COMPANY RESEARCH AND ANALYSIS REPORT

WILLPLUS Holdings Corporation

3538

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FISCO Ltd. Analyst
Hiroyuki Asakawa

FISCO Ltd.
http://www.fisco.co.jp

Index

Summary

WILLPLUS Holdings is seeking growth based on three strategies: the multi-brand strategy, dominant strategy, and the M&A strategy. The Company's strength is the virtuous cycle in which past performance builds trust, which then leads to subsequent growth opportunities

WILLPLUS Holdings Corporation (hereafter, also "the Company") <3538> is a pure holding company. The Group is engaged in sales of imported cars. In the Fukuoka area and Tokyo/Kanagawa area, the Group sells nine automobile brands, centered on FIAT, Alfa Romeo, JEEP, BMW, MINI, and VOLVO through 26 authorized dealerships (figures as of June 30, 2018).

1. Nine brands and 26 dealerships in the Fukuoka area and the Tokyo/Kanagawa area

WILLPLUS Holdings is a pure holding company. The Company has four operating companies under its umbrella, and engages in sales of imported cars. As of June 30, 2018, the Group operates a total of 26 dealerships in the Fukuoka area and the Tokyo/Kanagawa area. The Group has been growing based on its multi-brand strategy, and currently carries nine brands centered on FIAT, Alfa Romeo, JEEP, BMW, MINI and VOLVO, but the Group will likely offer more brands going forward. The Group's core operating company is CHECKER MOTORS CORPORATION which used to be the exclusive import agency for FIAT and Alfa Romeo, and still has the largest market share in Japan in terms of the number of import vehicles sold.

2. Growth through both M&A and new dealership openings. The Company has created a virtuous cycle whereby a high level of trust from the outside leads to subsequent growth

The Company has expanded its business both through M&A and new dealership openings on its own. By leveraging its sound corporate management to acquire new brands through M&A, and by managing profitability on an individual dealership basis through a scrap and build program based on stringent management control, the Company has succeeded in making all of its operating companies profitable. The strength of the Company is the virtuous cycle that it has created, whereby its strong business results, as well as its maintenance of employment as one of its key principles has allowed the Company to earn the trust of importers and industry peers alike, which in turn has led to introductions of M&A deals and otherwise helped to drive further growth.

3. Seeking growth through the multi-brand strategy, dominant strategy, and M&A strategy

The Company has an overall growth strategy comprising the multi-brand strategy, the dominant strategy and the M&A strategy. These are not being implemented individually on their own, but rather the Company is working to have each of the strategies work together organically to create synergies as a means of realizing the Companies' goals. As a specific example, the multi-brand strategy for leveling the impact of the model cycle on revenues also plays an important role also in the dominant strategy, while the presence of the dealership network based on the dominant strategy greatly contributes to maximizing the effects of M&A activity.

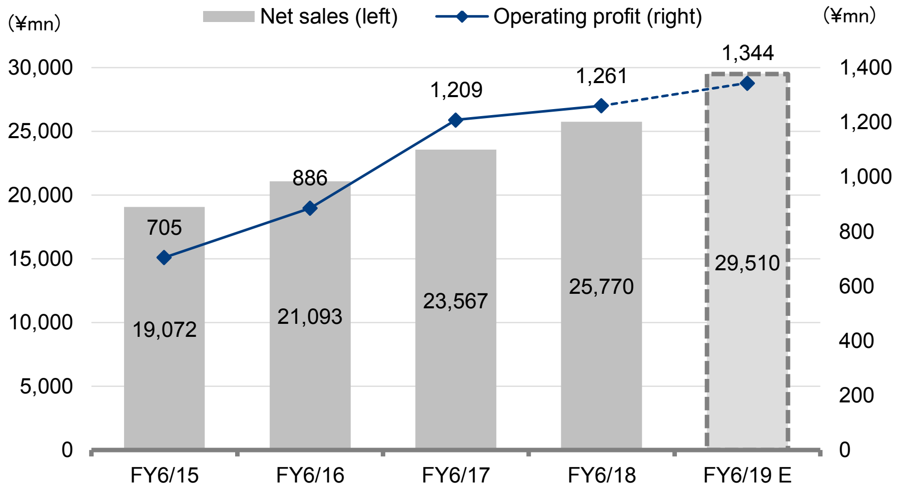
4. Operating performance continues to grow stably. Sales and profits are expected to increase in FY6/19, supported by the release of new models of core models

In FY6/18, net sales totaled ¥25,770mn (+ 9.3% YoY) and operating profit was ¥1,261mn (+ 4.3%). The increase in net sales was due to the effect of the multi-brand strategy, as sales of Alfa Romeo and FIAT made up for weak sales of new BMW and VOLVO cars, as well as growth in used car sales. For FY6/19, the Company expects both net sales and operating profit to increase once again, as it is forecasting net sales of ¥29,510mn (+ 14.5%) and operating profit of ¥1,344mn (+ 6.6%). In FY6/19, four new models are expected to be launched, including models that match the SUV popularity in Japan and core models. Another point to watch will be the Company's first entry into Tohoku market.

Key Points

- The Company will pursue synergistic effects and look to grow earnings, centered on the multi-brand strategy, dominant strategy, and M&A strategy
- The Company will aggressively utilize M&A to enter new areas and acquire new brands, as well as to expand the market share of existing brands
- Close attention will be paid to the Company's entry into the Porsche business and future business activities in the Tohoku area

Performance trends



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

Company profile

The Company's current president launched the business immediately after acquiring a family business, and has used M&A to expand the scope of operations

1. History

In 1997, the father of Takaaki Naruse, the current President established Sunflower CJ in Kitakyushu City, Fukuoka Prefecture. Soon thereafter, the Sunflower CJ acquired a Chrysler (U.S.) dealership, changed its name to Fukuoka Chrysler Co., Ltd., and began operating as an official Chrysler dealer.

After engaging in new and used car sales as Fukuoka Chrysler, Takaaki Naruse acquired all the shares of Fukuoka Chrysler in October 2004, and became independent, upon which he launched the business that has led to the present day. In 2005, the Company entered the Tokyo market by opening a dealership in Ota-ku, Tokyo. In 2007, the company acquired the shares of Four Pillars Co., Ltd. from Quinland Cars Ltd., which was listed on OSE Hercules, and converted the company into a subsidiary. With this as a springboard, WILLPLUS Holdings Corporation was established in October 2007, completing the holding company structure which has been maintained through the present day, with Fukuoka Chrysler and Four Pillars as the two wholly-owned subsidiaries at the time.

WILLPLUS Holdings then reached a major turning point in the 2008-2009 period. During this time, in rapid succession the Company made CHECKER MOTORS CORPORATION, currently the core operating company, a subsidiary, and took over the business of a number of authorized BMW/MINI dealerships. At the time, the imported car market was plummeting due to the impact of the Lehman Brothers bankruptcy. Amid this challenging environment, the Company leveraged its strong management foundation to enter the M&A market as a buyer, and succeeded in acquiring the large platform that has enabled its growth through the present day. Even today, this strong management foundation remains the Company's greatest strength.

In 2014, the Company made authorized VOLVO dealership Teio Auto Corporation a subsidiary, and with this move the current lineup was mostly in place. Most recently, in April 2018, CHECKER MOTORS started the Jaguar/Land Rover business through a business takeover, and WILLPLUS Holdings itself established its fourth operating company, Willplus Eins Corporation (November 2017), which is preparing to open an authorized Porsche dealership in January 2019.

WILLPLUS Holdings Corporation listed its shares on the TSE's JASDAQ (Standard) market in March 2016. In September 2017, its shares move to the Second Section of the TSE, and are then reassigned to the First Section of the TSE in February 2018.

History

January 1997	Establishment of Sunflower CJ in Kitakyushu City, Fukuoka Prefecture
January 1997	Trade name changed to Fukuoka Chrysler Co., Ltd. The company establishes a new office in Fukuoka City, and begins new car sales as the first official Chrysler dealership in western Japan
October 2004	Current President Takaaki Naruse acquires all of the company's shares with his personal funds and begins business
July 2005	Dealership opened in Ota-ku, Tokyo
July 2007	Acquires 90% of the issued shares of Four Pillars Co., Ltd., a wholly-owned subsidiary of Quinland Cars Co., Ltd., through a third-party allotment. The Company begins operating a Ford dealership, starts an imported car business, the PDI business, and the parts wholesale business
October 2007	WILLPLUS Holdings Corporation established in Ota-ku, Tokyo, through a share transfer. Fukuoka Chrysler Co., Ltd. and Four Pillars Co., Ltd. are converted into wholly-owned subsidiaries
July 2008	Converted authorized FIAT/Alfa Romeo dealer CHECKER MOTORS CORPORATION into a wholly-owned subsidiary
July 2009	Chrysler Japan Co., Ltd. transfers the business of Chrysler/JEEP/Dodge Setagaya and Chrysler/JEEP/Dodge Yokohama to the Company
September 2009	Willplus Motoren Corporation (established in May 2009) takes over the businesses of BMW and MINI, and begins carrying BMW and MINI vehicles
July 2010	Merger of Fukuoka Chrysler Co., Ltd., Four Pillars Co., Ltd., and CHECKER MOTORS CORPORATION. The trade name is changed to CHECKER MOTORS CORPORATION
April 2014	Authorized VOLVO dealer Teio Auto Corporation and its subsidiary Teio Auto Service Co., Ltd., engaged in the Jaguar vehicle maintenance business, are converted into wholly-owned subsidiaries
March 2016	Listing on the Tokyo Stock Exchange JASDAQ (Standard)
May 2017	Teio Auto Corporation takes over the business of VOLVO Cars Odawara
September 2017	Listing changed to the TSE Second Section
November 2017	Willplus Eins Corporation established for the purpose of being an authorized Porsche dealer
February 2018	Listing changed to the TSE First Section
April 2018	CHECKER MOTORS CORPORATION takes over the business of Jaguar/Land Rover Shonan from Ivy Auto Corporation and starts business as an authorized dealer

Source: Prepared by FISCO from Company materials

Comprising four operating companies, WILLPLUS Holdings operates a total of 26 authorized import car dealerships in the Tokyo/Kanagawa and Fukuoka areas

2. Business overview

(1) Configuration of Operating Companies

WILLPLUS Holdings is engaged in business related to imported car sales. The Company itself is a pure holding company and has four operating companies (all are wholly-owned subsidiaries) under its umbrella, and each operating company is an authorized dealer for imported cars. As of June 30, 2018, there are a total of 26 dealerships.

The Group is structured this way because in many cases contracts with importers (exclusive import agency, an automaker's Japanese subsidiary in many cases) prohibit a single operating company from being an authorized dealer for another automaker. CHECKER MOTORS carries a wide range of brands because: 1) CHECKER MOTORS was originally an authorized dealer of FIAT and Alfa Romeo, but Chrysler and FIAT became FCA (Fiat Chrysler Automobiles) after business integration, and; 2) Both importers (FCA and Jaguar/Land Rover Japan) accepted auction sales with other brands. As of June 30, 2018, CHECKER MOTORS operates a total of 14 dealerships, including Alfa Romeo Ota which opened in 2018.

Willplus Motoren operates authorized dealerships for BMW and MINI. As of June 30, 2018, the company operates a total of seven dealerships. Five of these are in Fukuoka Prefecture and two are in Tokyo.

Teio Auto Corporation was engaged in the authorized dealer business for VOLVO in Fukuoka Prefecture. After the company was added to the Group, VOLVO Cars Odawara was acquired through a business takeover in May 2017. As of June 30, 2018, Teio Auto Corporation operates a total of five dealerships. Four of these are located in Fukuoka Prefecture and one is in Kanagawa Prefecture.

Willplus Eins Corporation plans to open its first dealership (provisional name: Porsche Center Koriyama) in Fukushima Prefecture in January 2019.

List of Operating Companies

Name	CHECKER MOTORS CORPORATION	Willplus Motoren Corporation	Teio Auto Corporation	Willplus Eins Corporation
Capital	¥50mn	¥50mn	¥30mn	¥10mn
Number of dealerships (as of June 30, 2018)	14	7	5	0
Importers	FCA JAPAN Limited Jaguar Land Rover Japan Limited	BMW Japan Corporation	Volvo Car Japan Limited	Porsche Japan KK
Brands carried	JEEP Alfa Romeo FIAT ABARTH Jaguar Land Rover	BMW MINI	VOLVO	PORSCHE

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

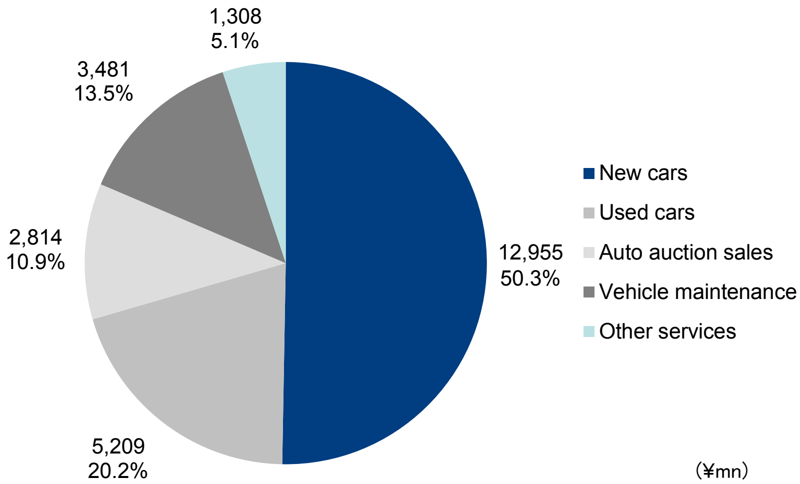
(2) Description of business

Each of the operating companies engages in the following: purchase and sales of new cars, purchase and trade-ins of used cars, maintenance, repairs and other after-services, and the automobile insurance agency business. Accordingly, WILLPLUS Holdings discloses a breakdown of sales by category.

In FY6/18, new car sales totaled ¥12,955mn, accounting for 50.3% of overall net sales. This may appear to be a low percentage, but the reason for this is that many of the brands carried by the Company are premium import brands with high price ranges, and as discussed below, the operating companies aggressively utilize used cars in their sales strategies.

Used car sales are an important part of the Company's business, with sales to both individual and corporate customers, centered on certified, late-model used cars with low mileage (accounted for as Used car sales). Meanwhile, the Company uses automobile auctions and other means to sell used cars of other brands acquired through trade-ins (domestic cars, for example) and other vehicles that do not meet the standards for classification as a certified used car (accounted for as Auto auction sales). Others includes automobile insurance (voluntary insurance) agency commissions and new car sales-related incentives, among other items. The Company is focusing on insurance sales as a recurring revenue-based business, and the new voluntary automobile insurance attachment rate (the ratio of new car buyers who simultaneously enroll in voluntary insurance) is 36.4% (FY6/18 results), which is more than double the industry average of approximately 17%.

Net sales by category (FY6/18)



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

The category with the highest profitability is Other services, which includes insurance agency commissions and incentives, while New car sales is the least profitable category. While this category's low profitability is due to the high cost of sales of new car sales, new car buyers are highly loyal to the dealership and the brand itself, so they often bring their cars to the dealership where they purchased it for maintenance, inspections, and other services. The aforementioned insurance enrollment is one such example. Constant engagement with customers over the long term has helped to maintain a solid level of profitability on the whole.

The profitability of used car sales exceeds that of new car sales if one's view is limited to the profits related to the sale of vehicles alone. On the other hand, because online purchases can be made by customers anywhere in Japan, it is usually difficult to maintain an ongoing relationship with such customers after a car is sold; remote buyers often take the vehicle to a local dealership for maintenance and other services.

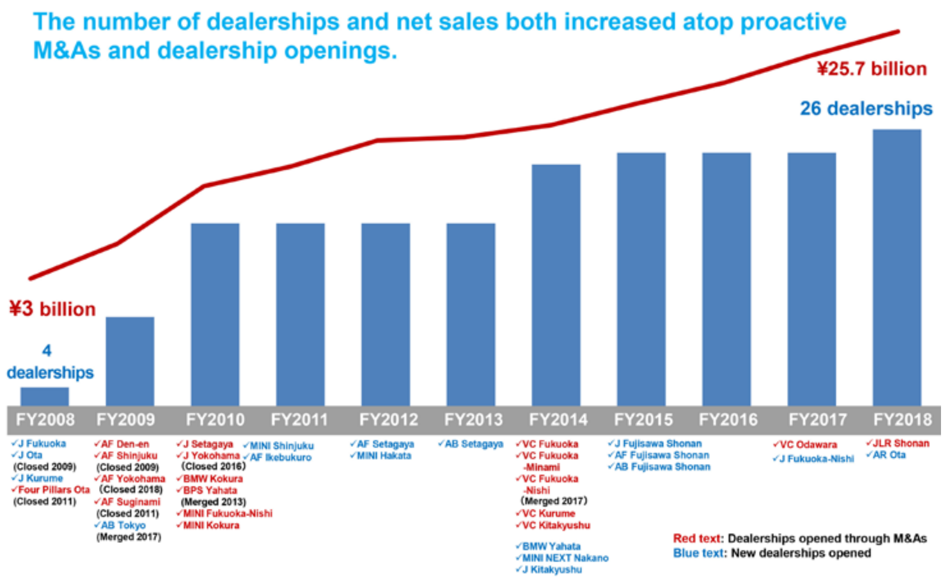
Vehicle maintenance is a highly profitable category, and we see profits in this category continuing to grow over the medium to long term. One reason for this is the increase in the cumulative number of vehicles sold. Another reason is that automobile owners are increasingly taking their vehicles to dealers for maintenance and repairs, as automobiles are increasingly using electronics, while automakers are increasingly enclosing customers by keeping diagnostic equipment and software out of the hands of outside technicians. As automobiles become more functional and complex, consumers are also looking more and more to take their cars to authorized dealers for maintenance for safety concerns and to gain peace of mind.

WILLPLUS Holdings has achieved growth with the right combination of M&A and dealership openings, has earned a high level of trust from importers and other players in the market, and has established a virtuous cycle in which this trust leads to subsequent growth

(3) Strength

As discussed above, the Company's business effectively started in 2004, when current President Takaaki Naruse acquired all of the shares of Fukuoka Chrysler, but the business really started to grow after October 2007, when WILLPLUS Holdings was established and the holding company structure was adopted. At the end of that fiscal year (FY6/08), the Company had four dealerships and net sales of ¥3.0 bn. Subsequently, the number of dealerships was increased through M&A, and as of June 30, 2018, the Company has 26 dealerships and net sales of approximately ¥25.7bn, with net sales per dealership having increased over this period as well.

Trend in the number of dealerships and net sales



Source: The Company's results briefing materials

Based on past operating performance and the Company's M&A strategy, which is one of its growth strategies for the future, WILLPLUS Holdings tends to be seen as a company that has expanded its business through M&A, but this view is based on observing only half of the Company.

It is true that M&A has played an important role in the Company's efforts to acquire new brands, but we believe that the Company's steady growth has been driven by new dealership openings by the Company itself. WILLPLUS Holdings is the company it is today because both M&A and new dealership openings have matched one another well.

This is evident by looking at dealership openings and closings over the years. The Company counts the number of dealerships on a physical building basis. Therefore, if multiple brands are carried in the same building, it is counted as one dealership. Multiple brands within a single dealership often begin being carried at different times. Tracking dealership openings and closings on an individual brand basis yields the table below. From its founding through June 30, 2018, the Company has operated 35 dealerships through either M&A or new dealership openings. Of these dealerships, nine have been closed or merged into other dealerships, and seven of these were dealerships acquired through M&A. Meanwhile, only two of the 17 dealerships that the Company has opened on its own have been closed or merged. The large gap in the survival rate between dealerships acquired through M&A and dealerships that the Company has opened on its own is obvious.

Note: As discussed above, the Company counts the number of dealerships on a physical building basis. As of June 30, 2018, the Company has 26 dealerships. The list of dealerships is included at the end of this report.

Dealership Openings and Closings by Brand

Opening (FY)	Dealership Name	Location	Type of Opening	Remarks
FY6/08	J Fukuoka	Fukuoka	New dealership opened	
	J Ota	Fukuoka	New dealership opened	Closed 2009
	J Kurume	Fukuoka	New dealership opened	
	Four Pillars Ota	Fukuoka	Dealership opened through M&A	Closed 2011
FY6/09	AF Den-en-chofu	Tokyo	Dealership opened through M&A	
	AF Shinjuku	Tokyo	Dealership opened through M&A	Closed 2009
	AF Yokohama	Kanagawa	Dealership opened through M&A	Closed 2018
	AF Suginami	Tokyo	Dealership opened through M&A	Closed 2011
	AB Tokyo	Tokyo	New dealership opened	Merged 2017
FY6/10	J Setagaya	Tokyo	Dealership opened through M&A	
	J Yokohama	Kanagawa	Dealership opened through M&A	Closed 2016
	BMW Kokura	Fukuoka	Dealership opened through M&A	
	BPS Yahata	Fukuoka	Dealership opened through M&A	Merged 2013
	MINI Fukuoka-Nishi	Fukuoka	Dealership opened through M&A	
	MINI Kokura	Fukuoka	Dealership opened through M&A	
	MINI Shinjuku	Tokyo	New dealership opened	
	AF Ikebukuro	Tokyo	New dealership opened	
FY6/12	AF Setagaya	Tokyo	New dealership opened	
	MINI Hakata	Fukuoka	New dealership opened	
FY6/13	AB Setagaya	Tokyo	New dealership opened	
FY6/14	VC Fukuoka	Fukuoka	Dealership opened through M&A	
	VC Fukuoka-Minami	Fukuoka	Dealership opened through M&A	
	VC Fukuoka-Nishi	Fukuoka	Dealership opened through M&A	Merged 2017
	VC Kurume	Fukuoka	Dealership opened through M&A	
	VC Kitakyushu	Fukuoka	Dealership opened through M&A	
	BMW Yahata	Fukuoka	New dealership opened	
	MINI NEXT Nakano	Tokyo	New dealership opened	
	J Kitakyushu	Fukuoka	New dealership opened	
FY6/15	J Fujisawa Shonan	Kanagawa	New dealership opened	
	AF Fujisawa Shonan	Kanagawa	New dealership opened	
	AB Fujisawa Shonan	Kanagawa	New dealership opened	
FY6/17	VC Odawara	Kanagawa	Dealership opened through M&A	
	J Fukuoka-Nishi	Fukuoka	New dealership opened	
FY6/18	JLR Shonan	Kanagawa	Dealership opened through M&A	
	AR Ota	Tokyo	New dealership opened	

Note: J=JEEP, AF=Alfa Romeo and FIAT, AB=ABARTH, VC=VOLVO Car/VOLVO Cars, AR=Alfa Romeo, BMW= Willplus BMW, BPS=BMW Premium Selection
Source: Prepared by FISCO from Company materials

We believe that the reason for this history of dealership openings and closings is that the Company has been managed with an extremely close eye on dealership profits. As discussed below, M&A is an important part of the Company's growth strategy, but this is predicated on the strength of the Company itself which makes this possible. M&A itself is not the objective, and the Company has always made sure to focus on what an M&A action will help it achieve, as it has cool-headedly monitored the profitability of acquired dealerships. As a result, almost all of the current 26 dealerships are profitable, and the Company is solidly maintaining the strength to make the next move forward.

In this way, the Company is managed with an eye to accelerate the scrap and build cycle. In terms of the criteria for making decisions, there are times when the Company watches the revenue of a dealership over a certain period of time and then decides to shut that dealership down, but there are also times when the Company has decided to exit a dealership right away if it has determined that the dealership in question has no future as a result of changes in the environment. The Company's ability to make this determination is one benefit of the dominant strategy. The Company has multiple dealerships close to one another, so even if a certain dealership is shut down, customers are redirected to one of the Company's nearby dealerships in order to prevent a decline in the level of service and to keep customers from taking their business to other providers.

Meanwhile, the Company's thorough focus on low-cost operations is a key reason why its new dealership openings have been consistently successful. For starters, the Company's basic approach when opening a new dealership is to lease furnished land and buildings from existing car dealers and then refurbish the space in accordance with the brand corporate identity requirements demanded by importers. This approach reduces opening costs. This also matches well with the Company's management philosophy of lightening the balance sheet. According to the Company, its dealership opening costs are significantly lower than those of domestic car dealers. In terms of operations, the Company is optimizing operating costs by flexibly assigning personnel according to how sales are going. This is another big benefit of the dominant strategy.

Regardless of whether through M&A or a new dealership opening, the Company always places a quick turn to profitability as its first goal when it starts to operate a new dealership. If a dealership is acquired through M&A, there are existing customers, so the fundamental approach is to maintain and strengthen those relationships. For example, the Company first works to increase sales of low-priced used cars to develop trust, a track record, and a customer base, which it when leverages both vertically and horizontally to lead to new car sales. Meanwhile, for new dealership openings, the first step is to attract customers, so the Company builds a business base through steady efforts such as boosting recognition through advertisements and building up recurring revenue-based businesses.

As discussed above, the Company's growth is not simply the result of dealership expansion through M&A, but is attributable to its strong ability to subsequently manage dealerships on an individual basis. The Company currently has a roughly 1:1 ratio of dealerships acquired through M&A and newly-opened dealerships. This is proof of the Company's overall ability to manage dealerships, including site selection and overall costs, such as dealership opening costs and running costs. This track record, along with the Company's ability to keep and retain the employees of companies it has acquired in its series of dealership reorganization through M&A has earned the trust of importers and industry peers alike, which in turn has created a virtuous cycle linking to the Company's three growth strategies in the form of M&A referrals and business area expansion. We believe that this virtuous cycle is the Company's greatest strength.

Medium- to long-term growth strategy

Pursuing synergies and higher profits centered on the multi-brand strategy, dominant strategy, and M&A strategy

1. Overall group strategy

In order to understand the Company's growth strategy, an understanding of the business practices specific to the imported car dealer industry is required. One such practice is the existence of the aforementioned exclusive contracts with importers. If a dealer becomes an authorized dealer of automobile brand A, it generally cannot be an authorized dealer of another automaker (there are some exceptions). Therefore, it must establish an operating company for each brand that it carries. In that respect, the Company's holding company structure is well suited for the imported car dealer business.

Another practice specific to the industry is that imported car dealers are basically area franchises. A business area is allocated to each business operator, which then does business in that area (it is perfectly fine for a customer to purchase a vehicle at a dealership in a different area). There are both positive and negative sides to this area franchise system. On the one hand, it can hold back enthusiastic, well-managed businesses. Conversely, because they are protected by the area franchise system, dealers can sometimes operate without putting forth much effort thanks to the economy and the brand strength of the vehicles it carries.

Based on these business practices for imported car dealers, the Company is looking to achieve sustainable growth over the medium to long term with three strategies: the multi-brand strategy, dominant strategy and M&A strategy, with a high level of awareness of overall management, from governance as a listed company to the profitability levels of individual dealerships. The details of each strategy are discussed below, but the key point to stress here is that the three strategies themselves are not the objectives. The Company is making every effort to combine the three strategies according to the market environment (region, target customer, etc.) as it changes to generate synergies and increase earnings.

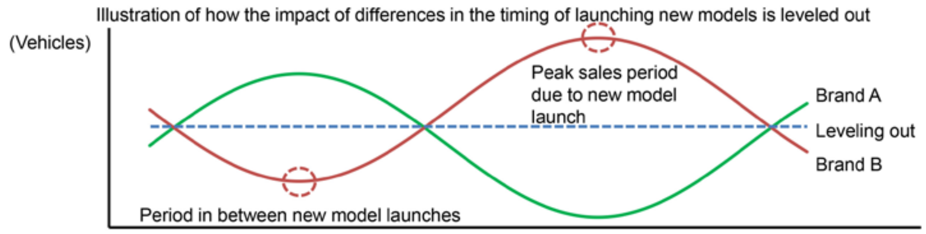
A strategy is merely a means or method leading to a goal, but companies often lose sight of their goals and the strategy itself becomes the goal. WILLPLUS Holdings has maintained a sound management approach while avoiding this pitfall, and we view this as the source of the Company's strength.

Level out the impact of differences in the timing of launching new models among brands

2. Multi-brand strategy

The multi-brand strategy aims to achieve stable growth by carrying multiple brands to level out the fluctuations in earnings caused by the difference in the timing of new model launches between brands.

Illustration of how the multi-brand strategy levels out earnings



Source: The Company's results briefing materials

The Company currently carries nine brands. While at first glance this number seems to be enough to sufficiently realize the multi-brand strategy, we do not necessarily believe this to be the case. When regrouped by individual importers, the Company actually only carries four groups: Alfa Romeo/FIAT/ABARTH/JEEP, Jaguar/Land Rover, BMW/MINI, and VOLVO. On an individual operating company basis, while CHECKER MOTORS ranked first in the number of vehicles sold in 2017 (total of five brands under the FCA umbrella), Willplus Motoren and Teio Auto both ranked sixth (for Willplus Motoren, it is the number of MINI vehicles sold. BMW's share is likely lower). Given this, we speculate that the Company's true intention is to further stabilize earnings by further promoting the multi-branding strategy. To achieve this, we would like to see an increase in the number of brands carried, in tandem with progress on the M&A strategy. The acquisition of major brands with large domestic sales volumes is especially desirable.

Aiming to maximize profits with fluid personnel assignments and productive customer follow-ups

3. Dominant strategy

The dominant strategy refers to the strategy of opening dealerships in a concentrated manner in specific areas. However, this is not easy for an imported car dealer to do, as the commercial area is expansive and the area franchise system exists.

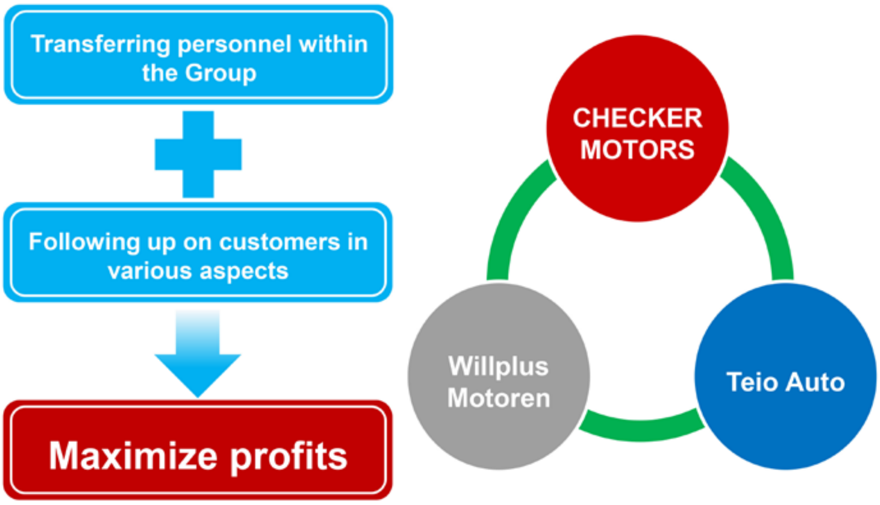
The Company's multi-brand strategy is helping to clear this hurdle. By combining its three operating companies and nine brands, the Company is opening 5 to 10 dealerships in a single region in a dominant manner.

As of June 30, 2018, 13 of the Company's 26 dealerships are located in Fukuoka Prefecture, while 13 are in the Tokyo/Kanagawa area. The dealerships in Tokyo are concentrated in the Jonan part of Setagaya-ku and Ota-ku (as exceptions, there is one dealership in both Shinjuku and Ikebukuro), so the Company has established regional dominance in the Tokyo/Kanagawa area.

The Company has cited the ability to fluidly and optimally assign personnel within the Group, as well as the ability to follow up with customers in person. Following up with customers in person refers to providing an individual customer with information on all of the three operating companies' brands and keeping this customer within the Group. On this point, we had thought that this approach would not work since imported car owners are very loyal to their brand, but in fact imported car owners like to switch to another brand during downtime in the model cycle or they want to try the same type of car (SUV, for example) of another brand, so the Company's dominant strategy appears to be having the desired effect.

We are paying close attention to the aspect of fluidly and optimally assigning personnel within the Group. The Company has been carrying out its dealership scrap and build initiative at a faster pace than its competitors, and is focused on keeping stores "fresh" and ensuring that dealerships are profitable. We view the dominant strategy as being a major factor making this possible. When engaging in M&A, the Company positions maintaining employment as a major principle, and the same holds true for existing dealerships as well. Maximizing profits by keeping a balance between maintaining employment and efficiently managing and growing dealerships is a key point of the dominant strategy.

Illustration of the Dominant Strategy



Source: The Company's results briefing materials

Aggressively utilizing M&A to acquire new areas and new brands, as well as to expand existing brands

4. M&A strategy

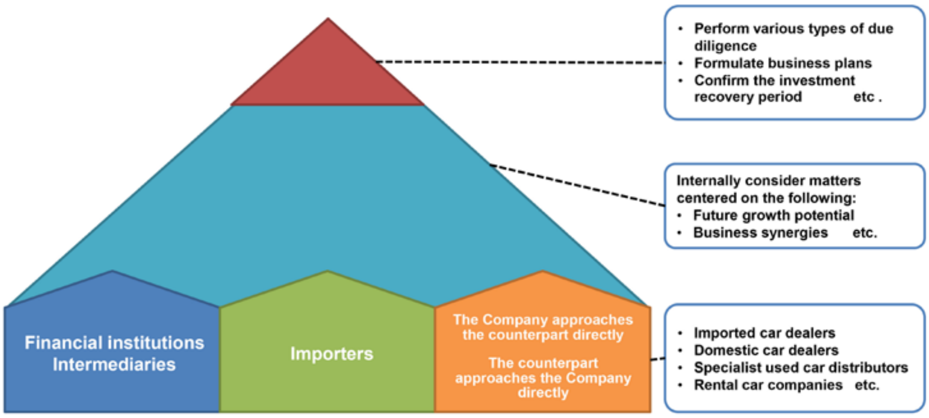
The Company has fully utilized M&A during its business expansion process, and how it has acquired the strong profitability making its M&A strategy achievable is as discussed above.

Going forward, the Company plans to continue to proactively utilize M&A in order to: 1) enter new areas; 2) acquire new brands (advance the multi-brand strategy); and 3) expand existing brands.

Sourcing is the most important part of M&A. Broadly speaking, there are three entryways: financial institutions (including securities companies), importers, and direct introductions (the Company's own contacts and contact from other companies' owners), and the Company always has multiple deals on the table. The Company performs due diligence on those deals that meet its criteria, and follows this with negotiations that ultimately lead to deals being finalized.

The key point here is that the most important thing is the evaluation from the viewpoint of the Company's multi-brand strategy and dominant strategy, not to mention quantitative criteria such as the investment recovery period. The Company steadfastly adheres to its own rule of not acquiring dealerships that are out of its strike zone in terms of its multi-brand strategy or its geographic range, even if a particular M&A deal would be highly profitable.

Illustration of Process for M&A Strategy



Source: The Company's results briefing materials

Starting with entry into the Porsche business, we will closely watch future business development in the Tohoku area

5. Entry into the Porsche business

The Company established Willplus Eins in November 2017 as its fourth operating company. Willplus Eins is an authorized Porsche dealer, and it is currently preparing for the opening of Porsche Center (PC) Koriyama (provisional name) in Koriyama City, Fukushima Prefecture in January 2019.

Porsche has a very strong brand image in Japan, and we see it as one of the best choices in light of the Company's multi-brand strategy as well being a new brand for the Company to carry. What is difficult to interpret is the decision for the location to be in Koriyama City, Fukushima Prefecture. For the Company, the dominant strategy is an extremely important factor, and it is difficult to believe that the Company, which has been managed extremely steadily and in a reasonable manner, went out of its range simply based on a desire to have the Porsche brand. If so, we should interpret the essential meaning the opening of PC Koriyama to be not in the Porsche brand but in being the Company's first move in the Tohoku area. As such, we should expect the Company to open more dealerships the region after PC Koriyama gets up and going.

It is hard to imagine a situation in which the Company has authorized dealerships in all six prefectures in Tohoku. We conjecture that additional dealerships in the region will be for other brands, and it is possible that the M&A strategy will be used to open up multiple dealerships in quick succession. We will keep a close watch on future developments.

Porsche Center Koriyama (provisional name)

Scheduled to open the new Porsche Center Koriyama (provisional name) sometime around January 2019

- **Second Porsche dealership in the Tohoku area**
- **Broad coverage of the Tohoku area centered on Fukushima Prefecture**

Rendering of Porsche Center Koriyama (provisional name)

Source: The Company's results briefing materials

Starting from the fallout that occurred due to the Lehman Brothers bankruptcy later on in 2009 until 2017, the imported vehicle market has averaged annual growth of 8.4%

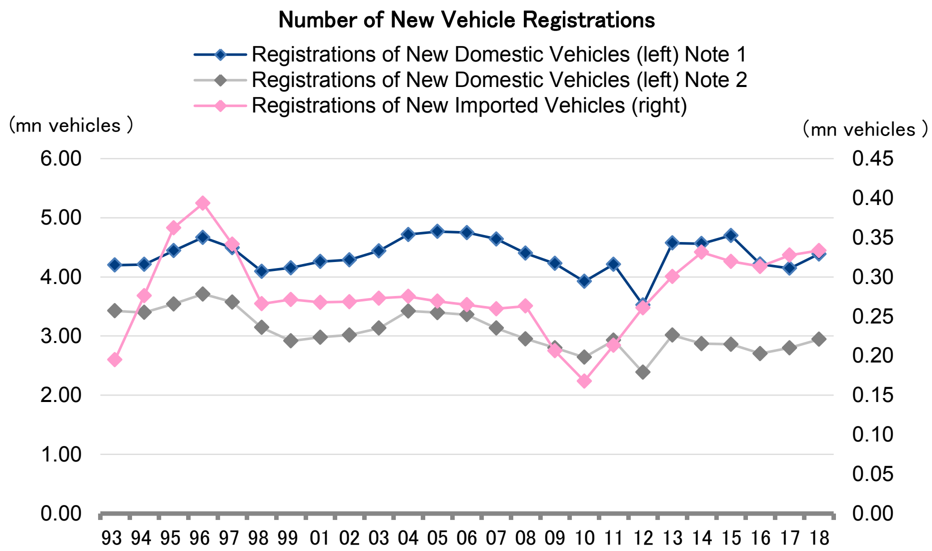
6. Imported car market trends

The domestic automobile market continues to move sideways or decline. In 2017, there were 4.386 million newly-registered passenger vehicles (the total of regular cars, compact cars, and kei mini vehicles, including imported cars), just a 4.5% increase from 1993 (average annual growth rate of 0.2% over 24 years, same below).

Given the reality of competition with imported cars, looking at the trend in the total number of registered cars (including imports) of regular cars and compact cars, the number of registered vehicles in 2017 was 2.943 million units, decreasing by 14.1% from 1993 (average annual decline of 0.6%). During this same period, the number of kei mini vehicles registered increased by 86.9% (average annual increase of 2.6%), which highlights the shift towards kei mini vehicles in the Japanese market.

Meanwhile, there were 306,000 new registrations of imported cars (imported cars of foreign manufacturers) in 2017, which is 94% of the peak of 324,000 units in 1996. Starting from the most recent bottoming out of 161,000 new vehicle registrations in 2009, the average annual growth rate over the past eight years has been 8.4%, which starkly contrasts with domestic automakers' sales.

As the domestic automobile market continues to contract due to the declining birthrate and aging population, along with changes in consumption styles and preferences, we believe that imported cars have more appeal to "car lovers" than domestic cars, and that this accounts for the aforementioned difference. It is unlikely that such consumer values or the brand image of automakers will change in a short period of time, so we believe that the current trend will continue for the foreseeable future.



Note 1: Total of regular cars, compact cars, and kei mini cars (including imported vehicles)
Note 2: Total of regular cars and compact cars (including imported vehicles)
Source: Prepared by FISCO based on statistics from the Japan Automobile Dealers Association and the Japan Automobile Importers Association

Performance trends

Top and bottom line growth was realized as the Company was able to offset the negative impact of some brand models nearing the end of their cycles

1. Overview of FY6/18 results

In FY6/18 the Company achieved both top and bottom line growth, as net sales totaled ¥25,770mn (+9.3% YoY), operating profit was ¥1,261mn (+4.3%), ordinary profit was ¥1,255mn (+4.8%), while profit attributable to owners of parent was ¥815mn (+9.6%). Operating performance was solid, as both net sales and profits exceeded the Company's forecasts at the start of the fiscal year.

Overview of FY6/18 results

(¥mn)

	FY6/17	FY6/18			
	Full year	Full-year forecast	Full-year result	YoY	vs. forecast
Net sales	23,567	24,824	25,770	9.3%	3.8%
Gross profit	4,984	-	5,435	9.1%	-
SG&A expenses	3,774	-	4,174	10.6%	-
Operating profit	1,209	1,231	1,261	4.3%	2.5%
Operating profit margin	5.1%	5.0%	4.9%	-	-
Ordinary profit	1,197	1,221	1,255	4.8%	2.8%
Profit attributable to owners of parent	743	759	815	9.6%	7.4%

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

The increase in net sales was mainly attributable to solid new car sales for Alfa Romeo and FIAT, strong used car sales for JEEP, BMW and MINI, the full-year contribution to sales from VOLVO Cars Odawara (VC Odawara) which was taken over in May 2017, and the steady increase in sales from services and others (insurance agency sales commissions, etc.), which are recurring revenue-based businesses.

As discussed in detail below, BMW and VOLVO core models were nearing the end of their cycles, so these brands struggled in terms of the number of new cars sold as well as price. This was offset by new models of FIAT, Alfa Romeo and JEEP, leading to an overall increase in net sales. In this way, the Company's multi-brand strategy worked as intended.

Net sales by category

(¥mn)

	FY6/16	FY6/17	FY6/18	
			Full year	YoY
New cars	10,026	11,753	12,955	10.2%
Used cars	4,566	4,640	5,209	12.3%
Auto auction sales	2,141	2,614	2,814	7.7%
Vehicle maintenance	3,110	3,266	3,481	6.6%
Other services	1,247	1,291	1,308	1.3%
Net sales (total)	21,093	23,567	25,770	9.3%

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

Operating profit grew by ¥51mn YoY, as the increase in gross profit (¥451mn) in conjunction with higher sales allowed the Company to cover the increase in personnel expenses (¥102mn) in association with the acquisition of VC Odawara, higher depreciation (¥134mn), and the increase in other expenses (¥162mn, specifically dealership renovation costs, expenses associated with the launch of the Jaguar/Land Rover business, etc.).

The increase in depreciation was mainly related to demonstration cars. The Company has around 10 demonstration cars at each dealership, which is more than before. This is based on the Company's strategy of having customers purchase vehicles after test-driving them, as well as due to engines becoming increasingly diverse. With the exception of a few brands, we do not expect the number of demonstration cars per dealership to increase above the current level, but the overall number may increase modestly due to the fact that the Company adds a fixed number of new demonstration cars each year in addition to the increase in the dealerships overall. Still, we feel that the Company has room to reduce costs by leveraging its dominant strategy.

The balance sheet is healthy. Total assets increased 20.9% (¥1,957mn) YoY to ¥11,312mn. The largest contributor to this growth was the 33.7% (¥1,186mn) increase in merchandise, owing to the April 2018 takeover of Jaguar/Land Rover Shonan as well as the increase in inventory purchases based on importer strategies. On the liabilities side, long- and short-term loans increased by a total of ¥828mn, but the equity ratio stands at 42.4%, while the debt/equity ratio is a healthy 0.53x.

Net cash used in operating activities was ¥161mn, mainly due to the increase in inventories. As discussed above, Jaguar/Land Rover Shonan was purchased right before the end of the previous fiscal year, so there was an impact from not being able to completely reduce inventories through sales. This was a one-off increase in inventories, and we do not feel that it warrants any concern.

CHECKER MOTORS achieved top and bottom line growth, while the other two operating companies saw top line growth but a decline in profit

2. Operating performance by company

Operating Companies' Results

(¥mn)

	CHECKER MOTORS				Willplus Motoren				Teio Auto			
	FY6/17	FY6/18	Change	% change	FY6/17	FY6/18	Change	% change	FY6/17	FY6/18	Change	% change
Net sales	11,408	12,693	1,285	11.3%	8,593	9,257	663	7.7%	3,680	3,995	314	8.6%
Ordinary profit	542	698	156	28.9%	397	358	-39	-9.9%	197	148	-48	-24.4%
Ordinary profit margin	4.8%	5.5%	0.7pt	-	4.6%	3.9%	-0.7pt	-	5.4%	3.7%	-1.7pt	-
Profit	353	472	119	33.8%	254	241	-12	-5.0%	127	92	-35	-27.6%
Profit margin	3.1%	3.7%	0.6pt	-	3.0%	2.6%	-0.4pt	-	3.5%	2.3%	-1.2pt	-

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

(1) CHECKER MOTORS

CHECKER MOTORS had top and bottom line growth, with net sales of ¥12,693mn (+11.3% YoY), and ordinary profit of ¥698mn (+28.9%). Although Jaguar/Land Rover Shonan was taken over near the end of the previous fiscal year, this was absorbed by the increase in sales of existing brands and led to the top line growth.

JEEP saw solid sales of new vehicles, centered on the new Compass model. For Alfa Romeo, the new Giulia model saw an increase in sales, while for FIAT the limited-edition 500 model sold well. Sales of used JEEP vehicles were also strong.

In FY6/19, Alfa Romeo launched its first-ever SUV (STELVIO) near the beginning of the fiscal year. We feel that with the increasing popularity of SUVs in Japan this new model will contribute to new car sales. JEEP is also expected to launch a new model of the Wrangler, and there are growing expectations that this will be a big seller. CHECKER MOTORS will also receive contributions from the two Jaguar/Land Rover dealerships (the Shonan dealership as well as a new dealership opening in Kitakyushu in October), so we expect continued top and bottom line growth in FY6/19.

(2) Willplus Motoren

Willplus Motoren had top line growth, with net sales of ¥9,257mn (+7.7% YoY), but ordinary profit fell to ¥358mn (-9.9%). Sales of new BMW and MINI vehicles remained on par with the previous fiscal year, but strong sales of used cars drove top line growth. Profits fell due to a decline in the gross profit margin on BMW vehicles resulting from increased discounts. Ordinary profit also declined due to higher personnel expenses reflecting an increase in headcount to bolster the operating structure as well as higher depreciation in conjunction with the increase in demonstration vehicles.

Driven by plans to introduce the new BMW 3 Series, in FY6/19 Willplus Motoren will look for both top and bottom line growth based on increased sales of both new and used cars.

(3) Teio Auto

Teio Auto had top line growth, with net sales of ¥3,995mn (+8.6% YoY), but ordinary profit fell to ¥148mn (-24.4%). Net sales increased YoY due to a full-year contribution from VC Odawara acquired in May 2017. However, sales at VC Odawara fell short of the initial forecast, while net sales at existing dealerships declined compared to the previous year, largely due to a mismatch between supply and demand. Being at the end of its model cycle, sales of the flagship V60 failed to grow, while on the other hand there were a lot of orders for the popular XC Series SUV, but delayed deliveries kept these orders from contributing to FY6/18 earnings.

For FY6/19, we expect a large increase in sales of new cars, thanks to deliveries of the XC Series as well as the scheduled launch of the new model of the flagship V60. With this, along with an increase in used cars sales, Teio Auto is looking to achieve both top and bottom line growth.

Outlook is for top and bottom line growth based on four new models for popular and flagship models in addition to contributions from four new dealerships

3. FY6/19 outlook

For FY6/19, the Company forecasts higher sales and profits, with net sales at ¥29,510mn (+14.5% YoY), operating profit at ¥1,344mn (+6.6%), ordinary profit at ¥1,331mn (+6.1%), and profit attributable to owners of parent at ¥850mn (+4.3%).

Overview of FY6/19 forecast

(¥mn)

	FY6/18		FY6/19			
	1H	Full year	1H forecast	YoY	Full-year forecast	YoY
Net sales	12,470	25,770	13,877	11.3%	29,510	14.5%
Operating profit	659	1,261	594	-9.9%	1,344	6.6%
Operating profit margin	5.3%	4.9%	4.3%	-	4.6%	-
Ordinary profit	656	1,255	587	-10.5%	1,331	6.1%
Profit attributable to owners of parent	408	815	374	-8.4%	850	4.3%

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

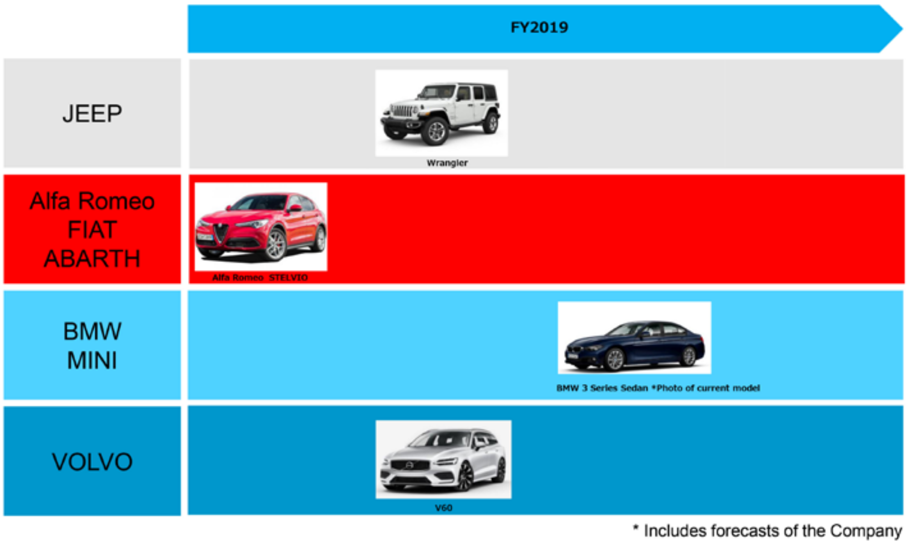
As discussed in the sections about each operating company, four new model launches are expected, including models based on the popularity of SUVs and flagship models, and these new model launches should help boost new car sales in FY6/19.

On a dealership basis, Jaguar/Land Rover Shonan and Alfa Romeo Ota will fully contribute to earnings, while Jaguar/Land Rover Kitakyushu (provisional name) will effectively contribute to earnings for the full fiscal year. This dealership plans to officially open in October 2018, but it pre-opened this March and has been preparing for the official open, and this pre-opening has included sales activities. In addition, Porsche Center Koriyama (provisional name), the Company's first dealership in Tohoku, is scheduled to open in January 2019, and although it will only contribute to earnings for approximately six months, this dealership should boost sales.

In terms of profits, the Company is expecting an increase in expenses related to new dealership openings (dealership costs, personnel expenses, etc.) as well as higher depreciation related to demonstration cars, but this should be offset by the increase in sales attributable to the launch of the aforementioned new models and an improvement in the gross profit margin due to a reduction in discounted sales. As a result, the Company is expected to post a YoY increase in profits.

For FY6/19, we are focusing in particular on: 1) Sales of the four new models; 2) Sales at the two Jaguar/Land Rover dealerships; and 3) Porsche Center Koriyama's start and the launch of business in Tohoku. We will also be keeping an eye on the new M&A strategy which appears to be underway beneath the surface, the multi-brand strategy, and progress with new dealership openings.

FY6/19 new models



Source: The Company's results briefing materials

Simplified statements of income and key indicators

(¥mn)

	FY6/15	FY6/16	FY6/17	FY6/18	FY6/19	
					1H forecast	Full-year forecast
Net sales	19,072	21,093	23,567	25,770	13,877	29,510
YoY	11.2%	10.6%	11.7%	9.3%	11.3%	14.5%
Gross profit	4,169	4,608	4,984	5,435	-	-
Gross profit margin	21.9%	21.8%	21.1%	21.1%	-	-
SG&A expenses	3,463	3,721	3,774	4,174	-	-
SG&A margin	18.2%	17.6%	16.0%	16.2%	-	-
Operating profit	705	886	1,209	1,261	594	1,344
YoY	-16.2%	25.6%	36.5%	4.3%	-9.9%	6.6%
Operating profit margin	3.7%	4.2%	5.1%	4.9%	4.3%	4.6%
Ordinary profit	673	866	1,197	1,255	587	1,331
YoY	-22.7%	28.7%	38.2%	4.8%	-10.5%	6.1%
Profit attributable to owners of parent	416	492	743	815	374	850
YoY	-16.8%	18.4%	50.9%	9.6%	-8.4%	4.3%
EPS after adjustment for stock split (¥)	56.50	61.20	80.71	88.01	40.32	91.64
Dividend after adjustment for stock split (¥)	0.00	10.75	12.00	13.20	5.00	13.80
BPS after adjustment for stock split (¥)	306.65	381.91	449.40	516.28	-	-

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

Simplified balance sheets

(¥mn)

	FY6/15	FY6/16	FY6/17	FY6/18
Current assets	4,134	4,912	5,889	7,352
Cash and time deposits	974	1,380	1,416	1,463
Accounts receivable – trade	207	155	121	148
Non-current assets	2,819	3,002	3,464	3,959
Property, plant and equipment	1,791	2,030	2,558	3,121
Intangible assets	638	561	483	390
Investments and other assets	389	410	422	447
Total assets	6,954	7,914	9,354	11,312
Current liabilities	3,792	3,849	4,399	5,215
Accounts payable – trade	1,531	1,595	1,927	2,143
Short-term loans payable	1,180	880	1,051	1,439
Non-current liabilities	826	545	812	1,302
Long-term loans payable	732	452	672	1,113
Shareholders' equity	2,335	3,520	4,142	4,793
Capital stock	168	168	168	193
Capital surplus	689	1,101	1,101	1,126
Retained earnings	1,812	2,305	2,927	3,608
Total net assets	2,335	3,519	4,142	4,793
Total liabilities and net assets	6,954	7,914	9,354	11,312

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

Statements of cash flows

(¥mn)

	FY6/15	FY6/16	FY6/17	FY6/18
Cash flows from operating activities	-115	562	441	-161
Cash flows from investing activities	-178	-266	-672	-454
Cash flows from financing activities	292	109	267	663
Net increase (decrease) in cash and cash equivalents	-1	405	36	47
Cash and cash equivalents at beginning of period	976	974	1,380	1,416
Cash and cash equivalents at end of period	974	1,380	1,416	1,463

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

Shareholder returns

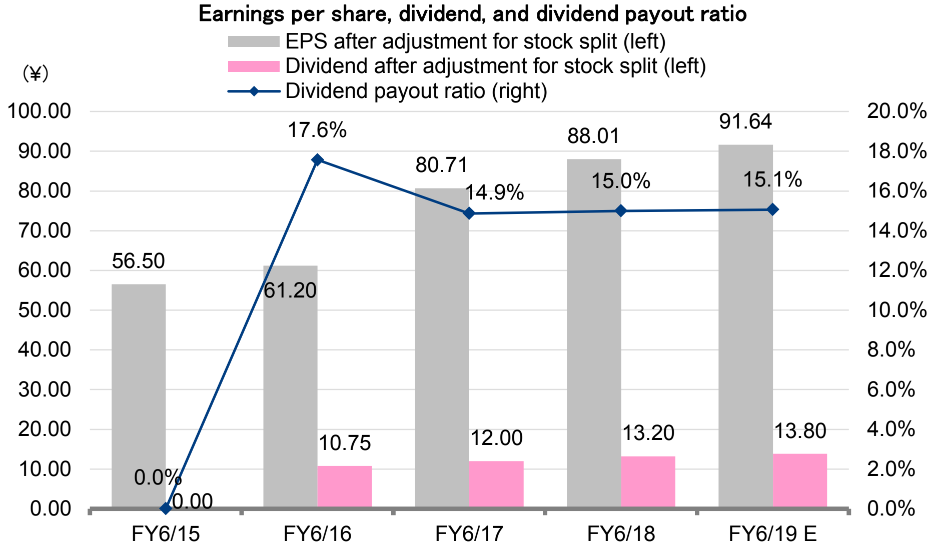
Plans to increase dividend by ¥0.6 YoY to ¥13.8 in FY6/19

The Company has positioned shareholder returns as important management issue, and the basic policy is to maintain stable dividends while keeping a balance with internal reserves targeting increased corporate value. The Company has a target dividend payout ratio of around 15%.

For FY6/18, the Company paid an annual dividend of ¥13.2 per share (Interim dividend = ¥5.0; Year-end dividend = ¥8.2). The Company conducted a 2-for-1 stock split of common shares with an effective date of April 1, 2017. Adjusting for this stock split, the annual dividend for FY6/17 was ¥12 per share, and there was a ¥1.2 per share dividend increase for FY6/18. The dividend payout ratio was 15.0%.

The Company has announced that its forecast annual dividend for FY6/19 is ¥13.8 per share (Interim dividend = ¥5.0; Year-end dividend = ¥8.8), an increase of ¥0.6. This would result in a dividend payout ratio of 15.1%, based on net income of ¥91.64 per share. If operating performance changes materially due to M&A or other factors, the dividend amount may be adjusted in light of the Company's target dividend payout ratio of 15%, so we will keep a close watch on any developments.

Earnings per share, dividend, and dividend payout ratio



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

WILLPLUS Holdings Group – Number of Dealerships (on a building basis)

Operating Company Name		Dealership Name
CHECKER MOTORS CORPORATION	1	FIAT/ABARTH Den-en-chofu
	2	FIAT/ABARTH Ikebukuro
	3	Alfa Romeo Setagaya, FIAT/ABARTH Setagaya
	4	Alfa Romeo/FIAT/ABARTH Fujisawa Shonan, JEEP Fujisawa Shonan
	5	Alfa Romeo Ota, Alfa Romeo/FIAT/ABARTH Den-en-chofu Service
	6	Alfa Romeo/FIAT/ABARTH Yokohama Service
	7	JEEP Setagaya
	8	JEEP Fukuoka
	9	JEEP Fukuoka-Nishi
	10	JEEP Kurume
	11	JEEP Kitakyushu
	12	Jaguar/Land Rover Shonan Shonan Showroom
	13	Jaguar/Land Rover Shonan Approved Hiratsuka
	14	Jaguar/Land Rover Shonan Service center
Willplus Motoren Corporation	15	Willplus BMW Kokura, BMW Premium Selection Kokura, Willplus BMW Kokura Service center, MINI Kokura Service center
	16	Willplus BMW Yahata, BMW Premium Selection Yahata, Willplus BMW Yahata Service center, MINI NEXT Yahata
	17	MINI Kokura, MINI NEXT Kokura
	18	MINI Fukuoka-Nishi, MINI NEXT Fukuoka-Nishi, MINI Fukuoka-Nishi Service center
	19	MINI Hakata, MINI NEXT Hakata, MINI Hakata Service center
	20	MINI Shinjuku
	21	MINI Shinjuku Service center
Teio Auto Corporation	22	VOLVO Car Fukuoka
	23	VOLVO Car Fukuoka-Minami
	24	VOLVO Cars Kurume
	25	VOLVO Cars Kitakyushu
	26	VOLVO Cars Odawara

Source: Prepared by FISCO from Company materials

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