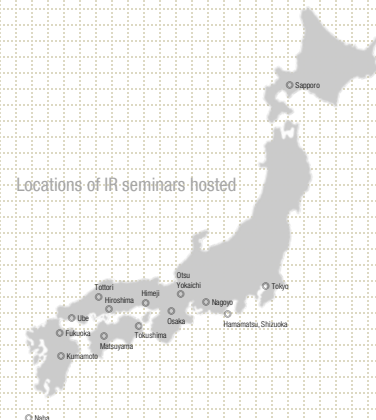
We host IR seminars for listed companies targeted towards individual investors.

We have been hosting about 80 IR seminars to-date and service about 40 companies per year.



In addition to IR seminars, we also offer other IR support services, such as organizing survey reports.

Locations of IR seminars hosted



## 5-1. Our performance indicators

### Our major KPIs

\*KPI : Key Performance Indicator

Current (End June 2013)

3 years later

KPI

Cost per customer assets

About 160bp

To increase our competitiveness, we target to expand our business scale while maintaining low-cost operations

About 125bp

¥600 billion

KPI

Customer assets

¥160 billion

Expansion of customer asset base by about ¥450 billion in three years time through alliance strategies

## 5-2. Our performance indicators - Financial projections (1)

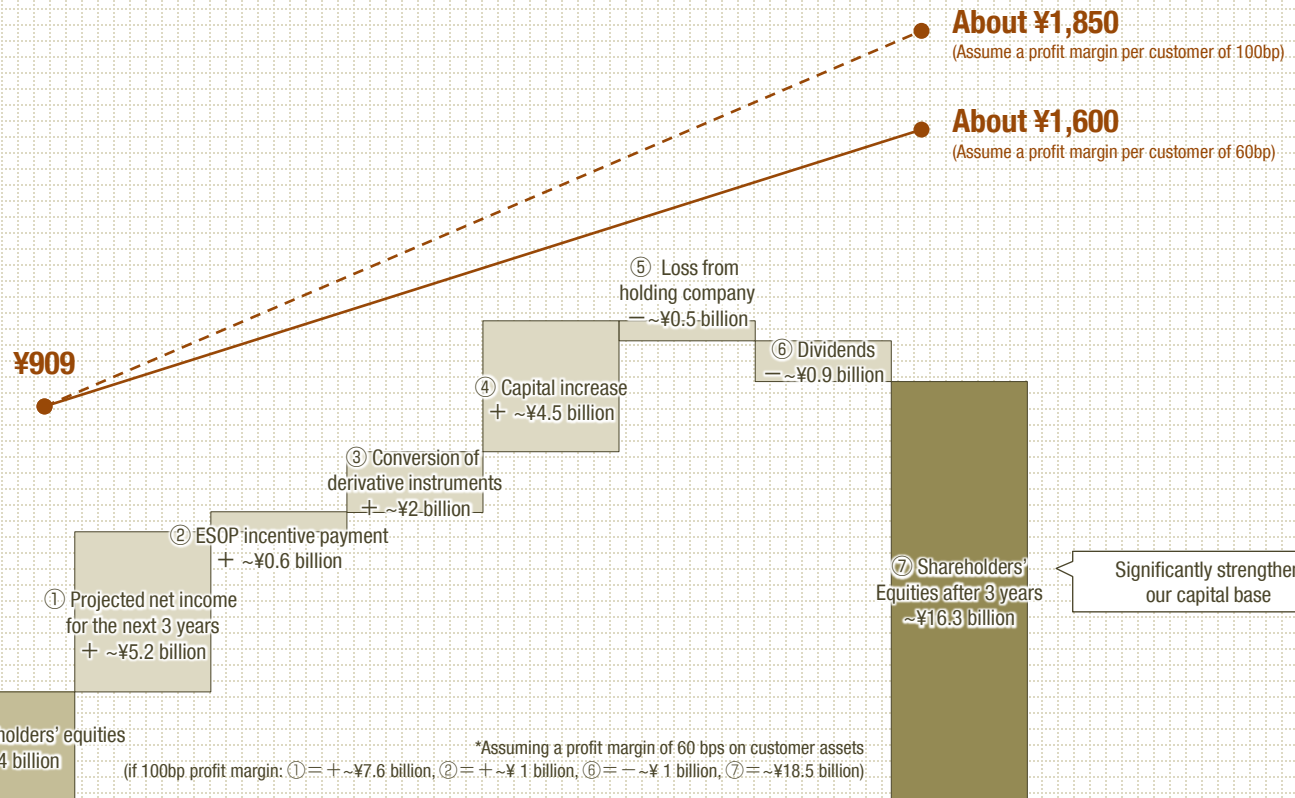
### Estimates of changes in shareholders' equity

Current (End June 2013)

3 years later

**Line graph**  
Shareholders' equity per share (BPS)

**Bar chart**  
Shareholders' equity



Remarks: This illustration is based on the KPI described above and subject to many risks, uncertainties and factors relating to the AFG and its group companies' operations and business environment which may cause the 's actual results to be materially different from this illustration. AFG does not undertake to publicly update or revise this illustration even if future changes make it clear that this illustration will not be realized.

## 5-3. Our performance indicators - Financial projections (2)

- Assuming ¥600 billion client assets in three years, ordinary expenses 125bp of client assets, and no profit contribution from other business units of the Group

### Estimates of key financial figures (Securities Services only)

	Current (June 2013)	Year 1	Year 2	Year 3	Sub-total
<b>Customer assets</b> (Average for the year)	~¥160 billion	~300 billion (¥225 billion)	~450 billion (¥375 billion)	~600 billion (¥525 billion)	
<b>Profit margin on customer assets (*1)</b>		60bp	60bp	60bp	
<b>Operating profit</b> (*excl. non-recurring expenses)		¥1,350 million	¥2,250 million	¥3,150 million	¥6,750 million
<b>Net Income</b>		¥1,046 million	¥1,744 million	¥2,444 million	¥5,231 million
<b>Shareholders' equity</b> (period end)	¥5,410 million	¥8,373 million	¥12,021 million	¥16,338 million	
<b>Shareholders' equity per share</b> (BPS)	¥909	¥1,116	¥1,342	¥1,581	
<b>Increase or decrease of net assets due to:</b>					
<b>Net asset</b> (beginning of the period)		¥5,410 million	¥8,373 million	¥12,021 million	
① <b>Net Income</b>		+¥1,046 million	+¥1,744 million	+¥2,444 million	+¥5,231 million
② <b>ESOP incentive payment</b> (*2)		+¥118 million	+¥197 million	+¥276 million	+¥591 million
③ <b>Conversion of derivative instruments</b> (*3)		+¥658 million	+¥658 million	+¥658 million	+¥1,974 million
④ <b>Capital increase</b> (*4)		+¥1,500 million (Assuming acquisition of company with a 150 billion yen client assets)	+¥1,500 million (Assuming acquisition of company with a 150 billion yen client assets)	+¥1,500 million (Assuming acquisition of company with a 150 billion yen client assets)	+¥4,500 million
⑤ <b>Loss from holding company</b> (*5)		-¥150 million	-¥150 million	-¥150 million	-¥450 million
⑥ <b>Dividends</b> (*6)		-¥209 million	-¥301 million	-¥408 million	-¥918 million
<b>Number of issued shares</b> (excl. treasury shares)	5,952 thousand	7,530 thousand	9,001 thousand	10,393 thousand	+4,440 thousand

(\*1) Expect profit margin on client assets between 60 to 100bps. Above illustrations assume 60bps

(\*2) ESOP is estimated under the assumption of 8.75% of operating income

(\*3) Pro rata over three years of conversion of convertible bonds of the outstanding 1,974 million yen and total of Stock Options Granted for 3,007 million shares

(\*4) Assume acquisition price of 1% of client assets, capital increase associated with the acquisition based on the assumptions that half of the acquisition will be funded by capital increase at 1.5x PBR

(\*5) Constant rate of ¥150 million per year

(\*6) Assume 2.5% of the period end net assets

Remarks: This illustration is based on the KPI described above and subject to many risks, uncertainties and factors relating to the AFG and its group companies' operations and business environment which may cause the 's actual results to be materially different from this illustration. AFG does not undertake to publicly update or revise this illustration even if future changes make it clear that this illustration will not be realized.

# Company profile

## Akatsuki Financial Group, Inc.

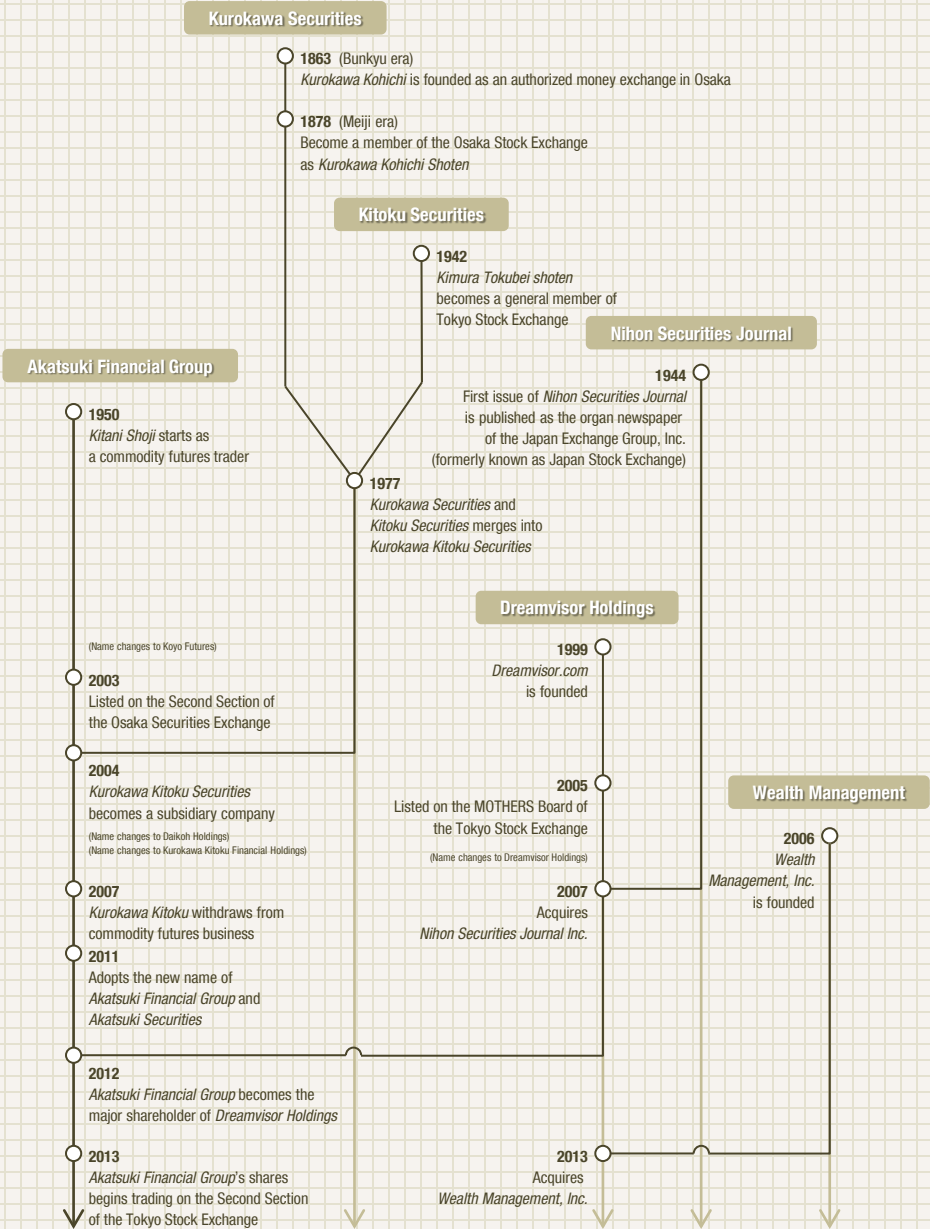
Headquarters	9F, Hulic Kobunacho Building 8-1, Kobunacho, Nihonbashi, Chuo-ku, Tokyo
Registered Capital	¥2.9 billion (end March 2013)
Listing Venue	Second Section of the Tokyo Stock Exchange (8737)
Management	President and CEO: Hideaki Shimane Managing Director: Hidetoshi Hoshino Director of Corporate Planning: Masahiro Kawanaka Director: Hideto Kudo Director: Dominic Henderson Director: Yusuke Kobayashi Statutory Auditor: Katsunori Konishi External Auditor: Kazuyoshi Tanaami External Auditor: Kyoichi Andoh External Auditor: Norio Nagata
Financial Year	March

### Bio - Hideaki Shimane, President

Since April 2012, Mr. Shimane is the President and CEO of Akatsuki Financial Group and since June 2012, he has been a director of Dreamvisor Holdings. Prior to that, in September 2011, Mr. Shimane was appointed as a director of Akatsuki Securities and joined the board of Akatsuki Financial Group and Akatsuki Securities as the Chairman of the Board.

Before his appointment at Akatsuki Financial, Mr. Shimane served at the executive office and chief strategic planning at Monex Group, Inc., Representative Director of Trade Science, Inc., and a number of senior positions at SBI Holdings, Inc., SOFTBANK INVESTMENT Co., Ltd., and SOFTBANK CORP.. Mr. Shimane began his career at Nomura Securities Co., Ltd. after he graduated from University of Tokyo (Faculty of Law) in 1989.

## Group History



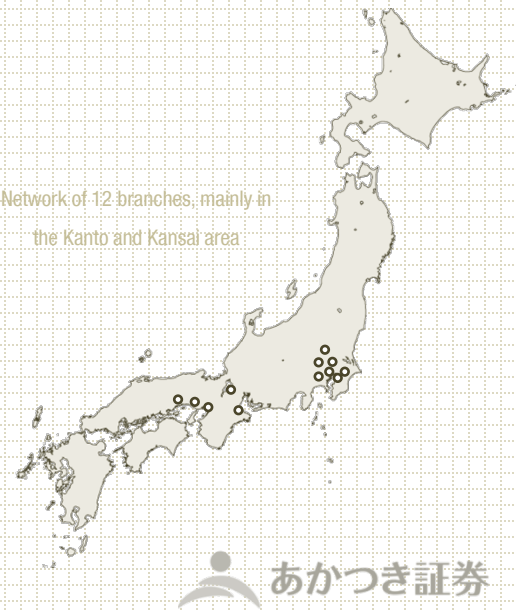


# Overview of principal subsidiaries (1)

## ■ Akatsuki Securities, Inc.

This is the core business of Akatsuki Financial Group. It has a rich history of more than year 130 years. Established as a money exchanger and became a member of the Osaka Stock Exchange (currently known as Osaka Securities Exchange), Akatsuki Securities is one of the oldest securities companies in Japan. It interacts face-to-face with customers is and able to provide tailor-made financial solutions.

Headquarters	9F, Hulic Kobunacho Building 8-1, Kobunacho, Nihonbashi, Chuo-ku, Tokyo
Date of establishment	18 October, 1918 (Taishō Era)
Trading Members	Tokyo Stock Exchange, Osaka Securities Exchange
Registered Capital	¥2.5 billion
Management	President: Hideto Kudo Executive Director: Kazushi Yokota Executive Director, Compliance: Hirokazu Bando Director: Hideaki Shimane Statutory Auditor: Tokuo Nagata External Auditor: Michio Matsushita External Auditor: Katsunori Konishi
Business	<ul style="list-style-type: none"><li>• Securities trading, including equities, indices, futures, foreign markets securities futures and options</li><li>• Securities brokerage</li><li>• Securities underwriting and distribution</li><li>• Initial public offering of securities</li><li>• Private offering of securities</li><li>• Agency of the principal and interest payments and the acceptance of installment bonds, corporate bonds</li><li>• Investment trust brokerage and handling</li><li>• Margin trading</li><li>• Business related to securities other business</li></ul>
Employee	156 (as at 1 April, 2012)
Financial year	March



### Bio - Hideto Kudo, President

Mr. Kudo is the President of Akatsuki Securities and also a director of Akatsuki Financial Group and Dreamvisor Holdings since 2012 and has been a director of Yutaka Shoji (a commodities and futures trading company) since 2011. Before that period, Mr. Kudo held a number of senior positions at both Kurokawa Kitoku Securities (now Akatsuki Securities Co., Ltd.) and Kurokawa Kitoku Financial Holdings Corporation (now Akatsuki Financial Group Co., Ltd.). Prior to Akatsuki Group, Mr. Kudo held a number of senior appointments at financial institutions, including the Managing Director of E\*TRADE Co., Ltd., Advisor and Senior Managing Director of World Nichiei Co., Vice President, COO and Senior Managing Director of World Nichiei Frontier Securities. Mr. Kudo began his career at Toyo Trust and Banking Company, Limited in 1987.

# Overview of principal subsidiaries (2)

## ■ Dreamvisor Holdings, Inc.



A holding company

Headquarters	3-3-13, Ningyo-cho, Nihonbashi, Chuo-ku, Tokyo
Date of establishment	6 December, 1999
Management	Chairman: Yasushi Okuyama President: Kazutoshi Senno Director: Keiichi Hirano Director: Hideaki Shimane Director: Hideto Kudo Statutory Auditor: Shuji Hyakutake External Auditor: Kazuhiro Yamanaka External Auditor: Zenya Ozawa External Auditor: Yoichiro Hamaoka
Listing Venue	MOTHERS Board, Tokyo Stock Exchange (3772)

### Bio - Yasushi Okuyama, Chairman

Mr. Okuyama has been the Chairman of the Dreamvisor Holdings since 2013. He joined the Group in 2001 and was appointed as a member of the Board of Directors in 2009 and subsequently was appointed as the President in 2011. Previously, Mr. Okuyama worked at Nikko Securities Co., Ltd. (1988) and was responsible for the company's trading system development department.

### Bio - Kazutoshi Senno, President

Mr. Senno has over 30 years of experience in the real estate business in Japan managed over ¥1 trillion worth of real estate assets. He was appointed as the President of Dreamvisor after Wealth Management Inc. became a subsidiary of Dreamvisor. Mr. Senno served as a director and a founding member of the Mitsubishi Estate investment adviser of ¥300 billion real estate funds in which Mitsubishi Real Estate is one of the principal investors.

## ■ Nihon Securities Journal Inc.



It is the core operating vehicle for Akatsuki Financial Group's financial information and IR Division. First published in 1944, NSJ is a comprehensive business newspaper in Japan. In addition to financial media, NSJ also engages in Internet delivery of business news and hosting IR events.

Headquarters	3-3-13, Ningyo-cho, Nihonbashi, Chuo-ku, Tokyo
Management	President: Hideo Amano Executive Vice President: Yasuo Horii Director: Katsuhisa Ariga Director: Yasushi Okuyama Director: Masaru Yokoi External Auditor: Zenya Ozawa

### Bio - Hideo Amano, President

Mr. Amano joined the NSJ in 1987 as a reporter. He was promoted to a member of the Board of Directors since 2003 and became the President of NSJ since 2006.

# Overview of principal subsidiaries (3)

## ■ Wealth Management, Inc.



It is Akatsuki Financial Group’s core vehicle to deliver asset management services. Its primary focus is advisory and asset management services to institutional investors primarily in real estate.

Headquarters	Ark Mori Building, 1-12-32, Akasaka, Minato-ku, Tokyo
Management	President: Kazutoshi Senno Managing Director: Keiichi Hirano Managing Director: Akihiro Imada Director: Masaru Yokoi External Auditor: Michihiro Kitano
Regulations	Real Estate Dealer (Tokyo (2) No. 86765) Financial Products Dealer (Kanto Finance Bureau No. 579) [Investment Advisory, Agency] Money Lender (Tokyo (2) No. 30512)

**Bio - Kazutoshi Senno, President** (Please refer to Dreamvisor Holdings, Inc.)

### Bio - Akihiro Imada, Senior Managing Director

Mr. Imada is a founding member of the Mitsubishi Estate Investment Advisors in September 2001. He has over 20 years of experience in real estate, 10 years of real estate finance and over 10 years in real estate agency. Prior to Wealth Management, Inc., he had been with Mitsubishi Real Estate Group for over 15 years.

### Bio - Masaru Yokoi, Managing Director

More than 10 years of experience in the real estate business (execution and sales). He was with Mitsubishi Real Estate Investment Adviser after working in Industrial Bank of Japan (now Mizuho Securities, Mizuho Corporate Bank) structured finance business. Mr. Yokoi holds a MBA degree and is a Chartered Member of the Japan Security Analysts Association.

## ■ Global Investment Management, Inc.



Primarily targets corporate, family offices and high net-worth individuals, GIM aims to provide comprehensive financial management solutions and asset management services by leveraging its network and experience in global financial management.

Headquarters	Ark Mori Building, 1-12-32, Akasaka, Minato-ku, Tokyo
Management	President: Keiichi Hirano Director: Masaru Yokoi Director: Yasuo Horii Director: Yutaka Shibuya
Regulations	Real Estate Dealer (Tokyo (1) No. 89735) Financial Products Dealer (Kanto Finance Bureau No. 2062) [Investment Advisory, Agency]

### Bio - Keiichi Hirano, President

Mr. Hirano has over 20 years of experience in the finance industry. Prior to GIM, he was the global head of private banking division, Japan real estate investment product divisions at Societe Generale.

## ■ Trade Lab, Inc.

Provides asset management services to high net-worth individuals, Trade Lab specializes in small and mid-cap listed equities fund management services