Roundtable Discussion Between Directors and Corporate Auditor

In February 2025, the Company announced an investment of approximately ¥40 billion in the construction of its own LEO satellite constellation. A roundtable discussion was organized for an outside director, outside corporate auditor, and newly appointed director to share their perspectives.

Outside Board Director
Kimiko Ohga

Board Director
Teruo "Terry" Yamashita

Outside Corporate Auditor
Tsutomu Takahashi

——Yamashita, you have been appointed to lead the Space Business. Please tell us about your experience and aspirations.

Yamashita | After working at a trading company, I joined JSAT Corporation, the predecessor of SKY Perfect JSAT Corporation, in 2001. After that, I was stationed in Hong Kong and Jakarta, where I gained experience in sales primarily in the Asia region. Following my experience in developing new business fields, such as the commercialization of Earth observation satellite services, I have now taken on the role of leading the Space Business. What I always keep in mind is a sense of urgency. When I was in sales, I was overwhelmed by the speed of decision-making of the industrial conglomerates in Asia during our negotiations with them, and I felt very alarmed about the difference between us and overseas companies. In fact, Elon Musk's Starlink has expanded across the globe in no time at all. To avoid being left behind by such developments, I intend to assess risks quickly and make agile decisions aimed at growth.

——Since June of this year, you have also served in the role of Chief Risk Management Officer. What are your thoughts on risk?

Yamashita | As a company responsible for infrastructure, not only maintaining financial soundness, but how we address cybersecurity is also extremely important. In fact, we are taking stringent measures in this regard. However, the greatest risk right now is the changes in the external environment, so how we go about ensuring resilience in our businesses is crucial.

Until now, our Space Business has been developed around GEO communication satellites. However, with the rise of LEO communications satellites like those operated by Starlink, there is a greater likelihood now that growth will plateau if we simply continue with our usual endeavors. LEO communications satellites offer the advantages of reduced latency and lower launch costs. We have also decided to shift to a Multi-Orbit Strategy and launch 10 new observation satellites into LEO. We plan to deploy HAPS through Space Compass Corporation in the stratosphere and also cover the MEO in collaboration with other companies. When weighing the risks associated with dependence on GEO satellites against the investment risks of shifting to a Multi-Orbit Strategy, the choice is clear.

As for the Media Business, as the boundaries between broadcasting and streaming have blurred, investing significantly in content acquisition as we did in the past is no longer a decision that justifies the expected returns. Therefore, in the Media Business, our strategy is to focus on cost efficiency in order to protect our existing operations, and utilize our current assets and know-how to minimize risks while securing profits.

Whether it be in the Space Business or the Media Business, I believe it is important to calmly, swiftly, and appropriately assess risks, and manage them while maintaining a balance between offensive and defensive strategies.

——What opinions did you express at Board meetings regarding the investment in Earth observation satellites?

Ohga | As Yamashita explained, ever since the Company's predecessor, JSAT Corporation, entered the satellite communications services market as a result of the deregulation of the telecommunications sector, the Company has relied solely on GEO satellites. However, with the recent emergence of companies deploying LEO satellites, we are certainly approaching a significant turning point. Taking on a challenge comes with risks, but doing nothing is also risky. Attention typically tends to be focused on the returns from taking on challenges, but from a long-term perspective, doing nothing signifies a lack of adaptability to change, which can be considered an enormous risk from the standpoint of long-term shareholders.

I believe the shift to a Multi-Orbit Strategy will create new business opportunities centered around Space Intelligence Business, and as an outside director, I am keen to verify whether investments in these areas are necessary, whether they will generate enough profits, and over what timeframe can the costs be recouped.

Having multiple options and alternative plans is an effective measure against uncertainty. As such, what I have said at Board meetings is that the Company should develop solutions unique to satellite utilization for the issues faced by each industry, without being biased towards any specific area, such as national security, and actively unearth private sector demand. On top of that, it is important to diversify risks through collaboration with other companies rather than trying to do everything in-house, and as Yamashita mentioned, a sense of urgency is also a factor that contributes to risk aversion.

Takahashi | The Company has adopted the concept of being a "Space Solution Provider" and aims to achieve dramatic growth by 2030. I also support the shift to a Multi-Orbit Strategy. However, from my perspective as a corporate auditor, if the Company is making new investments, I would like the circumstances to be reported to the Board of Directors—specifically, whether the risks have become greater or smaller than initially anticipated. Particularly because the investments in the Space Business are significantly larger compared to those in the Media Business, I am very concerned about whether the Company is underestimating the risks and whether it is following the proper processes. This is something I am closely monitoring. In fact, communications satellites can take several years from order to the commencement of services, and the investment recovery period can be quite long. In that regard, while government demand may appear to provide stable revenue, it actually carries risks, and although private sector demand in Space Intelligence Business is certainly expanding, it is also true that competition is fierce. I hope that decisions will be made taking into account the long-term competitive environment and the many uncertainties. Moreover, I believe that deciding on when to withdraw or cease operations if the outlook for investment recovery becomes unclear is very important. Open communication is necessary for making decisions about whether to continue with the investment.

Yamashita | What both of you have said mirrors what I have heard at Board meetings. I would like to take this opportunity to explain the situation again. First of all, this investment is about establishing a certain degree of precedence and flexibility in the utilization of satellites in LEO. Currently, our Space Intelligence Business operates under an agency model whereby we acquire satellite imagery and data from overseas observation satellite operators and sell. However, with this model, we are, to put it in extreme terms, entrusting the sustainability of the business to our suppliers, which poses a significant risk in terms of the stable provision of services. Therefore, we have decided to first build a constellation of 10 satellites on our own.

Our aim is to reduce supply risks by effectively balancing the use of both our own assets and the agency model. This does not mean that we will completely abandon the agency model and shift entirely to our own assets. Rather, to expand the business, we need to increase our agency sales.

As Ohga said, we will actively pursue external partnerships as well. There are many startups aiming to create innovations by utilizing highly accurate data obtained from satellites in various fields, including not only security, but also disaster prevention and mitigation, agriculture, and logistics. We have also earmarked ¥10 billion to invest in such companies, to form partnerships, and to enable us to grow together with various entities.

Also, as both of you pointed out, relying solely on existing government demand will not allow us to significantly grow our business, so broadly expanding our Space Intelligence Business will help us stabilize our earnings. I believe that advancing this with a sense of urgency is my biggest mission. As we work to open up the market, we will focus on three key points: owning our own assets, expanding agency sales, and developing analytical technology in-house.

Takahashi | In terms of the risks associated with new challenges, we should keep in mind how to expand the market and secure competent global personnel.

Ohga | Expectations from outside the Company are also looming large, which I think are reflected in the share price. The atmosphere at the annual general meeting of shareholders has also changed considerably compared to before. I have noticed an increase in questions about the Space Business from shareholders who appear to be young researchers, as well as queries about the Company's medium- to long-term direction, particularly regarding its business strategies and new undertakings. As the only company in Japan that has been engaged in the space business for 40 years, at the very least, I want to see it maintain its position as a leader in the data-driven sector of the Japanese space market, further collaborate with various companies, and lead the development of new markets.

——**Please share your thoughts on how to improve ROIC.**

Yamashita | The Space Business is basically about owning satellites through major investments, which are at the core of a model that generates revenue over the long term. Accordingly, to improve returns on invested capital, or ROIC, we must either increase the profits generated from our assets or lighten our asset base. For the former, in addition to expanding Space Intelligence Business, we aim to improve ROIC by replacing satellites nearing the end of their life with more productive successors. If we were to focus exclusively on the agency business without holding any assets, even though performance indicators would probably improve in the short term, we would be taking on enormous unseen risks, including the risk threatens stable supply that I mentioned earlier. Taking these factors into account, we will steadily do what needs to be done in line with the vision we have for our satellite fleet from a long-term perspective, thereby enhancing profitability.

Takahashi | To put it simply, it all comes down to eliminating unnecessary spending and disposing of assets that do not generate revenue, or making them profitable. As I mentioned earlier, investment recovery takes a long time in the Space Business, thus figures for ROIC will likely fluctuate in the near term. So I doubt whether it is wise to fret over that. Instead, I believe it is important that the Company properly engages in dialogue with the capital markets regarding this point and genuinely communicates its vision, its scenarios for recouping investments, and the uncertainties involved.

Ohga | I am concerned that the investments in the Media Business such as broadcasting equipment tend to be overshadowed by the huge investments in satellites. The amounts of investment, recovery timelines, and approaches to asset ownership are completely different between the Space Business and the Media Business. The Media Business is also a customer of the Space Business, and it is for that reason that any attempts to discuss them in the same manner leads to such issues. That is why I have long said that we need opportunities to organize and discuss where and how much is being invested, whether it be by business segment or smaller business units, as well as the level of expected returns. If such discussions were taking place, it would be easier to check and review individual proposals within the context of the overall project. The accuracy would likely improve as well. President Yonekura has taken measures from that standpoint, and as a result, I think it is remarkable that operating profit in the Media Business has increased despite a decrease in the cumulative number of subscribers.

And as for ROIC, this too is something that ought to be examined according to the characteristics of the business. Like Takahashi said, I am also against the idea of making it a goal to raise the indicators overall in the short term. It may become a hindrance to sustainable growth. I think the Company must encourage not only managers but also employees to be mindful of capital efficiency.

Yamashita | Considering that our shareholders provide the funds with which we invest in our businesses, I believe the most important thing is to clearly explain how we plan to generate profits and the thought processes behind it. First and foremost, I recognize that our ultimate responsibility is to achieve net profit in excess of ¥28 billion by 2030.