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On October 21, 2020, JAFCO Group Co., Ltd. announced earnings results for 1H FY03/21.

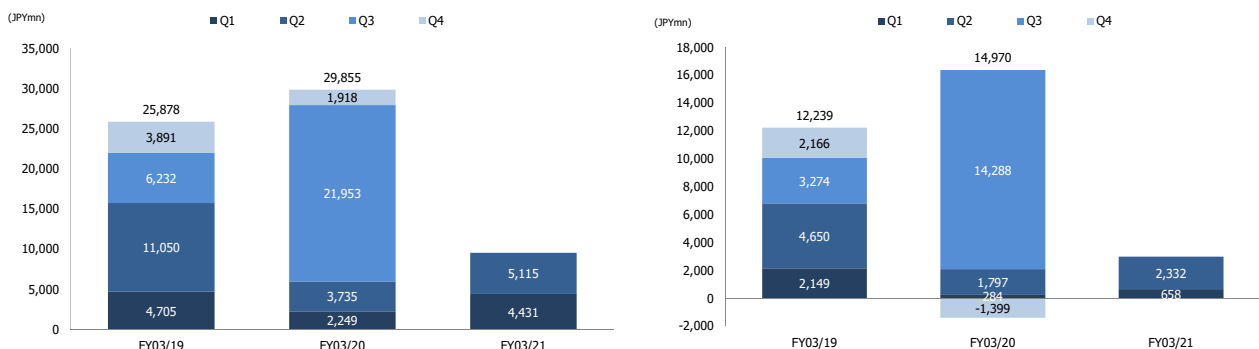
Earnings		FY03/19				FY03/20				FY03/21	
Cumulative (JPYmn)		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Revenue		4,705	15,755	21,987	25,878	2,249	5,984	27,937	29,855	4,431	9,546
YoY		-55.3%	-11.3%	-5.7%	-12.2%	-52.2%	-62.0%	27.1%	15.4%	97.0%	59.5%
Operational investment securities		3,967	14,383	20,033	23,291	1,658	4,665	22,680	23,697	3,176	7,018
Partnership management		738	1,371	1,954	2,586	590	1,318	5,255	6,155	1,254	2,526
Other		0	0	0	0	0	0	1	1	-	1
Cost of revenue		1,794	7,069	9,237	10,444	1,175	2,904	10,201	11,399	936	2,447
Operational investment securities		1,652	6,626	8,600	9,274	1,021	2,473	7,166	8,337	791	2,155
Other		142	443	637	1,169	153	430	3,035	3,061	145	292
Gross profit		2,911	8,685	12,749	15,433	1,074	3,080	17,735	18,455	3,494	7,099
Provision for investment losses		-225	-145	-435	-712	-194	-924	-1,605	-515	2,056	2,393
Unrealized loss on operational investment securities		-69	-43	14	24	-5	-7	-26	-88	-83	-89
Gross profit-net		3,205	8,873	13,170	16,121	1,273	4,011	19,366	19,058	1,521	4,795
SG&A expenses		1,055	2,073	3,097	3,882	978	1,930	2,996	4,088	864	1,805
Operating profit		2,149	6,799	10,073	12,239	284	2,081	16,369	14,970	658	2,990
YoY		-65.8%	-25.7%	-9.2%	-14.1%	-86.8%	-69.4%	62.5%	22.3%	131.7%	43.7%
Operating profit margin		45.7%	43.2%	45.8%	47.3%	12.6%	34.8%	58.6%	50.1%	14.8%	31.3%
Non-operating income		912	709	1,399	1,426	1,439	1,462	2,137	2,169	900	1,748
Non-operating expenses		1	120	263	255	27	131	122	94	0	7
Recurring profit		3,059	7,388	11,208	13,410	1,696	3,412	18,385	17,045	1,557	4,730
YoY		-56.7%	-26.3%	-10.3%	-13.8%	-44.6%	-53.8%	64.0%	27.1%	-8.2%	38.6%
Recurring profit margin		65.0%	46.9%	51.0%	51.8%	75.4%	57.0%	65.8%	57.1%	35.1%	49.5%
Extraordinary gain		5	57	57	190	0	3	0	0	0	0
Extraordinary loss						0	0	0	0	0	0
Income taxes					3,437	193			5,206	944	2,071
Net income		2,985	5,861	8,737	10,162	1,502	3,046	13,453	11,839	613	2,659
YoY		-43.0%	-70.3%	-59.8%	-58.1%	-49.7%	-48.0%	54.0%	16.5%	-59.2%	-12.7%
Net margin		63.4%	37.2%	39.7%	39.3%	66.8%	50.9%	48.2%	39.7%	13.8%	27.9%

Earnings		FY03/19				FY03/20				FY03/21	
Quarterly (JPYmn)		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Revenue		4,705	11,050	6,232	3,891	2,249	3,735	21,953	1,918	4,431	5,115
YoY		-55.3%	52.5%	12.2%	-36.8%	-52.2%	-66.2%	252.3%	-50.7%	97.0%	36.9%
Operational investment securities		3,967	10,416	5,650	3,258	1,658	3,007	18,015	1,017	3,176	3,842
Partnership management		738	633	583	632	590	728	3,937	900	1,254	1,272
Management fees		436	463	412	439	419	418	980	769	726	716
Success fees		302	170	171	193	171	309	2,958	131	528	555
Other		0	0	0	0	0	0	1	0	-	-
Cost of revenue		1,794	5,275	2,168	1,207	1,175	1,729	7,297	1,198	936	1,511
Operational investment securities		1,652	4,974	1,974	674	1,021	1,452	4,693	1,171	791	1,364
Other		142	301	194	532	153	277	2,605	26	145	147
Gross profit		2,911	5,774	4,064	2,684	1,074	2,006	14,655	720	3,494	3,605
Provision for investment losses		-225	80	-290	-277	-194	-730	-681	1,090	2,056	337
Unrealized loss on operational investment securities		-69	26	57	10	-5	-2	-19	-62	-83	-6
Gross profit-net		3,205	5,668	4,297	2,951	1,273	2,738	15,355	-308	1,521	3,274
SG&A expenses		1,055	1,018	1,024	785	978	952	1,066	1,092	864	941
Operating profit		2,149	4,650	3,274	2,166	284	1,797	14,288	-1,399	658	2,332
YoY		-65.8%	62.0%	68.4%	-31.5%	-86.8%	-61.4%	336.4%	-	131.7%	29.8%
Operating profit margin		45.7%	42.1%	52.5%	55.7%	12.6%	48.1%	65.1%	-	14.8%	45.6%
Non-operating income		912	-203	690	27	1,439	23	675	32	900	848
Non-operating expenses		1	119	143	-8	27	104	-9	-28	0	7
Recurring profit		3,059	4,329	3,820	2,202	1,696	1,716	14,973	-1,340	1,557	3,173
Recurring profit margin		65.0%	39.2%	61.3%	56.6%	75.4%	45.9%	68.2%	-	35.1%	62.0%
Extraordinary gain		5	52	0	133	0	3	-3	-	0	0
Extraordinary loss		0	0	0	0	0	0	0	-	0	0
Income taxes		0	0	0	3,437	193	-193	0	5,206	944	1,127
Net income		2,985	2,876	2,876	1,425	1,502	1,544	10,407	-1,614	613	2,046
YoY		-43.0%	-80.2%	46.3%	-43.3%	-49.7%	-46.3%	261.9%	-	-59.2%	32.5%
Net margin		63.4%	26.0%	46.1%	36.6%	66.8%	41.3%	47.4%	-	13.8%	40.0%

Source: Shared Research based on company data

Notes: Figures may differ from company materials due to differences in rounding methods.

Revenue (left) and operating profit (right) by quarter and fiscal year



Source: Shared Research based on company data

1H FY03/21 results

Summary

- ▷ Revenue: JPY9.5bn (+59.5% YoY)
- ▷ Operating profit: JPY3.0bn (+43.7% YoY)
- ▷ Recurring profit: JPY4.7bn (+38.6% YoY)
- ▷ Net income*: JPY2.7bn (-12.7% YoY)
- ▷ Capital gains: JPY4.9bn (+121.9% YoY)
- ▷ IPOs: Two (one in Japan, one overseas)

*Net income attributable to owners of the parent

Note: Figures may differ from company materials due to differences in rounding methods.

In 1H FY03/21, there were two new JAFCO-backed IPO exits: one in Japan and one overseas. Capital gains were up 121.9% YoY to JPY4.9bn. Net provision of allowance for investment losses was JPY2.4bn. Of this, JPY1.5bn was provisions to cover investment losses due to COVID-19 in 14 portfolio companies in Q1, and JPY1mn for one company in Q2. It may appear that the peak in provisioning has passed, but the company realizes that the situation is unpredictable. With regard to income from fund management, there were increases in management fees from JAFCO SV6 Fund Series (SV6) and JAFCO Taiwan I Venture Capital Limited Partnership (Taiwan fund), both newly established in FY03/20.

Capital gains

In 1H FY03/21, capital gains amounted to JPY4.9bn (+121.9% YoY). Of this figure, capital gains on sale of shares in listed portfolio companies (IPO-related capital gains) increased 104.5% YoY to JPY4.6bn, while capital gains on unlisted shares were JPY266mn.

IPOs

There were two IPOs backed by JAFCO in 1H FY03/21: one in Japan and one overseas. In Japan, portfolio company i3 Systems listed on July 15, 2020, and Asian portfolio company Boqii Holding Limited listed on September 30, 2020.

Allowance for investment losses

Net provision of allowance for investment losses in 1H FY03/21 amounted to JPY2.4bn (provision of JPY2.6bn, reversal of JPY164mn). In Q2, the net provision was JPY336mn (JPY2.4bn minus the JPY2.1bn provision in Q1). The allowance ratio against the balance of unlisted securities rose to 18.2%, up from 14.9% at end-FY03/20. As of end-1H FY03/21, the balance of investment in unlisted Japanese securities (including fund LPs' interests) was JPY91.4bn.

Of the JPY2.2bn provision in Q1, a total of JPY1.5bn was for mark-downs associated with the COVID-19 pandemic. In response to the pandemic-induced changes in the operating environment of JAFCO's portfolio companies, which caused their sales to decline and made fundraising difficult, the company posted the JPY1.5bn provision to cover investment losses in 14 portfolio companies. This amount represented 68.2% of the total JPY2.2bn provision for Q1. Of the 14 companies, eight were in Japan (provision of JPY1.2bn), three were in Asia (JPY170mn), and three were in the US (JPY150mn). In Q2, the company booked a JPY1mn provision for one portfolio company.

Income from fund management

Management fees in 1H FY03/21 came to JPY1.4bn (+72.3% YoY), and success fees were JPY1.1bn (+125.6% YoY). SV6 established in June 2019 and the final closing of the Taiwan fund contributed to the rise in management fees.

Core income

In 1H FY03/21, SG&A expenses were JPY1.8bn (-6.5% YoY). Core income, which is management fees minus SG&A expenses, was negative, but income including success fees turned positive.

Unrealized gains

Unrealized gains on listed securities were JPY9.7bn, up from JPY7.1bn at end-March 2020. While not particularly high, this approached the levels of end-FY03/18. JAFCO carried forward unrealized gains on its shareholdings, partly due to few post-IPO share sales in light of stock price performance following listing.

Investment amounts

The total amount invested was JPY14.6bn (-29.7% YoY). There is a slowdown apparent, despite a surge in valuations and ongoing move to larger fundraisings. JPY10.0bn (-40.4% YoY) was invested in Japan, JPY3.0bn (-6.7% YoY) in the US, and JPY1.6bn (+103.8% YoY) in Asia. JPY5.3bn of the amount invested in Japan was buyout investment.

Fund commitments

As of end-September 2020, total commitments came to JPY428.6bn (JPY433.9bn at end-March 2020), of which the amount subject to management fees (excluding capital committed by JAFCO, Icon Ventures funds, and funds under extensions) was JPY131.6bn.

Cash surplus

As of end-September 2020, cash and cash equivalents (including securities) totaled JPY67.4bn (JPY72.0bn at end-FY03/20), of which JAFCO's interests in funds were JPY5.6bn. Interest-bearing liabilities were JPY232mn, and uncalled capital owed to funds totaled JPY28.6bn. The company's significant cash surplus demonstrates its ability to respond to future demands for cash, notably uncalled capital commitments.

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