COMPANY RESEARCH AND ANALYSIS REPORT

Fuyo General Lease Co., Ltd.

8424

Tokyo Stock Exchange First Section

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Index

Summary

Results in 1H FY3/20 grew steadily (and once again set new record highs).
Maintained strong performance through the accumulation of assets and improvement in profitability
Achieved major results for strengthening the BPO services business, a new domain

1. Company profile

Fuyo General Lease Co., Ltd. <8424> (hereinafter, the Company) is a comprehensive leasing company established in 1969 by six Fuyo Group companies, including The Fuji Bank, Limited (currently Mizuho Financial Group, Inc. <8411>,) and Marubeni Corporation <8002>. Its strengths are information and office equipment and real estate leasing. The Company ranks sixth in the industry at ¥1,187.2bn in annual newly executed contract volume and ¥2,262.8bn in operating assets (FY3/19 result). It has steadily accumulated operating assets and expanded income results by leveraging advanced solution capabilities for customer challenges, including asset management, cost control, and know-how from expertise.

2. Medium-term management plan

The Company is promoting its five-year medium-term management plan Frontier Expansion 2021, which lasts through FY3/22. With a slogan of "Going where no one has gone before," it aims to be a corporate group with sustainable growth, despite major changes in the environment for domestic leasing business, through expansion of the business portfolio's "frontier" by pursuing new business areas and business models. Its goals for the final year are ¥2,500.0bn in operating assets (4.1% average annual growth), 2.0% ROA* (return on assets) (+0.4ppt), and ¥50bn in ordinary profit (9.8% average annual growth). While the ordinary profit goal presents a tough hurdle, the Company hopes to reach this level through the combined impact of expanded operating assets and improved ROA.

3. Summary of 1H FY3/20 results

In 1H FY3/20, the Company posted increases in revenues and profits, once again reaching all-time highs on a half-year basis. The Company posted ¥344.5bn (+16.5% YoY) in total revenues, ¥20.4bn (+12.5%) in operating profit, and ¥21.9bn (+12.0%) in ordinary profit. In addition to the accumulation of operating assets in strategic fields, such as real estate and aircraft, the growth of non-asset earnings, including from the effects of making INVOICE INC., a consolidated subsidiary in October 2018, contributed to the growth in results. For the newly executed contract volume as well, leases as a whole trended strongly, centered on real estate and aircraft, while the factoring business conducted by Accretive Co., Ltd., also grew significantly. In addition, ROA improved greatly to 1.90% (1.76% in the same period in the previous fiscal year). In terms of strategy, the Company achieved some major results toward business expansion in the future, including with the aim of strengthening the BPO*services business by making a consolidated subsidiary of NOC Outsourcing & Consulting Inc., (hereafter, NOC) which provides a wide range of outsourcing services.

* Business Process Outsourcing: A service that contributes to operational improvements and increased efficiency by handling some of client companies' business processes

4. FY3/20 results outlook

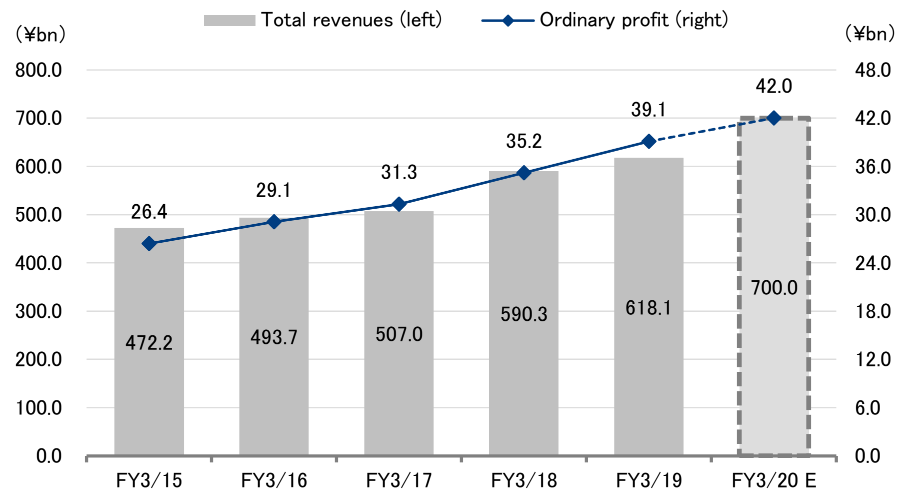
For the results in FY3/20, which is the third year (the mid-point) of the medium-term management plan, the Company has left its forecast unchanged projecting revenues and profits to continue to increase, with total revenues to rise 13.2% YoY to ¥700bn, operating profit to grow 10.7%* to ¥39.5bn, and ordinary profit to climb 7.4%* to ¥42bn. Ordinary profit will be at a level toward the upper limit of the interim target range (¥38bn to ¥42bn). It also plans to increase the dividend ¥12 YoY for an annual dividend of ¥200 per share. We will continue to focus on the progress the Company makes in each strategic area and on the path toward improving ROA.

* During 1H FY3/20, the Company finalized the provisional accounting treatment for business combinations. As a result, figures for the FY3/19 reflect the finalization of the provisional accounting treatment.

Key Points

- Total revenues and profits increased in 1H FY3/20, once again reaching all-time highs on a half-year basis
- Realizing improvements in quality-based profits both in terms of accumulating assets and improving profitability
- In the strategy area, achieved major results toward business expansion in the future, including strengthening the BPO services business
- The Company has left its FY3/20 forecast unchanged projecting increases in revenues and profits (and a higher dividend)

Trends in total revenues and ordinary profit



Source: Prepared by FISCO from the Company's financial results

Company profile

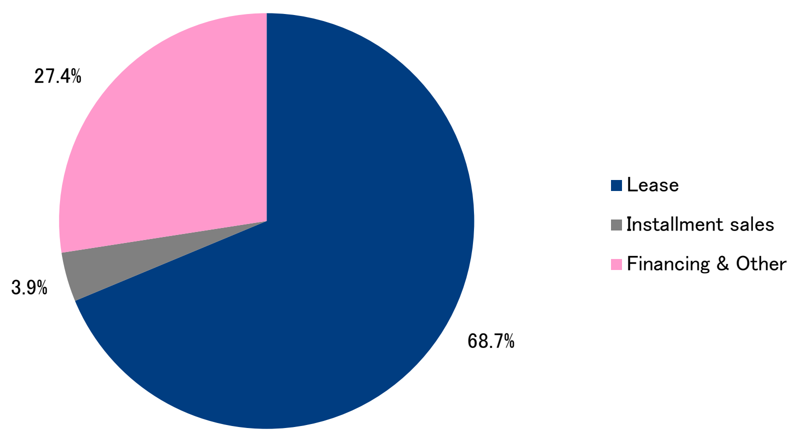
Comprehensive leasing company with strengths in real estate, aircraft, and other areas, working to strengthen the BPO business as a new domain

1. Business overview

The Company has three business segments - lease and installment sales, financing, and other - and also provides disclosure of lease and installment sales separately. Mainstay lease business accounts for 68.7%* of operating assets, and 62.2%* of profit before interest expenses* (as of 1H FY3/20). The BPO business, which it is focusing on as a new domain (the details are given below), is currently included in Other.

* Profit excluding the acquisition cost of leased equipment from revenues

Ratio of operating assets by segment (1H FY3/20)



Source: Prepared by FISCO from the Company's financial results

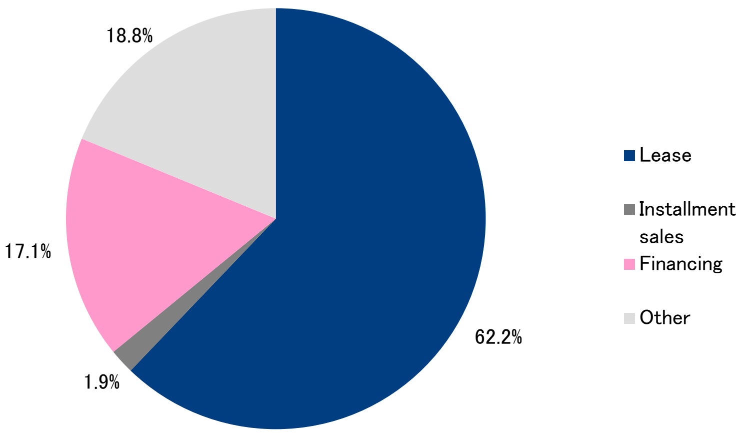
Below, we review the Company's business segments.

(1) Lease and installment sales

This segment handles leases of information and communications equipment, office equipment, industrial machine tools, and other equipment and installment sales of commercial facilities, production facilities, hospital facilities, and other facilities. In lease business, the leasing company purchases and leases machinery, equipment, or other facilities selected by customers for a certain leasing fee over a relatively long period. In other words, leases constitute a funding method (financial transaction) that focuses on facility deployment. Benefits to customers, versus outright purchase (and ownership) of facilities, include efficient utilization of capital, reduction of administrative burden, avoidance of risk from outdated facilities, and cost control. Leasing companies, meanwhile, confront less collection risk than ordinary loan transactions because they possess ownership rights to the leased equipment. The Company conducts installment sales for equipment that does not qualify as leasing for tax purposes and cases in which the customer wants direct ownership.

When categorizing the volume of newly executed lease contract volume by type of equipment, buildings, etc. (real estate leases) and transportation equipment have been experiencing substantial growth in the past few years. Key drivers in real estate leases are commercial properties (such as large shopping centers), an area of expertise, as well as diversification of properties including hotels, nursing care and residential, leisure, services, and logistics, following the expansion in alliance partners. The Company leverages its experience of over 30 years and an extensive network in this business given the need for expertise and knowhow with tough legal hurdles and complex rights relationships. Furthermore, aircraft leases are driving growth in transportation equipment and the Company holds advantages in this area as well with its lengthy track record and robust know-how.

Revenue composition by segment (1H FY3/20)



Source: Prepared by FISCO from the Company's results briefing materials

(2) Financing

This segment covers capital investment funding and other business loans, real estate financing, and securities-related management tasks. Its operating assets include corporate operating loans (such as syndicate loans) and retail funding through consolidated subsidiary Sharp Finance Corporation (SFC). The Company added factoring business* handled by Accretive, which became a consolidated subsidiary in January 2017.

* This business mainly handles FPS (early payment service for accounts receivable) for small businesses and FPS Medical (early payment service for medical and care fee credits) for medical institutions. It has a high turnover rate with execution and recovery in a short period, which the Company lacked up to now, and has been contributing substantially to the expansion of newly executed contract volume and improvement of gross margin on assets.

(3) Other

This segment includes megasolar operations (renewable energy business) handled directly by the Company, silent partnership originations for aircraft leases and other businesses, and the life insurance agency business. Also, there is an integrated billing service* provided by INVOICE which was made into a consolidated subsidiary in October 2018, and wide-ranging back office services (including accounting, human resources and salary, general affairs and sales administration) provided by NOC Outsourcing & Consulting Inc. (hereinafter, NOC) which was made into a consolidated subsidiary in August 2019. Going forward, the Company will make full-fledged efforts to strengthen the BPO services business.

* A service that handles making burdensome monthly payments to telecom carriers and other utilities on behalf of customers.

2. History

The Company was established in 1969 with six companies from the Fuyo Group as shareholders led by Fuji Bank (now Mizuho Financial Group) and Marubeni-Iida Co., Ltd. (now, Marubeni).

It steadily broadened business scope thereafter and created a local entity in the US in 1988. It established a local entity in Ireland (Dublin), a major center for aircraft leases, in 1999. The Company was relatively early in its entry to aircraft business, which has recently attracted attention from many companies, and accumulated a track record and know-how with leveraged leases (aircraft leases with investor subscriptions) and other formats.

The Company has also teamed up with other companies to establish joint ventures, such as Yokogawa Rental & Lease Corporation <6841> (holds a large share in measuring instruments) with Yokogawa Electric Corporation in 1987 and Nihon Credit Lease Co., Ltd. (holds a large share in medical equipment and welfare equipment) with NICHIIGAKKAN CO., LTD. <9792> in 1999.

Major turning points were listing shares on the First Section of the Tokyo Stock Exchange in December 2004 and acquisition of SFC as a consolidated subsidiary (buying a 65% stake) in April 2008. SFC controls a strong share in the retail (vendor lease) area and contributed substantially to broadening business scope and increasing scale.

In June 2014, the Company acquired ALM 2010 Limited (it changed the name to Fuyo Aviation Capital Europe Limited), a UK-based aircraft-related services companies, as a consolidated subsidiary (buying all shares) and thereby strengthened its ability to expand aircraft business.

In January 2017, it acquired Accretive, a subsidiary of Don Quijote Holdings Co., Ltd. (Pan Pacific International Holdings Corporation <7532>) that operates a factoring business (purchase of accounts receivable) mainly for small businesses, as a consolidated subsidiary. It hopes to realize synergies from cross-selling with Group companies in addition to strengthening initiatives in new domains and collaborating with overseas sites. In October 2018, the Company made INVOICE, an integrated billing service provider, a consolidated subsidiary and then in August 2019, it made NOC, a back-office service provider with a wide range of operations, a consolidated subsidiary in an effort to strengthen the BPO services business.

Financial results

Profit before interest expenses, an indicator of true business performance, is increasing due to the accumulation of operating assets and growth in non-asset earnings

1. Key points for assessing results

The Company's sales consist of lease fee revenue (roughly 70% of overall sales), revenue from installment sales, interest income on financing, and non-asset earnings (such as fee income). Since revenues (excluding non-asset earnings) fundamentally fluctuate with operating assets, the Company needs to increase newly executed contract volume and accumulate more operating assets in order to expand revenues. However, it should be noted that accounting of mainstay lease fee revenue reflects the purchase transaction and includes the price of the leased item. We hence think profit excluding the acquisition cost of leased equipment from revenues (hereinafter, profit before interest expenses) is the suitable indicator for assessing income growth as business. This value corresponds to the operating assets multiplied by gross margin on assets. Movement in both of these amounts has an impact. Moreover, there is a need to take note of movements in the Other segment as the Company has recently worked to increase in non-asset earnings.

To ascertain profitability of the Company's main business, meanwhile, we think the most rational approach is monitoring ordinary profit that deducts interest expenses (funding costs), personnel and equipment expenses, credit-related costs (including reversals)*, and other items from profit before interest expenses.

* This is the net value of provision of allowance for doubtful accounts (SG&A expenses) and reversal of allowance for doubtful accounts (non-operating income).

2. Past results trends

Looking at past results, revenues steadily trended upward thanks to the accumulation of operating assets. While profit before interest expenses temporarily slipped in FY3/13 to FY3/14, it restored an upward trend from FY3/15. The setback in profit before interest expenses mainly occurred due to a fall in advanced profit effect in accordance with changes to the lease accounting standard in 2008 and the decline in gross margin on assets accompanying reduction of lease fee rates due to tougher competition. The Company pursued income recovery through accumulation of operating assets and improvement in gross margin on assets. We think expansion of real estate leases and aircraft leases with relatively large yields contributed to improvement in gross margin on assets.

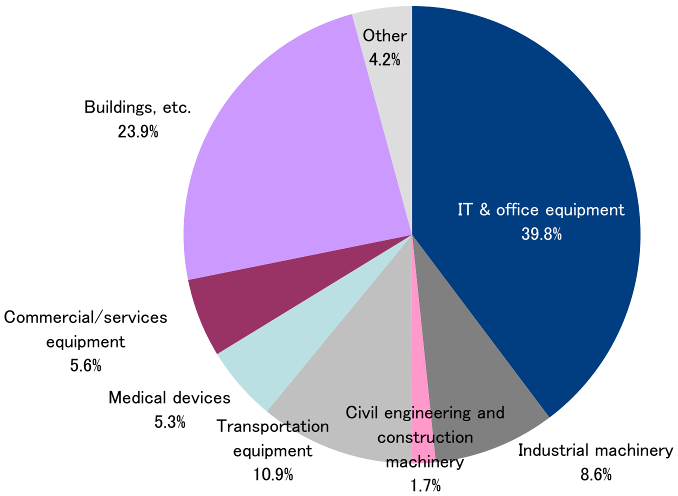
From a cost perspective, meanwhile, funding costs have been largely flat. This trend, despite growth in total funding value, is driven by decline in funding costs due to the impact of market rates. Additionally, the Company keeps personnel and equipment expenses at a certain level and has low credit-related costs. Low-cost operations, a strength, are paying off. Ordinary profit for FY3/19 hence has risen for five straight fiscal years.

Interest-bearing debt has been growing due to the accumulation of operating assets, but the equity ratio remains steady at about 10%. The 10% range does not lag other companies in the leasing industry, which possesses large amounts of highly liquid operating assets, and should not spark concerns about stability of the Company's financial base.

ROA (Return on Assets) is also trending upwards alongside the accumulation of high-quality assets. In addition, ROE (Return on Equity), which shows capital efficiency, has been increasing since FY3/16 alongside the rise in the profit level, and it had reached the 10% range by FY3/19.

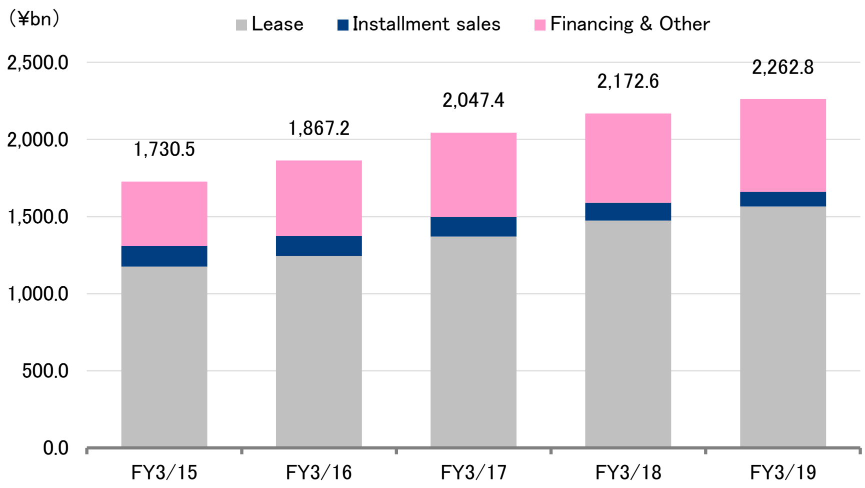
Operating cash flow remains negative and the size of this deficit has grown over the past five fiscal years. We think it is reasonable to interpret this as a reflection of the Company's growth potential because the main cause is aggressive accumulation of operating assets, which are future income sources.

Newly executed lease contract volume by type of equipment (1H FY3/20)



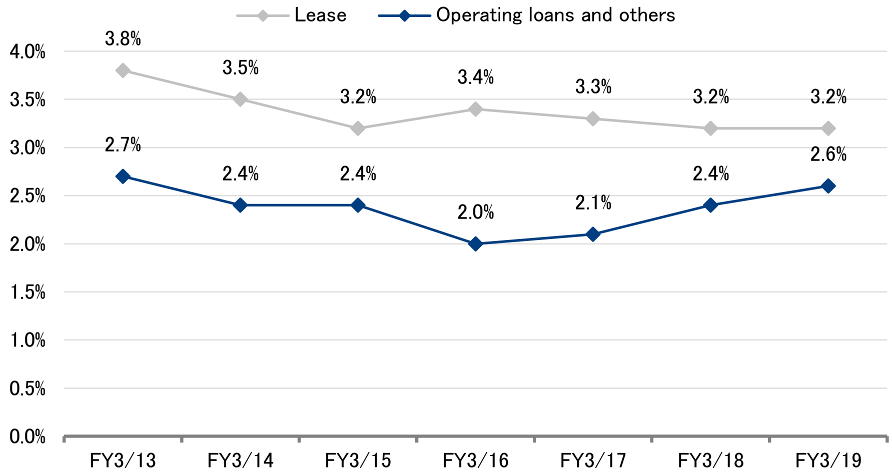
Source: Prepared by FISCO from the Company's results briefing materials

Trend in operating assets



Source: Prepared by FISCO from the Company's results briefing materials

Trend in gross margin on assets



Source: Prepared by FISCO from the Company's results briefing materials

3. Summary of 1H FY3/20 results

In 1H FY3/20, the Company posted increases in revenues and profits, once again reaching all-time highs on a half-year basis. The Company posted ¥344.5bn (+16.5% YoY) in total revenues, ¥20.4bn (+12.5%) in operating profit, ¥21.9bn (+12.0%) in ordinary profit, and ¥13.7bn (+8.2%) in profit attributable to owners of parent.

The effects of making INVOICE a consolidated subsidiary in October 2018 contributed to the higher sales. Also, profit before interest expenses, which is an indicator of true business performance, steadily grew, up 15.0% YoY to ¥41.6bn. Continuing from before, operating assets increased in strategic fields, including real estate and aircraft, while non-asset earnings rose, and both contributed greatly to the growth of profit before interest expenses. The newly executed contract volume also trended strongly, with leases as a whole rising 60% YoY, centered on real estate and aircraft. In addition, the factoring business conducted by Accretive grew significantly. As a result, at the end of September 2019, operating assets had steadily increased, rising 4.6% from the end of the previous fiscal period to ¥2,366.7bn.

An increase in ordinary profit was also secured. This was due to the growth in profit before interest expenses absorbing the rise in costs including higher interest expenses due to the increase in foreign currency-denominated loans (alongside the growth of the aircraft business), and costs relating to making INVOICE a consolidated subsidiary (including amortization of goodwill of ¥1.7bn).

As a result of the above, ROA improved greatly to 1.90% (compared to 1.76% in the same period in the previous fiscal period). In addition to the accumulation of high-quality operating assets in the strategic fields, it can be said that the expansion of the non-assets business, including of INVOICE (BPO services), led to the improvement in ROA.

As for financial condition, total assets increased 4.6% from the end of the previous fiscal period to ¥2,712.5bn, mainly due to the accumulation of operating assets. Shareholders' equity also grew, up 2.8% to ¥269bn due to the increase in retained earnings. Therefore, the equity ratio was basically unchanged at 9.9% (10.1% at the end of the previous fiscal period). Also, interest-bearing debt (excluding lease obligations) rose 4.6% to ¥2,194.5bn. But the Company actively utilized direct procurement in a favorable environment and the direct procurement rate rose to 35.2% (34.1% at the end of the previous fiscal period). In addition, the long-term debt ratio of interest-bearing debt was 37.4% (37.7% at the end of the previous fiscal period), and the liquidity ratio, which indicates short-term payment capabilities, was 131.9% (133.7% at the end of the previous fiscal period), so both were stable and the Company maintained its financial soundness*.

* On November 8, 2019, 2019, Rating and Investment Information, Inc. (R&I) maintained the Company's issuer rating as A- (single A minus) and revised the direction of the rating to "positive." Similarly, on November 18, 2019, the Japan Credit Rating Agency, Ltd. (JCR) raised the Company's long-term issuer rating to A+ (single A plus).

Summary of 1H FY3/2 results

(¥bn)

	1H FY3/19		1H FY3/20		Change	
	Results	Vs. total revenues	Results	Vs. total revenues	Amount	%
Total revenues	295.6		344.5		48.8	16.5%
Lease	261.1	88.3%	239.4	69.5%	-21.6	-8.3%
Installment sales	19.2	6.5%	17.4	5.1%	-1.8	-9.3%
Financing	7.0	2.4%	7.3	2.1%	0.3	4.5%
Other	8.4	2.8%	80.4	23.3%	72.0	853.7%
Profit before interest expenses	36.2	12.2%	41.6	12.1%	5.4	14.9%
Lease	23.0	8.8%	25.8	10.8%	2.8	12.2%
Installment sales	0.9	4.7%	0.8	4.6%	-0.1	-11.1%
Financing	6.9	98.6%	7.1	97.3%	0.2	2.9%
Other	5.3	63.1%	7.8	9.7%	2.5	47.2%
Interest expenses	4.1	1.4%	4.7	1.4%	7.0	14.6%
Gross profit	32.0	10.9%	36.8	10.7%	4.7	14.9%
SG&A expenses	13.9	4.7%	16.3	4.7%	2.4	17.9%
Operating profit	18.0	6.2%	20.4	5.9%	2.2	12.5%
Ordinary profit	19.6	6.6%	21.9	6.4%	2.3	12.0%
Profit attributable to owners of parent	12.6	4.3%	13.7	4.0%	1.0	8.2%
Newly executed contract volume	484.5		688.7		204.2	42.1%
General lease	165.8	34.2%	229.4	33.3%	63.6	38.4%
Real estate lease	22.6	4.7%	72.2	10.5%	49.6	219.5%
Installment sales	16.3	3.4%	18.7	2.7%	2.4	14.9%
Financing & Other	137.2	28.3%	162.9	23.7%	25.7	18.7%
Accretive	142.7	29.5%	205.4	29.8%	62.7	43.9%
Newly executed lease contract volume by type of equipment						
IT & office equipment	97.4		119.9		22.5	23.1%
Industrial machinery	13.5		26.0		12.5	92.6%
Civil engineering and construction machinery	4.2		5.2		0.9	23.8%
Transportation equipment	14.5		32.9		18.4	126.9%
Medical devices	13.1		16.0		2.9	22.1%
Commercial/services equipment	14.1		16.8		2.7	19.1%
Buildings, etc.	22.6		72.2		49.6	219.5%
Other	9.0		12.8		3.8	42.2%
Total	188.4		301.6		113.3	60.1%

(¥bn)

	As of March 31, 2019	As of September 31, 2019	Change	
			Amount	%
Operating assets	2262.8	2366.7	103.9	4.6%
Financing & Lease	1083.5	1113.1	29.6	2.7%
Operating & Lease	481.3	513.4	32.1	6.7%
Installment sales	96.0	90.8	-5.2	-5.4%
Financing & Other	602.0	649.4	47.4	7.9%

Source: Prepared by FISCO from the Company's financial results and results briefing materials

Below we review results and activities in the Company's strategic business areas.

(1) Real estate

At the end of September 2019, operating assets had risen steadily, up 5.0% from the end of the previous fiscal period to ¥442.8bn. Although there was a sale during the period of a large bridge project, the Company was able to recover this through the growth of the newly executed contract volume to ¥72.2bn (its second highest ever level). Operating assets have steadily increased during the last few years and already greatly exceed the interim target* (operating assets of ¥380bn at the end of FY3/20). Also, the expansion of alliance partners contributed to the diversification of properties handled. The Company also maintained the dispersal of the uses of buildings in long-term real estate leases (commercial facilities, hotels, nursing and residential, leisure and services, logistics, and other uses). In the 2H, alongside the reorganization, the Company's intends to focus on discovering real estate products in the Kansai area. ROA also improved to 1.9% (1.7% in the previous fiscal period), including due to the recording of a gain on the sale of a bridge project.

* Set as the target value for the interim point (FY3/20) until FY3/22, which is the final fiscal year of the medium-term management plan.

(2) Aircraft

At the end of September 2019, operating assets had increased 6.9% from the end of the previous fiscal period to ¥160.2bn. Due to the expansion of airlines with which the Company does business, the number of aircraft it owns increased to 39 (up 4 aircraft from the end of the previous fiscal period). ROA also improved to 1.5% (1.3% in the previous fiscal period). It had temporarily declined in the previous fiscal period because the implementation of new aircraft overlapped with the end of the period, but it can be confirmed that it is gradually recovering. However, due to the intensifying competition, the Company has been carefully selecting projects, and as a result, it seems it is behind schedule toward achieving the interim target (operating assets of ¥210bn and 49 aircraft owned at the end of FY3/20). It is considered that it is investigating expanding its business domains (parts business* etc.), including through inorganic growth (M&A). In the reorganization on April 1, 2019, it newly established the Strategy Promotion Office to further promote its aircraft leasing strategy, and we will be focusing on the specific developments in the future.

* A business to purchase and dismantle used aircraft and then to sell the individual parts.

(3) Overseas

At the end of September 2019, operating assets (including the amounts invested in affiliates in the overseas business) had decreased 3.4% from the end of the previous fiscal period to ¥96.5bn due to the effects of the strong yen. It seems this business is also behind schedule toward achieving the interim target (operating assets of ¥110bn at the end of FY3/20). In addition, ROA improved only slightly to 0.9% (0.8% in the previous fiscal period). Overseas, the Company is pursuing growth on two axes, organic and inorganic (M&A, alliances, etc.) For the organic strategy, it is working to strengthen the sales structures of the Singapore local subsidiary and Accretive's Thai local subsidiary toward business expansion in the ASEAN region. On the other hand, inorganic growth is viewed as essential for business expansion in the future and to improve ROA, so the Company's policy is also to actively work on M&A. During the period of the current medium-term management plan, it made equity method affiliates of TDF Group Inc.*1 in March 2018 and Pacific Rim Capital, Inc. (PRC)*2 in January 2019, and it is steadily progressing the expansion of sales bases overseas. It is progressing an alliance with PRC toward acquiring expertise in operating leases, and in such ways, it is working to create synergies with the organic business.

*1 A pickup truck rental and lease company (Canada).
*2 A materials handling (transportation) equipment operating lease company (United States)

(4) Energy/environment

At the end of September 2019, operating assets (solar power business) were basically unchanged from the end of the previous fiscal period at ¥27bn. The two sites that started operations in the previous fiscal period (Naraha Oya and Shichikashuku) are progressing according to plan, and currently, 32 mega-solar sites around the country are generating power (140MW in total). The Company has already achieved the initial interim target (total output of 135MW at the end of FY3/20), while the completion of an extremely large project (Fukushima district) with a total output of 60MW is scheduled for February 2020. ROA improved greatly to 7.6% (4.4% in the previous fiscal period) due to a seasonal factor (solar power generation increases in the summer), and it is expected to fall to around the 6.0% level for the full fiscal year. The Company is also working to enhance services to respond to rising environmental awareness, and in addition to its own support program for the Renewable Energy 100 Declaration RE Action*1, it is focusing on providing PPA (Power Purchase Agreement) services*2 for the post-FIT period.

*1 Renewable Energy 100 Declaration RE Action was established by a council created by four organizations, including the Green Purchasing Network, as a new framework to enable SMEs, local governments, hospitals, educational facilities, and others to declare 100% renewable energy.
*2 A framework in which a solar power generation system is installed on the roof of a customer's facility or other location, and green electricity that is free of CO_2, which has environmental value, is supplied directly to the customer.

(5) Medical/social welfare

While it has not presented specific goals, FPS Medical (medical and care fee credits factoring business), on which the Company is focusing, is steadily growing through alliances with regional financial institutions and medical consultants, and at the end of September 2019, operating assets had increased 35.6% from the end of the previous fiscal period to ¥14.1bn. Also, on July 10, 2019, it announced a capital and business alliance with Japanese Organization for Medical Device Development, Inc. (JOMDD)* of Medical Incubator .The Company is aiming to develop a financing scheme to promote the introduction of the products developed and sold by JOMDD, while it also intends to utilize the knowledge of JOMDD to strengthen in the medical and welfare fields, which it has positioned as strategic fields. In addition, it is working to create synergies through collaborating with the medical institutions and alliance partners both companies do business with.

* JOMDD is one of only a few medical incubators in Japan that provide a one-stop service, from the development of medical seeds through to support for securing sales channels.

(6) New domains (BPO services business)

As previously stated, FPS (early payment service for accounts receivable) and FPS Medical (early payment service for medical and care fee credits) being developed by Accretive are steadily growing. Also, the integrated billing service provided by INVOICE, which was made a consolidated subsidiary in October 2018, is a factor that pushed up the results. Moreover, in August 2019, the Company announced that it had made a consolidated subsidiary of NOC*1, which provides a wide range of back-office services and business consulting services. In addition to the accounting and payments services it previously provided, it is expanding its services areas, including to human resources, general affairs, sales operations, and RPA. In addition, it has established a system to respond to its customers' various needs for improving business efficiency, including strengthening the business consulting function to make customer needs visible. The ordinary profit of the core subsidiaries responsible for the BPO services business (1H results) were ¥2.4bn at INVOICE, ¥0.8bn at Accretive, and ¥0.4bn*2 at NOC, and so on simply adding these amounts, on a fiscal half year basis, ordinary profit was on a scale of ¥3.6bn.

*1 It has the expertise accumulated from improving the businesses of 1,000 companies over 130 years, and its strengths including providing small-lot, multiple-product BPO services and making customers' issues visible through its business consulting.
*2 However, NOC's contribution to results began from 3Q.

To summarize the 1H FY3/20 performance based on the above, the Company maintained the favorable results (at new record high levels), and in addition, while there were some differences in terms of the progress made in the various strategic fields, overall it can be evaluated as having made steady progress. In particular, it can be highly evaluated on the point of increasing high quality-based profits through both accumulating operating assets and improving ROA. In terms of activities also, the Company developed its originality to achieve specific results, including through strengthening the BPO services business by making a consolidated subsidiary of NOC and measures for environmental management. On the other hand, if we look at the issues it is facing, the Company is behind schedule toward achieving the target for aircraft and overseas growth has been sluggish. It seems that the key to addressing both issues will be the inorganic strategy (M&A, alliances, etc.), so it will be necessary to focus on developments in the future.

Business outlook

Has left the FY3/20 results forecasts unchanged, and once again expects higher sales and profits

For the results in FY3/20, which is the third year (the mid-point) of the medium-term management plan, the Company has left its forecast unchanged projecting revenues and profits to continue to increase, with total revenues to rise 13.2% YoY to ¥700bn, operating profit to grow 10.7% to ¥39.5bn, ordinary profit to climb 7.4% to ¥42bn, and profit attributable to owners of parent to increase 1.9% to ¥26bn. Ordinary profit will be at a level toward the upper limit of the interim target range (¥38bn to ¥42bn). It can also be said to be making steady progress for the medium-term management plan.

* During the 1H FY3/20, the Company finalized the provisional accounting treatment for business combinations. As a result, the percentage figures representing comparisons with FY3/19 for operating profit, ordinary profit, and profit attributable to owners of parent were calculated based on FY3/19 amounts that reflect the finalization of the provisional accounting treatment.

Continuing on from the 1H, it is expected that the results growth will be driven by the accumulation of operating assets in each strategic field and the expansion of non-asset earnings.

At FISCO, we think that the results forecasts are fully achievable when considering that operating assets are growing at a pace exceeding the lower value of the interim target (¥2,300bn to ¥2,400bn) and that the Company has already achieved the level of the ROA interim target (1.7% to 1.8%).

FY3/20 outlook

(¥bn)

	FY3/19		FY3/20		Change	
	Results	Ratio	Forecast	Ratio	Amount	% (Note)
Total revenues	618.1		700.0		81.8	13.2%
Operating income	35.7	5.8%	39.5	5.6%	3.7	10.7%
Operating profit	39.1	6.3%	42.0	6.0%	2.8	7.4%
Profit attributable to owners of parent	25.6	4.2%	26.0	3.7%	0.3	1.9%

Note: During the 1H FY3/20, the Company finalized the provisional accounting treatment for business combinations. As a result, the percentage figures representing comparisons with FY3/19 for operating profit, ordinary profit, and profit attributable to owners of parent were calculated based on FY3/19 amounts that reflect the finalization of the provisional accounting treatment.
Source: Prepared by FISCO from the Company's financial results

Growth strategy

Aims to increase operating assets and raise ROA through expansion of businesses with high profitability and frontier (new domains) initiatives

1. Medium-term management plan

The Company is promoting its medium-term management plan Frontier Expansion 2021, which covers FY3/18 through FY3/22. With a slogan of "Going where no one has gone before," it aims to become a corporate group with sustainable growth, despite major changes in the environment for domestic leasing business, through expansion of the business portfolio's "frontier" by pursuing new business areas and business models. The plan is a five-year long-term outlook for expansion of the frontier.

Its business goals for five years from FY3/17 are ¥2,500.0bn in operating assets (+¥456.4bn), 2.0% ROA (+0.4ppt), and ¥50.0bn in ordinary profit (+¥18.6bn). Average annual growth rates for the five years are 4.1% in operating assets and 9.8% in ordinary profit. While the ordinary profit goal presents a tough hurdle, the Company hopes to reach this level through the combined impact of expanded operating assets and improved ROA.

Numerical targets of the medium-term management plan

	FY3/17 Results	FY3/18 Results	FY3/19 Results	FY3/20 Interim target	FY3/22 Target
Operating assets	¥2,043.6bn	¥2,172.6bn	¥2,262.8bn	¥2,300.0~2,400.0bn	¥2,500.0bn
ROA	1.60%	1.67%	1.77%	1.70%~1.80%	2.00%
Ordinary profit	¥31.3bn	¥35.2bn	¥39.2bn	¥38.0~42.0bn	¥50.0bn

Source: Prepared by FISCO from the Company's materials

Core strategies include 1) selection and concentration in strategic areas, 2) challenge the frontier, and 3) pursue Group synergies.

(1) Selection and concentration in strategic areas

The Company intends to concentrate business resources in strategic areas as growth drivers - 1) real estate, 2) aircraft, 3) overseas, 4) energy/ environment, 5) medical and social welfare, and 6) new domains. It also positions the following areas as core areas where it aims to maintain and expand the market (customer base) via group collaboration and other improvements in efficiency - 7) auto leases, 8) vendor leases, 9) domestic corporate, and 10) finance.

(2) Challenge the frontier

The Company plans to shift emphasis to added value, services, and business areas that banks cannot offer in order to clarify differentiation with rivals (bank-affiliated leasing companies and banks themselves). It aims to expand into areas that place value (business value) on goods. In new domain expansion, it is mainly considering utilization of M&A and capital and business alliances and seeking non-asset businesses that contribute to higher asset efficiency (ROA), such as through BPO services.

(3) Pursue Group synergies

It aims to maximize Group synergies by rolling out products (services) from Group companies to the markets (customer bases) of other Group companies. It hopes to dramatically enhance sales performance by effectively connecting the Group's "functions" and "customer bases," including its main operations with strength in large corporate transactions, SFC's retail-oriented business, Accretive's factoring platform that links large companies and small businesses, INVOICE's integrated billing service with a customer base of 16,000 companies, and NOC's strength in wide-ranging back office services and business consulting.

2. Direction in strategic areas

(1) Real estate

The Company set goals of ¥480.0bn in operating assets in five years (roughly doubling value over five years) and 2.2% in ROA (+0.3ppt) that it intends to achieve by maintaining and expanding upbeat newly executed contract volume. It plans to continue expanding alliance partners and capturing needs by offering land information, expansion of risk-taking activities, such as finding tenants on its own, and broadening the frontier with real estate financing, investments in REITs, and real estate investments. It is also promoting Group collaborations, such as real estate lease proposals at SFC.

(2) Aircraft

The Company intends to accelerate arrangement of ownership and expand the number of aircraft that it owns by fourfold to 70 (an increase of 51) in five years. With these additions, it is targeting expansion of operating assets to ¥280.0bn (+¥204.9bn) and ROA of 2.3% (+0.4ppt). While competition has heated up amid growth in global demand, the Company hopes to expand scale and improve asset efficiency through provision of added value that leverages its strengths, similar to real estate leases. In particular, as discussed above, it will seek expansion of transactions with airlines, arrange package deals (multiple aircraft), and consider business expansion including through inorganic (M&A) growth.

(3) Overseas

The Company presented goals in five years of a roughly 1.5-fold expansion of operating assets to ¥120.0bn (+¥35.9bn) and ROA of 1.8% (+1.2ppt) driven by further promotion of non-Japanese business mainly in North America and Asia and inorganic growth (including investments, acquisitions, and alliances). Its inorganic strategy appears to be targeting non-Japanese lease companies located in North America and Asian emerging countries (with specialized businesses). In organic growth, it is aiming for expansion of overseas sites and utilization of Accretive's overseas sites (offering small-sum financing services in Thailand and Cambodia).

(4) Energy/environment

In the mainstay solar power business, the Company is aiming for total output in the final fiscal year to have increased to 165MW (doubling the power supplied over five years) and operating assets to have grown to ¥34bn (roughly doubling over five years), and also for ROA to be maintained at the high level of 6.0%. It is already generating total output of 140MW, and moreover, the Company's largest scale project (60MW) is scheduled to be completed in February 2019. Toward the post Feed-in Tariff (FIT) period, it is providing PPA services and measures for self-consumption-type power generation, while it also intends to develop other initiatives, including newly participating in the management of a plant factory* and contributing to the creation of a sustainable society.

* It is participating in the management of a plant factory (Fujieda City, Shizuoka Prefecture) through the establishment of a joint venture company in April 2019 with TEPCO Energy Partner, Inc., and Farmship, Inc. It is expected to have the largest-scale production capacity in Japan as a single plant factory, and it is scheduled to start operations around the spring of 2020.

(5) Medical/social welfare

While it has not presented specific goals, the Company expects growing demand, including wide adoption of community-based integrated care systems promoted by the government, and views this as an area where it can create synergies among Group companies. In medical business, it is taking steps to expand the frontier by offering consulting services for hospital revitalization, business management, and other areas, utilizing know-how in alliances with consolidated subsidiary FUJITA Co., Ltd., which sells used medical equipment, and promoting Accretive's factoring service for medical and care fees, as well as working toward switching to a model based on proposing solutions through the establishment of the Healthcare Advisory Department and launching a management support advisory business targeting healthcare companies. In social welfare (care) business, it plans to further pursue building leases for senior homes and other care facilities, an area where it led the industry, through the partnership with NICHIIGAKKAN, a major company in the care industry.

(6) New domains

New domain is the Company's general term for "a business that will be a new initiative," such as a new business or the expansion of a business domain, It is aiming to increase ordinary profit in the final fiscal year to as high as around ¥4bn by expanding the business frontier, centered on the non-asset business. In April 2019, it launched the BPO domain as a core field in new domains to respond to customers' diverse needs for improving business efficiency, and in August 2019, it made a consolidated subsidiary of NOC, which provides a wide range of back-office services. In the future, it will conduct marketing by leveraging its existing customer base and the points of contact with them (the accounting and general affairs departments) by strengthening the alliances within the Group*, including with INVOICE (integrated billing services) and Accretive (factoring services), and it is aiming to establish a strong position for BPO services in the accounting and payment areas.

* They also include the alliances with MerryBiz Inc. (consigned payment operations), Fuyo Auto Lease Co., Ltd. (vehicle management operations), Sharp Finance Co., Ltd. (collection agency services), and also FLOWCube+, which provides leasing and fixed asset management services jointly developed with SAP.

Numerical targets in strategic areas

	FY3/17 Results	FY3/18 Results	FY3/19 Results	FY3/20 Interim target	FY3/22 Target
Real estate					
Operating assets	¥240.2bn	¥362.0bn	¥421.9bn	¥380.0bn	¥480.0bn
ROA	1.9%	1.8%	1.7%	2.0%	2.2%
Aircraft					
Operating assets	¥75.1bn	¥97.6bn	¥149.8bn	¥210.0bn	¥280.0bn
ROA	1.9%	1.9%	1.3%	2.0%	2.3%
Self-owned aircraft	19	24	35	49	70
Overseas					
Operating assets	¥84.1bn	¥93.4bn	¥99.9bn	¥110.0bn	¥120.0bn
ROA	0.6%	0.6%	0.8%	1.5%	1.8%
Energy/environment					
Operating assets	¥17.2bn	¥19.7bn	¥27.9bn	¥29.0bn	¥34.0bn
ROA	6.1%	5.1%	4.4%	6.0%	6.0%
Output (MW)	77	102	140	135	165
New domains					
Ordinary profit	¥1.7bn	-	-	Aprox. 3.0bn	Aprox. 4.0bn

Source: Prepared by FISCO from the Company's materials

Given these efforts, we expect expansion of operating assets and profitability improvement led by real estate and aircraft areas to continue to play a major role in attainment of the Company's goals in the medium-term management plan. We also think that the increase in BPO services businesses, which have a high asset efficiency (including non-asset earnings), will contribute to an increase in ROA. In particular, it is very likely that the development of the BPO services business will become a new earnings driver, due to the fact that potential demand is high and this is an area in which the Company can leverage its strengths.

We believe the Company is capable of reaching its goal for expansion of operating assets in light of the external conditions in strategic areas, its results up to now, and its advantages. Our main focus is how the Company increases ROA. Progress in lifting ROA should be assessed in terms of 1) expansion of business in areas with high ROA (change in mix), such as real estate, aircraft, and renewable energy, and 2) improvement of ROA in the real estate and aircraft businesses. We see healthy prospects for boosting ROA through changes in the mix by expanding businesses with high profitability and obtaining income in BPO businesses with high asset efficiency. For the latter effort (finding ways to raise ROA in the real estate and aircraft businesses), we think it is important to pay close attention to the external environment and internal measures. However, on looking at general leases (leases excluding real estate leases) for which low spreads have continued for a while in the context of the intensifying competition, there are improvement trends for spreads* at the present time due to factors including careful project selection and the utilization of operating leases, and it will be necessary to pay attention to these trends going forward.

* General lease spreads (the numerical value in standalone management accounting) improved from 0.3% in FY3/18 to 0.6% in FY3/19 and to 0.8% in 1H FY3/20.

Responding to social issues

Aiming to realize a sustainable society and to create business opportunities.
Selected as a constituent stock in leading ESG indexes

As previously stated, in the medium-term management plan the Company defines "energy / environment" as one of its strategic fields, and in order to build a sustainable society, it is progressing efforts including expanding the solar power generation business and financing infrastructure and equipment that contributes to energy saving and the elimination of carbon emissions. In particular, it recognizes that tackling climate change, including through spreading the use of renewable energy, is a pressing issue, and in September 2018, it became the first general leasing company in Japan to become a member of RE100*. The Company is committed to switching to 100% renewable energy for the electric power it consumes in its business activities by 2050 (and to at least 50% by 2030). In its business fields also, its policy is to aim for the realization of a sustainable society and the creation of business opportunities for the Company itself through efforts including 1) contributing to local communities through further expanding the solar power generation business, 2) providing solutions and services for the use of renewable energy and introducing infrastructure and equipment that contributes to energy saving (developing a proposal-based solutions business), and 3) investing in, entering-into business alliances with, and providing sales promotion support for the product launches of venture companies that possess new technologies that will contribute to the spread of renewable energy.

* An international consortium of companies that aim to procure 100% of the energy used in their operations from sustainable sources.

Also, in May 2019, the Company announced its agreement with the declaration of the Task Force on Climate-Related Financial Disclosures (TCFD)*1. Moreover, it is working on various other measures, including participating in the Renewable Energy 100 Declaration Establishment Council and starting operations of its own support program that utilizes green bonds. It has also been selected as the constituent stock in various ESG indexes*2, including the FTSE4Good Index Series, which selects excellent companies in terms of their responses to ESG (Environment, Society, Governance), the FTSE Blossom Japan Index, the MSCI Japan ESG Select Leaders Index, and the S&P/JPX Carbon Efficient Index.

*1 The Task Force established by the Financial Stability Board. In June 2017, it issued a proposal that provides a framework for disclosing information on the risks and opportunities posed to finance by climate change.
*2 Among these ESG indexes, the FTSE Blossom Japan Index, the MSCI Japan ESG Select Leaders Index, and the S&P/JPX Carbon Efficient Index have been adopted as the benchmarks of ESG passive management by GPIF (Government Pension Investment Fund), which is one of the world's largest pension funds.

Shareholder returns

Steadily raising the dividend with support from strong performance and plans to increase it again in FY3/20 by ¥12 to ¥200

The Company follows a fundamental policy of striving to return profits to shareholders by reinforcing shareholders' equity and continuing long-term, stable dividends to ensure a solid business foundation and robust financial conditions taking into account its profits and business goals.

In FY3/19, the Company increased the dividend by ¥32 YoY for an annual dividend of ¥188 per share (interim dividend of ¥78 and period-end dividend of ¥110 for a dividend payout ratio of 22.1%), which included a commemorative dividend of ¥14 on the 50th anniversary of its establishment.

For FY3/20, it plans to increase the dividend ¥12 YoY for an annual dividend of ¥200 per share (interim dividend of ¥100 and period-end dividend ¥100 for a dividend payout ratio of 23.2%)

In addition to the higher dividend from profit growth, the Company has been gradually raising-up the dividend payout ratio, so at FISCO we think that there remains considerable room for the dividend to increase in the future due to both of these factors.

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