

## ZENSHO HD Issues Preferred Shares—“Medium” or “50” JCR’s Equity Content Assessment

The following is Japan Credit Rating Agency, Ltd. (JCR)'s opinion on issuance of preferred shares by ZENSHO HOLDINGS CO., LTD. (security code: 7550).

Today, ZENSHO HOLDINGS CO., LTD. (the “Company”) announced that it will issue preferred shares (the Preferred Shares, amount to be paid is 30 billion yen). The moneys raised by the issuance of the Preferred Shares will be used to partially finance the acquisition of SnowFox Topco Limited (SnowFox), which was announced on June 13, 2023, for the total amount of 87.4 billion yen.

As of March 31, 2023, the Company's equity capital was 155.6 billion yen (after taking into account the equity content of the subordinated loans) and equity ratio was 33.1% (after taking into account the equity content of the subordinated loans). At the time of the announcement of the acquisition, breakdown of acquisition funds was not disclosed, and given the large amount of acquisition funds in light of the Company's financial structure, JCR assessed that a considerable financial burden would be placed on the Company. The expansion of equity capital through the Preferred Shares is expected to have the effect of supporting the Company's creditworthiness to a certain degree. However, since it is still necessary to watch for changes in the financial conditions, JCR will monitor the pace of profit accumulation through growth in SnowFox and existing businesses, as well as the progress of financial improvement that will accompany such growth.

### <Assessment of Equity Content of Securities and Rationale>

JCR assessed the equity content of the Preferred Shares at “medium” or “50” (against 100 of a stock).

JCR takes into account that “there is no obligation to redeem principal or no maturity,” “there is no obligation to pay dividends” and “the ranking of claims at the time of bankruptcy is subordinated” when assessing the equity content of hybrid securities.

The Preferred Shares do not have a set redemption date, but the underwriters may exercise their right to request the acquisition of the Preferred Shares for cash consideration after 35 years from the Issue Date. In addition, the Company can optionally redeem the preferred shares after 5 years from the Issue Date. As the dividend rates step up after 5 years from the Issue Date and is 100 basis points higher than the initial level, the Company's incentives for the optional redemption are high. However, the Company has stated that it intends not to redeem the Preferred Shares at its option unless it issues replacement securities at the time of the optional redemption. Although this statement contains an exception that allows the Company to forego replacement if certain financial indicators are met, the level of the financial indicators indicated in the exception is based on the assumption of reasonable improvement. JCR therefore believes that it is unlikely that the Company will optionally redeem the Preferred Shares without replacement when its creditworthiness declines and thus factored this view into the assessment of the effective redemption obligation and maturity. This judgment reflects, along with other factors, that JCR, based on a hearing from the Company, was able to confirm the Company's future financial management policy including the position of the Preferred Shares and that the Company has been winning the confidence of investors and creditors by maintaining good relations with them in the financial market.

As for the dividends, optional suspension is possible at any time, as well as mandatory suspension is triggered by the amount available for distribution. The Preferred Shares therefore have a mechanism that could suspend dividends in a stressful situation. The main difference with the common stock is that dividends that have not been paid are cumulative, but cumulative dividends are also only paid to the extent of the amount available for distribution.

JCR will consider lowering the assessment of equity content of the Preferred Shares to “low” or “25” (against 100 of a stock) when the underwriters have less than 30 years to exercise the right to request the acquisition of the Preferred Stock as described above.

Shigenobu Tonomura, Misa Ishizaki for Issuer  
Kiichi Sugiura, Takahiko Yamaguchi for Hybrid Securities

## Outline of Preferred Shares

Issuer: ZENSHO HOLDINGS CO., LTD.

Issue	Amount (bn)	Issue Date	Due Date	Dividend Rate
Class A Preferred Shares	JPY 30	Sept. 29, 2023	No Maturity (Note 1)	(Note 2)

### Notes:

1. The underwriters may exercise the right to request acquisition for cash consideration after 35 years from the Issue Date.
2. If the preferred dividend is paid on a day up to the day (including that date) before the corresponding date 5 years after the Issue Date as the reference date, the initial preferred dividend rate is applied, and if the preferred dividend is paid on a day on or after the corresponding date 5 years later as the reference date, the initial preferred dividend rate plus a step-up dividend rate of 1% is applied.

Optional Redemption/Acquisition: Acquisition on or after the corresponding date 5 years after the Issue Date

Replacement: There has been representation of intention for replacement regarding the Acquisition above.

Optional Dividend Suspension: The Issuer may suspend dividend payments at its discretion.

Mandatory Dividend Suspension: In cases where the amount available for distribution is insufficient

Accumulation/Non-Accumulation: Accumulation

Ranking of Claims: The Class A Preferred Shares are subordinated to all debts (excluding the subordinated debts ranking pari passu with the Class A Preferred Shares).

### <Reference>

Issuer: ZENSHO HOLDINGS CO., LTD.

Long-term Issuer Rating: BBB+      Outlook: Stable

## Japan Credit Rating Agency, Ltd.

Jiji Press Building, 5-15-8 Ginza, Chuo-ku, Tokyo 104-0061, Japan  
Tel. +81 3 3544 7013, Fax. +81 3 3544 7026

Information herein has been obtained by JCR from the issuers and other sources believed to be accurate and reliable. However, because of the possibility of human or mechanical error as well as other factors, JCR makes no representation or warranty, express or implied, as to accuracy, results, adequacy, timeliness, completeness or merchantability, or fitness for any particular purpose, with respect to any such information, and is not responsible for any errors or omissions, or for results obtained from the use of such information. Under no circumstances will JCR be liable for any special, indirect, incidental or consequential damages of any kind caused by the use of any such information, including but not limited to, lost opportunity or lost money, whether in contract, tort, strict liability or otherwise, and whether such damages are foreseeable or unforeseeable. JCR's ratings and credit assessments are statements of JCR's current and comprehensive opinion regarding redemption possibility, etc. of financial obligations assumed by the issuers or financial products, and not statements of opinion regarding any risk other than credit risk, such as market liquidity risk or price fluctuation risk. JCR's ratings and credit assessments are statements of opinion, and not statements of fact as to credit risk decisions or recommendations regarding decisions to purchase, sell or hold any securities such as individual bonds or commercial paper. The ratings and credit assessments may be changed, suspended or withdrawn as a result of changes in or unavailability of information as well as other factors. JCR receives a rating fee paid by issuers for conducting rating services in principle. JCR retains all rights pertaining to this document, including JCR's rating data. Any reproduction, adaptation, alteration, etc. of this document, including such rating data, is prohibited, whether or not wholly or partly, without prior consent of JCR.

JCR is registered as a "Nationally Recognized Statistical Rating Organization" with the U.S. Securities and Exchange Commission with respect to the following four classes. (1) Financial institutions, brokers and dealers, (2) Insurance Companies, (3) Corporate Issuers, (4) Issuers of government securities, municipal securities and foreign government securities.

JCR publishes its press releases regarding the rating actions both in Japanese and in English on the same day. In case that it takes time to translate rating rationale, JCR may publicize the summary version, which will be replaced by the full translated version within three business days. (Regarding Structured Finance products, JCR only publicize the summary version in English.)