COMPANY RESEARCH AND ANALYSIS REPORT

Fuyo General Lease Co., Ltd.

8424

Tokyo Stock Exchange Prime Market

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Summary

Set new record highs once again in FY3/22 and achieved and exceeded the targets in the medium-term management plan. The new medium-term management plan aims for achieving sustainable growth by "resolving social issues" while at the same time delivering "economic value"

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-Iida Co., Ltd. (currently Marubeni Corporation <8002>). Its strengths include real estate and energy & environment, and it has an annual newly executed contract volume of ¥1,384.4bn and operating assets of ¥2,565.9bn (FY3/22 result). In addition to the steady increase in operating assets in business fields it has positioned as strategic fields, such as real estate, the Company is steadily expanding its earnings through expanding the functions of BPO services* from M&A.

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

2. Summary of FY3/22 results

In the FY3/22 results, operating profit increased 3.3% year-on-year (YoY) to ¥46.0bn, ordinary profit grew 9.8% to ¥52.7bn, and profit attributable to owners of parent rose 14.6% to ¥33.9bn, and not only did the Company set new record highs, it also greatly increased the dividend. In addition, in FY3/22, which was the final fiscal year of the medium-term management plan, it achieved and exceeded all of the plan's target items. Total revenues decreased 11.1% YoY to ¥657.8bn, but this was because of a change to the accounting standards and had no effect on profit-loss, and profit before interest expenses, which shows true business performance, grew steadily, increasing 6.2% to ¥98.2bn. In particular, results grew in the strongly performing strategic fields such as energy & environment and real estate, and in addition, the expansion of BPO services due to the growth of NOC Outsourcing & Consulting Inc. (hereafter, "NOC") and the consolidation of WorkVision Corporation (formerly Toshiba Solutions Sales Corporation) also contributed to the increase in profits. Conversely, in expenses, personnel and equipment expenses increased, mainly due to the consolidation of WorkVision, but non-operating income grew following the increase in earnings from equity-method investments (overseas subsidiaries), so ordinary profit increased significantly.

3. New medium-term management plan

The Company announced Fuyo Shared Value 2026 (five years), its new medium-term management plan with FY3/27 as its final fiscal year. The direction it is aiming for is achieving sustainable growth by "resolving social issues" through human growth and dialog while at the same time delivering "economic value." Its features are that it is based on a strategy of improving enterprise value from both the aspects of enterprise value and social value and that it sets both financial and non-financial items for the management targets. Growth will be driven by 1) the RT field (mobility and circular economy) that is aiming for strategic growth enabled by capturing tectonic social changes, 2) the AT field (energy & environment, BPO/ICT, and medical/social welfare) that is aiming for accelerating growth based on an understanding of market trends, and 3) the GP field (real estate and aircraft) that is aiming for the stable growth of the core fields. Then, the strategy is to improve earnings through concentrated investment of management resources into the RT and AT fields where market expansion and creation are expected and also through differentiation in the GP field. The financial targets are ordinary profit of ¥75.0bn, ROA of 2.5%, an equity ratio of 13% to 15%, and ROE of at least 10%, while the Company has also set non-financial targets for all items to be addressed, centered on the environment (a decarbonized society and a recycling-based society), society and people, and human resources investment.

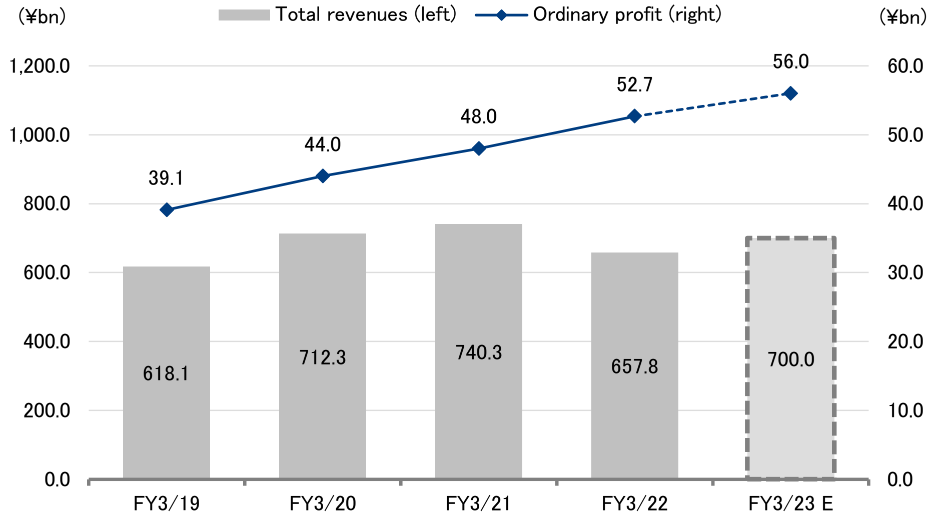
4. FY3/23 results outlook

For the FY3/23 results, the Company is forecasting higher revenues and profits, with total revenues to increase 6.4% YoY to ¥700.0bn, operating profit to grow 11.9% to ¥51.5bn, ordinary profit to rise 6.2% to ¥56.0bn, and profit attributable to owners of parent to increase 6.2% to ¥36.0bn. It is also forecasting a higher dividend, which it has increased continuously since being listed. In FY3/23, which will be the first fiscal year of the new medium-term management plan, the accumulation of operating assets, centered on real estate and energy & environment that continue to perform well, and the growth of BPO/ICT, including the effects of the consolidation of WorkVision (an increase in non-asset earnings) are expected to contribute to the increase in profits. The Company plans to further improve ROA as well through asset control that prioritizes profitability and the growth of non-asset earnings.

Key Points

- Earnings continued an increasing trend for FY3/22, for record high profits, and all medium-term management plan targets exceeded
- Announced the new five-year medium-term management plan. The direction it is aiming for is achieving sustainable growth by "resolving social issues" through human growth and dialogue while at the same time delivering economic value
- In FY3/23, the first fiscal year of the new medium-term management plan, is forecasting that the higher sales and profits will continue and also a higher dividend, which it has increased every year since it was listed

Trends in total revenues and ordinary profit



Note: The decrease in total revenues is mainly due to the application of Accounting Standard for Revenue Recognition (ASBJ Statement No. 29), etc. Although total revenues will decline due to this accounting reason, profits will not be affected
Source: Prepared by FISCO from the Company's financial results

Company profile

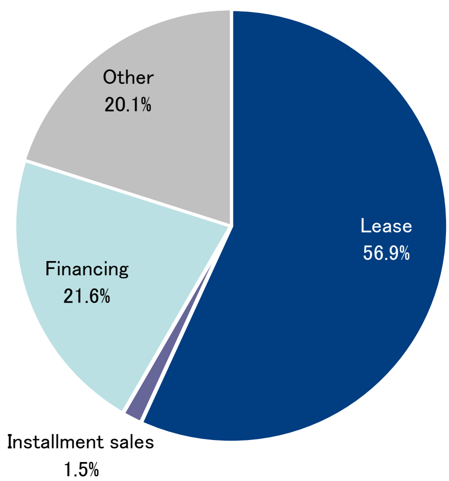
Comprehensive leasing company with strengths in real estate, energy & environment, and other areas. Also working to strengthen new domains, such as BPO services and the mobility business

1. Business overview

The Company has three business segments - lease and installment sales, financing, and other – but discloses "lease" and "installment sales" separately. Mainstay lease business accounts for 65.9% of operating assets, and 56.6% of profit before interest expenses* (as of FY3/22). BPO services are currently included in other. The Company is focusing on BPO services as a new domain.

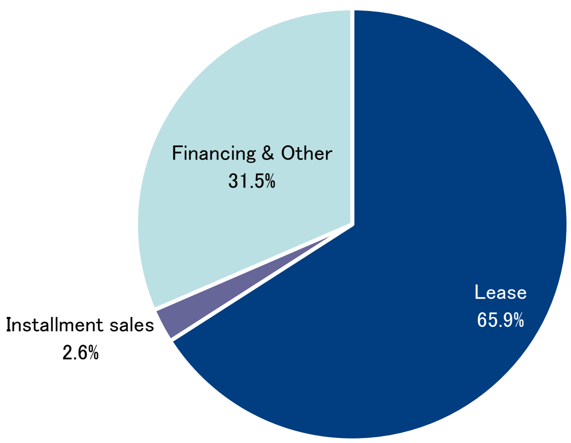
* Profit excluding the acquisition cost of leased equipment from total revenues

Composition of profit before interest expenses by segment (FY3/22)



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

Ratio of operating assets by segment (FY3/22)



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 the 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, face 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.

Looking at the volume of newly executed lease contract volume by type of equipment, substantial growth has been experienced in buildings, etc. (real estate leases) and transportation equipment 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. Also, the growth of transportation equipment up until recently was due to aircraft leases, and at the current time they are being impacted by the COVID-19 pandemic. However, the Company's strengths include its track record and expertise accumulated over many years. In addition, it is aiming to strengthen the mobility business, which is expected to grow in the future, through making YAMATO LEASE CO., LTD.* a consolidated subsidiary (in April 2020).

* Started making a consolidated subsidiary of YAMATO LEASE, which was a subsidiary of YAMATO HOLDINGS CO., LTD <9064> in April 2020. The Company's shareholding ratio became 60% and YAMATO HOLDINGS' became 40%.

(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 (hereafter, "SFC"). The Company added a factoring business* by making Accretive Co., Ltd. a consolidated subsidiary (in January 2017).

* This business mainly handles FPS (early payments service for accounts receivable) for small- and medium-sized companies, and FPS Medical (early payment service for medical and care fee credits) for medical institutions.

(3) Other

This segment includes large-scale solar power 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, the Company has built a structure to respond to various BPO needs with the addition of an integrated billing service* provided by INVOICE INC., 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 which was made into a consolidated subsidiary in August 2019. In October 2021, the Company expanded its service functions even further with the consolidation of WorkVision (formerly Toshiba Solutions Sales), which provides IT solutions centered on cloud packages (DX support, etc.).

* 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 (holds a large share in measuring instruments) with Yokogawa Electric Corporation <6841> in 1987 and Nihon Credit Lease Co., Ltd. (holds a large share in medical equipment and welfare equipment) with NICHIIGAKKAN CO., LTD. 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 July 2014, the Company acquired ALM 2010 Limited (it changed the name to Fuyo Aviation Capital Europe Limited; hereinafter ALM), a UK-based aircraft-related services company, 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 and medium-sized companies, as a consolidated subsidiary. In addition to pursuing synergies through cross-selling with each company in the Group, the Company is also progressing other measures, including strengthening measures for the new domains. 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. In April 2020, it made a consolidated subsidiary of YAMATO LEASE, a subsidiary of YAMATO HOLDINGS, establishing footholds toward the development of the mobility business, which is considered to have growth potential, and for the logistics industry.

Financial results

Profit before interest expenses, which shows true business performance, is trending upward, including through the accumulation of operating assets and the growth of non-asset earnings

1. Key points for assessing results

The Company's total revenues consist of lease fee revenue (over 80% of overall sales), revenue from installment sales, interest income on financing, and non-asset earnings (such as fee income). Since total 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 total 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. Consequently, profit before interest expenses excluding the acquisition cost of leased equipment from total revenues is the suitable indicator for assessing actual income growth as a financing business.

Meanwhile, to ascertain the profitability of the Company's main business, the most rational approach is thought to be monitoring trends in ordinary profit, in which expenses such as interest expenses (fund-raising costs), personnel and equipment expenses, and costs related to bad debts (including reversals)*, are deducted from profit before interest expenses. Ordinary profit is obtained by multiplying operating assets by ROA (ratio of ordinary profit to operating assets), so it is affected by movements in both. Also, most recently, the Company has been working to grow non-asset earnings, so it is also necessary to pay attention to the Other segment.

* 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

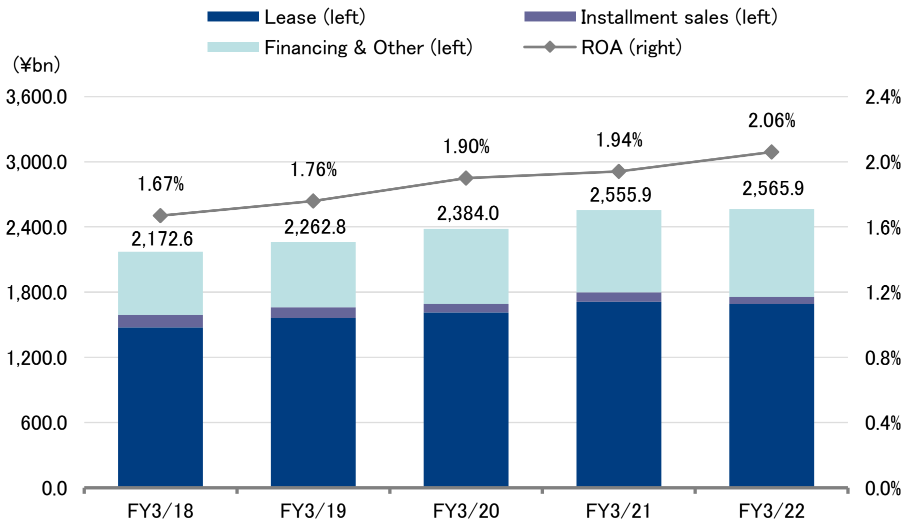
Looking back on past results trends, total revenues have trended upward alongside the accumulation of operating assets. Ordinary profit has also continued to increase from both the accumulation of operating assets and the improvement of ROA. The improvement of ROA has been particularly due to the growth of real estate leases and aircraft leases, which have comparatively high yields, while most recently, the growth of new-domain businesses (non-asset earnings), mainly BPO services, has also been contributing.

From a cost perspective, meanwhile, funding costs have been largely flat. This trend, despite growth in total funding value, is driven by a decline in interest on funding due to the impact of market rates. Additionally, the Company keeps personnel and equipment expenses at a certain level and has a low bad debts-related costs, demonstrating the company's strength in low-cost operations. As a result, ordinary profit for FY3/22 reached all-time highs.

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 compare unfavorably to 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.

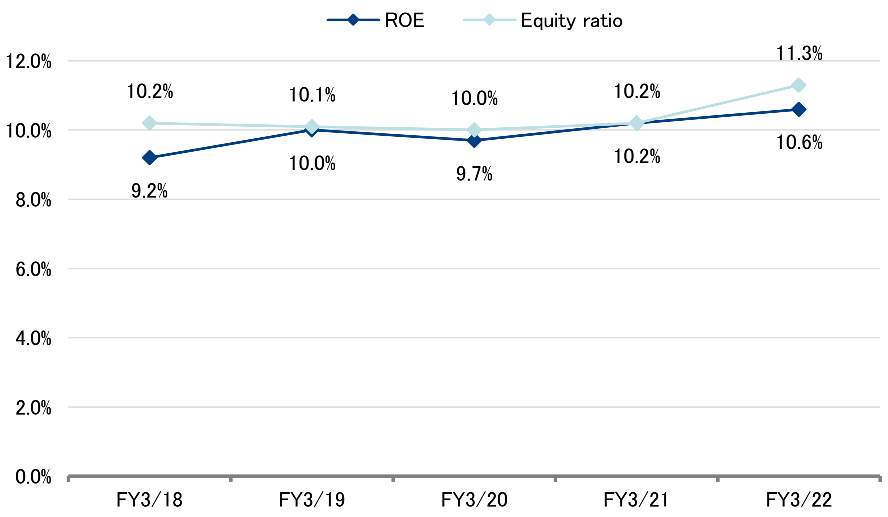
In addition, ROE (Return on Equity), which shows capital efficiency, has been increasing alongside the rise in the profit level, and it has exceeded 10% since FY3/21.

Trend in operating assets and ROA



Note: ROA is calculated as ordinary profit ÷ operating assets (average balance)
Source: Prepared by FISCO from the Company's results briefing materials

Trend in equity ratio and ROE



Note: FY3/19 and FY3/20 reflect the values determined through accounting treatment for business combination in FY3/20
Source: Prepared by FISCO from the Company's financial results and results briefing materials

Results in FY3/22 set new record highs and also achieved and exceeded every target in the medium-term management plan

3. Summary of FY3/22 results

In the FY3/22 results, operating profit increased 3.3% YoY to ¥46.0bn, ordinary profit rose 9.8% to ¥52.7bn, and profit attributable to owners of parent grew 14.6% to ¥33.9bn, and every profit item increased and set new record highs. The Company also achieved and exceeded every target in the medium-term management plan (ordinary profit of ¥50.0bn, ROA of 2.0%, and operating assets of ¥2.5tn), whose final fiscal year was FY3/22.

Total revenues decreased 11.1% YoY to ¥657.8bn, but this decline in revenues was because of a change in the accounting standards*1 and had no effect on profit-loss, and profit before interest expenses, which shows true business performance, increased steadily, rising 6.2% to ¥98.2bn. In particular, results grew in the strategic fields such as the strongly and continuously performing energy & environment and real estate, while in the financing business as well, earnings increased through appropriate portfolio replacements and equity investments*2. The growth of NOC and the consolidation of WorkVision were also additional factors behind results exceeding the targets.

*1 The changes in accounting standards refer to the application of Accounting Standard for Revenue Recognition, etc.
*2 Earnings from equity investments refer to income from equity investments primarily in the real estate finance and renewable energy business.

Conversely, in expenses, personnel and equipment expenses increased, including due to the consolidation of WorkVision and the rise of retirement benefit expenses. However, ordinary profit still increased significantly thanks to the growth of non-operating income, including due to the increase in earnings from equity-method investments*.

* Notably, there was a strong performance by a subsidiary in Canada (leasing of pickup trucks) and by Yokogawa Rental & Lease Corporation (rental of PC and measuring instruments), which is a joint venture with Yokogawa Electric Corporation.

The newly executed contract volume increased 3.0% YoY to ¥1,384.4bn. Operating & Lease grew, centered on the strategic fields such as real estate and aircraft, while Accretive's factoring business, which mainly targets medical and care fee credits, also grew. Operating assets were secured at ¥2,565.9bn, which is about the same level as at the end of the previous period, as although financing and leases decreased due to asset control through liquidation, this was covered by the accumulation of operating assets in the strategic fields. In addition, operating assets were also greatly higher than the target value (¥2.5tn) in the medium-term management plan.

As a result, ROA improved sharply to 2.06% (1.94% in the previous fiscal year). Portfolio adjustments incorporating highly profitable assets proved beneficial, and ROA surpassed the target laid out in the medium-term management plan (2.0%).

For the financial condition, total assets decreased 1.0% on the end of the previous period to ¥2,949.7bn and were basically unchanged YoY, while core capital increased 9.3% to ¥332.8bn due to the accumulation of internal reserves, and as a result, the equity ratio improved to 11.3% (10.2% at the end of the previous period). Also, interest-bearing debt (excluding lease obligations) decreased 2.7% on the end of the previous period to ¥2,366.2bn. Alongside this, on the one hand the Company progressed long-term fundraising*1 utilizing corporate bonds and long-term borrowing, while on the other hand it kept down short-term fundraising through CP, and therefore the long-term interest-bearing debt ratio*2 improved to 43.2% (41.0% at the end of the previous period) and the current ratio, which shows the ability to pay in the short term, was stable at 139.5% (137.1%), so the Company is maintaining its financial soundness.

*1 Bond issuances included the issuance of Sustainability Bonds (Fuyo CSV Bonds) as part of ESG finance initiatives, including funding through positive impact financing.
*2 The long-term debt ratio of interest-bearing debt represents the ratio of long-term interest-bearing debt (corporate bonds + long-term borrowings + long-term payables under securitization of lease receivables) to interest bearing debt.

Summary of FY3/22 results

(¥bn)

	FY3/21		FY3/22					
	Results	% of revenues	Results	% of revenues	Amount	YoY change	Forecast	% of revenues
Total revenues	740.3	-	657.8	-	-82.4	-11.1%	610.0	-
Lease	500.1	67.6%	558.6	84.9%	58.4	11.7%		
Installment sales	41.6	5.6%	33.6	5.1%	-8.0	-19.2%		
Financing	20.6	2.8%	22.1	3.4%	1.5	7.5%		
Other	178.0	24.0%	43.5	6.6%	-134.4	-75.5%		
Profit before interest expenses	92.5	12.5%	98.2	14.9%	5.7	6.2%		
Lease	52.2	10.4%	55.9	10.0%	3.6	6.9%		
Installment sales	1.8	4.3%	1.5	4.5%	-0.3	-15.2%		
Financing	20.1	97.6%	21.2	95.9%	1.0	5.2%		
Other	18.4	10.3%	19.7	45.3%	1.3	7.3%		
Interest expenses	9.8	1.3%	9.4	1.4%	-0.4	-3.8%		
Gross profit	82.7	11.2%	88.9	13.5%	6.1	7.4%		
SG&A expenses	38.2	5.2%	42.8	6.5%	4.6	12.0%		
Operating profit	44.6	6.0%	46.0	7.0%	1.5	3.3%	46.5	7.6%
Ordinary profit	48.0	6.5%	52.7	8.0%	4.7	9.8%	50.0	8.2%
Profit attributable to owners of parent	29.6	4.0%	33.9	5.2%	4.3	14.6%	31.0	5.1%
[Newly executed contract volume]	1,343.9		1,384.4		40.5	3.0%		
Financing & Lease	308.0	22.9%	259.4	18.7%	-48.6	-15.8%		
Operating & Lease	145.5	10.8%	214.7	15.5%	69.2	47.5%		
Installment sales	32.0	2.4%	23.3	1.7%	-8.7	-27.1%		
Financing & Other	858.3	63.9%	887.0	64.1%	28.7	3.3%		
[Newly executed lease contract volume by type of equipment]								
IT & office equipment	158.8		125.4		-33.3	-21.0%		
Industrial machinery	27.6		22.4		-5.2	-18.8%		
Civil engineering and construction machinery	9.1		6.1		-3.0	-33.0%		
Transportation equipment	38.3		60.6		22.4	58.2%		
Medical devices	18.8		16.2		-2.6	-13.8%		
Commercial/services equipment	20.3		15.8		-4.5	-22.2%		
Buildings, etc.	161.7		212.6		50.9	31.5%		
Other	19.1		15.0		-4.1	-21.5%		
Total	453.6		474.1		20.5	4.5%		

	As of March 31, 2021 Results	As of March 31, 2022 Results	Amount	YoY change
[Operating assets]	2,555.9	2,565.9	10.1	0.4%
Financing & Lease	1,080.8	1,019.8	-61.0	-5.6%
Operating & Lease	632.5	671.8	39.3	6.2%
Installment sales	83.5	66.1	-17.4	-20.9%
Financing & Other	759.0	808.3	49.2	6.5%

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

4. The results in each strategic field (previous medium-term management plan)

(1) Real estate

At the end of FY3/22, operating assets were ¥644.9bn and had grown by approximately 2.7 times over 5 years and greatly exceeded the upwardly revised target (¥530.0bn). Diversification of deal sources was progressed, such as users and alliance partners, while profitability also improved through the advancement of the asset turnover business, which drove the growth of results as a whole.

(2) Energy & environment

At the end of FY3/22, renewable energy power output was 308MWdc (total of the Fuyo General Lease Group and the equity investment portion) and had grown by approximately 3.6 times over 5 years and greatly exceeded the target value (200MWdc). In particular, the Company made progress in converting from “financing” to “business” through joint investments with alliance partners, while it also strengthened overseas business development, mainly solar power and wind power. It is also working on new services with a view to the post-FIT era, including PPA services and a storage battery business.

(3) Aircraft

At the end of FY3/22, the Company owned 44 aircraft, an increase of around 2.3 times over 5 years. The severe market environment* is continuing, including due to the impact of the COVID-19 pandemic, and in this situation it has been steadily accumulating aircraft by carefully selecting high-quality projects (airlines and models) and also maintaining a sound aircraft portfolio, mainly of new aircraft and narrow-body aircraft. It is also growing the peripheral businesses, such as the parts-out business, and has started building a value chain in the aircraft business.

* However, it appears there are no aircraft lease contracts for Russia.

(4) Overseas

At the end of FY3/22, operating assets were ¥96.6bn, an increase of approximately 1.1 times over 5 years. On the one hand, it progressed an inorganic strategy and enhanced its earnings base, mainly in North America, while on the other hand, it established bases in Singapore, Taiwan, and Thailand and accelerated business development centered on the strategic fields (real estate and Energy & environment) in which it is strong.

(5) Medical/social welfare

At the end of FY3/22, the FPS Medical balance was ¥23.3bn, an increase of approximately 7.5 times over 5 years. Based on the Fuyo Lease Platform Concept, the Group enhanced the service-provision structure and progressed a series of measures for this, including establishing a common group website that makes possible the one-stop provision of the Group’s products and services in the medical and social welfare fields. Also, Accretive’s FPS Medical increased collaborations with regional financial institutions, and the factoring business, which mainly targets medical and nursing care fees, grew significantly.

(6) BPO (new domain)

In BPO, which is a new domain that the Company is focusing on, the total ordinary profit (before amortization of goodwill) of the core companies (Accretive, INVOICE, and NOC) increased to ¥5.8bn (FY3/22) and has grown to be a new pillar of earnings. In particular, the Group progressed the construction* of a service-provision structure by proactively strengthening functions, and by providing solutions to the management problems facing companies, such as responding to the labor shortage and workstyle reforms, it is accelerating business development for markets that are growing.

* In June 2021 the Company started a service to support the complete shift of accounting departments to telecommuting in collaboration with NTT Communications Corporation. Additionally, in October 2021 the Company made a consolidated subsidiary of WorkVision, which provides IT solutions centered on cloud packages. Through these efforts, the Company worked to enhance its menu of BPO services, in addition to strengthening ICT solution capabilities.

(7) Mobility business (new domain)

In the mobility business, which is another of the new domains, at the end of FY3/22 operating assets were ¥164.1bn, an increase of approximately 1.7 times over 5 years. Through making YAMATO LEASE a subsidiary in April 2020 and other initiatives, the Company redefined the auto-leasing business as the mobility business, while at the same time, it strengthened services in the EV area through collaborations with alliance partners and built the footholds toward the next medium-term management plan.

5. Summary of FY3/22

To summarize FY3/22 from the above, not only were results excellent, of greatly exceeding the initial forecasts and also achieving and exceeding the targets in the medium-term management plan, but in terms of strategy as well, in the final year of the medium-term management plan, the Company expanded the strategic fields, took on the challenge of entering new domains, and progressed business structural reforms, so it can be highly evaluated for these major achievements for the future. In particular, the environment is changing in the lease industry, and in this situation, the Company is aiming for developments for the next medium-term management plan, including creating businesses mainly initiated by the Company, working to replace assets with highly profitable assets, strengthening in new domains that are expected to grow such as the BPO and ICT fields and the mobility field with a view to EV and FCV, and progressing the construction of new business models. So, it can be said that these are also points for which the Company can be highly evaluated.

Growth strategy

The new medium-term management plan aims at achieving sustainable growth by “resolving social issues” while at the same time delivering “economic value”

1. Reflecting on the previous medium-term management plan

The environment surrounding the Company’s domestic lease business has been changing greatly, and in this situation, it set the slogan of “Go where no one has gone before,” and progressed Frontier Expansion 2021, its five-year medium-term management plan with FY3/22 as its final fiscal year. In particular, through the core strategies of 1) selection and concentration in strategic fields, 2) challenge the frontier, and 3) pursue Group synergies, it progressed the expansion of business areas and the creation of new businesses, and at the same time, it strengthened functions through an active inorganic strategy and worked to accelerate business development on a Group basis.

As a result, through the expansion of the business areas, centered on the strategic fields (real estate, energy & environment, aircraft, overseas, and medical/social welfare), and also the contributions of the new domains such as the BPO and mobility businesses, the Company improved ROA at the same time as accumulating operating assets. Ordinary profit continued a high growth rate of an average annual growth rate above 10%, and it achieved and exceeded all 3 management targets (ordinary profit, ROA, and operating assets). Therefore, the Company can be highly evaluated for achieving major results in both performance and strategy not only in the situation of the severe competition in the industry environment, but also in the ongoing uncertain economic conditions, such as due to COVID-19 and the Ukraine situation.

2. Direction of the new medium-term management plan

In the new five-year new medium-term management plan that has FY3/27 as its final fiscal year, under the slogan of "Fuyo Shared Value 2026," the direction the Company is aiming for is achieving sustainable growth by "resolving social issues" through human growth and dialog while at the same time delivering "economic value." Its features are that it is based on a strategy of improving enterprise value from both the aspects of enterprise value and social value, and that it sets both financial and non-financial items for the management targets.

(1) Growth drivers

As the axes for the strategic fields (and new domains) up to the present time, the growth drivers have been categorized into three types; 1) the RT field (Rising Transformation) that is aiming for strategic growth enabled by capturing tectonic social changes, 2) the AT field (Accelerating Transformation) that is aiming for accelerating growth based on an understanding of market trends, and 3) the GP field (Growing Performance) that is aiming for the stable growth of the core fields. Then, the strategy is to improve profitability through concentrated investment of management resources into the RT and AT fields where market expansion and creation are expected and also through differentiation in the GP field. It has positioned mobility and circular economy in the RT field; energy & environment, BPO/ICT, and medical social welfare in the AT field; and real estate and aircraft in the GP field.

(2) Image of the allocation of resources and the earnings portfolio

The Company is concentrating investment of approximately ¥1tn (five-year cumulative total) into the RT and AT fields, which are growth areas, and it will improve ROA at the same time as accumulating operating assets. Also, in the GP field, which is a core field, its policy is to improve profitability that will lead to the improvement of ROA as a whole. In the next five years, operating assets are forecast to be around the ¥3tn level (an increase of around ¥0.5tn compared to FY3/22). Within this amount, operating assets in the RT and AT fields are expected to double, from ¥400.0bn to ¥800.0bn, alongside the replacements of assets. It is also targeting ordinary profit of ¥75.0bn in five years' time, and looking at the percentages for this, the percentage from the RT field will increase from 6% to 9% and from the AT field will increase greatly from 13% to 24%, while the GP field will be basically unchanged, from 41% to 40%. Conversely, the conventional general leasing and financing field will decline greatly, from 40% to 27%, and clearly there is a trend in progress of escaping from financing and leasing and from finance.

(3) Management targets

As the business strategy's results targets through the three growth drivers, the Company has set both financial targets and non-financial targets and is aiming to simultaneously realize "economic value" and "social value." The 4 financial targets are ordinary profit of ¥75.0bn, ROA of 2.5%, an equity ratio of 13% to 15%, and ROE of at least 10%. So, it will further improve profitability while maintaining a balance with a certain level of financial discipline and capital efficiency. Conversely, it has set the non-financial targets to be tackled from three perspectives – 1) the environment, 2) society and people, and 3) human resources investment – and its policy is for the Company itself to sustainably improve its enterprise value through "resolving social issues," such as by realizing a decarbonized society and a recycling-based society. Also, for measures to address climate change, it continues to work on achieving carbon neutrality and RE 100* toward the 2030 targets.

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

Financial targets

(¥bn)

	FY3/22 Results		FY3/27 Target		Change	
		% of revenues		% of revenues		CAGR
Ordinary profit (¥bn)	52.7		75.0		22.3	7.3%
RT and AT	10.0	19.0%	25.0	33.3%	15.0	20.1%
GP	21.7	41.2%	30.0	40.0%	8.3	6.7%
General lease & financing	21.0	39.8%	20.0	26.7%	-1.0	-1.0%
ROA	2.06%		2.5		+0.44pt	
Equity ratio	11.3%		13%~15%		+1.7pt~3.7pt	
ROE	10.6%		10% or more		-	
Operating assets (Imagined)	Approx. ¥2.5tn		Approx. ¥3tn		Approx. ¥0.5tn	
RT and AT	Approx. ¥0.4tn		¥0.7tn		Approx. ¥0.3tn	
GP	Approx. ¥1.1tn		¥1.3tn		Approx. ¥0.2tn	
General lease & financing	Approx. ¥1.0tn		¥0.9tn		Approx. -¥0.1tn	

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

Non-financial targets (excerpt)

		FY3/27 Target
Environment	Decarbonized society	
	CO_2 reduction targets	500,000 t-CO_2/year
	Amount of investment to progress decarbonization	¥300.0bn
	Renewable energy power output	1,000MWdc
	Ratio of EV and FCV vehicles to number of vehicles owned	30%
	Recycling-based society	
	Reuse and recycling rate of returned equipment	100%
	Waste plastic materials/chemicals recycling rate	100%
Society and people	Customers' work reduction time	Over 1 million hours (compared to FY3/22)
Human resources investment	Human resources development-related expenses (standalone)	300% (compared to FY3/22)

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

3. The basic strategies and targets in each business field

(1) Mobility (RT field)

On the one hand, needs are growing for EV and FCV toward realizing carbon neutrality, but on the other hand, in the logistics industry environment, social issues are becoming increasing severe, such as the shortage of drivers and the long working hours. Based on this situation, the Company's strategy is to develop both domestically and overseas one-stop services centered on partner collaborations, mainly in the vehicle and logistics areas. In particular, in the vehicle area, it plans to build new business models, such as an EV one-stop service*1, and to expand the non-asset business, focused on fleet BPO*2. In the logistics area also, it is creating collaborative projects through its collaboration with the YAMATO Group, strengthening the global mobility business through collaborations with overseas Group companies, and working to strengthen truck financing and to expand into peripheral areas, mainly through YAMATO LEASE. The financial targets are ordinary profit of ¥7.0bn (FY3/22 up¥2.7bn) and ROA of 2.5% (up0.6%), while the non-financial targets include an EV and FCV ownership ratio of 30% (up30%).

*1 Through collaborations with partner companies, it will provide a one-stop service, from EV introduction review and consulting through to charger installation consulting and construction, financing and vehicle management, and energy management. This service is also highly compatible with energy & environment, which is one of the Company's strengths.
*2 Support for improving business efficiency, such as labor saving, through telematics services and optimization consulting for the vehicle mobilization rate.

(2) Circular economy (RT field)

Motivation toward realizing a recycling-based society is increasing, and within this situation is hidden the major possibility of building an infrastructure that can utilize scale merits and expansive networks even for lease companies with large-scale assets. The Company is progressing advanced measures for markets that are expected to grow, and its strategy is to aim to build a sophisticated circular economy platform. At the current time it has not set any financial targets, but its non-financial targets are 1) a returned equipment reuse and recycling rate of 100% (same as in FY3/22) and 2) a waste plastic materials / chemicals recycling rate of 100% (up100%).

(3) Energy & environment

The Company's strategy is to expand the renewable energy business on a global scale and to establish a new business in the secondary energy field. Renewable energy is not limited in terms of energy type or initiative form, and domestically and overseas the business scale will grow to 3 times its former scale. It will also accelerate joint investments with partner companies (major energy businesses, etc.) and continue to focus on the PPA business as a tool for customers' decarbonization. On the other hand, for secondary energy, it continues to work on measures for the LCM business (primary use → recycling of reuse, etc.) in the storage battery field and also with a view to participating in the power demand-supply adjustment market* that is steadily growing. The financial targets are ordinary profit of ¥5.0bn (FY3/22 up¥3.4bn) and ROA of 2.0% (up0.2%), while the non-financial targets are 1) a renewable energy power output of 1,000MWdc (up682MWdc) and 2) investment in decarbonization of ¥300.0bn (five-year cumulative total).

* The domestic market for power demand and supply adjustments was launched in April 2021. It is a framework designed to facilitate the trading of electric power needed to adjust the supply and demand of electricity at power plants and other facilities (adjustment capacity) in a nationwide integrated market.

(4) BPO/ICT

Against the backdrop of the labor shortage that is becoming increasingly serious and the workstyle reforms, measures to improve productivity, including DX and reviews of non-core operations, are accelerating. In this situation, the Company's strategy is to aim to provide BPS (business process services) that support customers in realizing their business reforms from both the aspects of operations and systems. Specifically, through a synergistic collaboration between BPO (business consulting + solutions) and ICT (systems consulting + IT solutions), it is providing total solutions through work outsourcing and DX. The financial targets are ordinary profit of ¥8.5bn (FY3/22 up ¥5.1bn) and ROA of 5.4% (up3.9%), while the non-financial targets are to reduce customers' work hours by an additional 1mn (1mn hours).

(5) Medical/social welfare

In addition to management issues such as the decrease in medical revenue, the labor shortage, and the lack of successors, needs for medical and social welfare are expected to further increase and become more sophisticated due to the 2025 problem*. In this situation, the Company's strategy is to maximize the value of businesses' management resources in the medical and social welfare markets, including for medical, nursing care, and dispensing pharmacy businesses, by continuing to provide one-stop services based on the Fuyo Lease Platform Concept. The financial targets are ordinary profit of ¥4.5bn (up ¥2.7bn compared to FY3/22) and ROA of 3.3% (up1.3%), while the non-financial targets are 1) 1,000 rooms in nursing care facilities for the elderly, and 2) financing of ¥23.3bn to support management in the medical and social welfare markets (up¥32.7bn compared to FY3/22).

* Japan has become a "super-aging society" and its social structure and systems are approaching a major turning point that is expected to have an impact on various fields, including employment, medical care, and welfare.

(6) Real estate

The Company is focusing on increasing the sophistication of and differentiating this business, and its strategy is to aim to stably grow profits through improving profitability. In particular, while conditions in the real estate market are active, particularly in the metropolitan areas, there is a sense that the competitive environment is overheating, and in this situation, it intends to further improve profitability and steadily expand the business by strengthening collaborations with partners and even further deepening the business areas. Moreover, toward the realization of a decarbonized society, it is progressing measures targeting environmentally friendly real estate*. The financial targets are ordinary profit of ¥23.0bn (up ¥2.7bn from FY3/22) and ROA of 2.3% (unchanged YoY) (it has not set non-financial targets).

* Green buildings, such as buildings with CASBEE evaluation certification or with environment-friendly facilities installed (energy saving, solar panels, etc.)

(7) Aircraft

It is anticipated that the business environment will gradually recover across the second half of the new medium-term management plan, and based on this, the Company is aiming to steadily grow profits through escaping from the effects of the COVID-19 pandemic and progressing the asset turnover business. At the same time, it plans to convert from a business model that assumes long-term holdings of aircraft to an asset turnover-type business model of flexibly selling aircraft based on the market environment and other factors. Conversely, it plans to enhance the earnings structure by accumulating excellent assets through strengthening competitiveness. It is also progressing measures for new technological fields that will contribute to “resolving social issues,” such as sustainable aircraft fuel (SAF). Its financial targets are ordinary profit of ¥7.0bn (up ¥5.5bn from FY3/22) and ROA of 2.4% (up1.7%) (it has not set non-financial targets).

Business outlook

For FY3/23, the Company expects profits to continue to increase

1. FY3/23 results outlook

For the results in FY3/23, the Company expects to increase with total revenues to 6.4% YoY to ¥700.0bn, and profits are expected to increase with operating profit to increase 11.9% to ¥51.5bn, ordinary profit to rise6.2% to ¥56.0bn, and profit attributable to owners of parent to grow 6.2% to ¥36.0bn.

In FY3/23, which is the first fiscal year of the new medium-term management plan, the accumulation of operating assets, centered on the real estate and energy & environment fields that continue to perform well, and the growth of BPO/ICT, including the effects of the consolidation of WorkVision (an increase in non-asset earnings) are expected to contribute to the increase in profits. The Company plans to further improve ROA as well through asset control that prioritizes profitability and the growth of non-asset earnings.

FY3/23 outlook

(¥bn)

	FY3/22		FY3/23			
	Results	% of revenues	Forecasts	% of revenues	Amount	YoY change
Total revenues	657.8	-	700.0	-	42.2	6.4%
Operating profit	46.0	7.0%	51.5	7.4%	5.5	11.9%
Ordinary profit	52.7	8.0%	56.0	8.0%	3.3	6.2%
Profit attributable to owners of parent	33.9	5.2%	36.0	5.1%	2.1	6.2%

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

2. Primary focus of FISCO's analysts

At FISCO, we consider it fully possible that the increase trend in profits will further continue, as the Company worked to accumulate operating assets and to strengthen the new domains of BPO/ICT and mobility across the medium-term management plan. In the first fiscal year of the new medium-term management plan, no rapid changes to the earnings structure are expected, and toward evolving the earnings portfolio into the portfolio that it is aiming for, we shall be focusing in what ways the Company strengthens the RT and AT fields that will be the growth drivers and the processes for this. For the measures for "resolving social issues" as well, we shall be following the progress made for the KPI set as non-financial targets, while it can be said that the points to focus on from a medium- to long-term perspective will be the path it takes in terms of how it will link them to economic value (profit growth, etc.) by creating new markets, strengthening competitiveness, and building new business models and other initiatives.

Shareholder returns

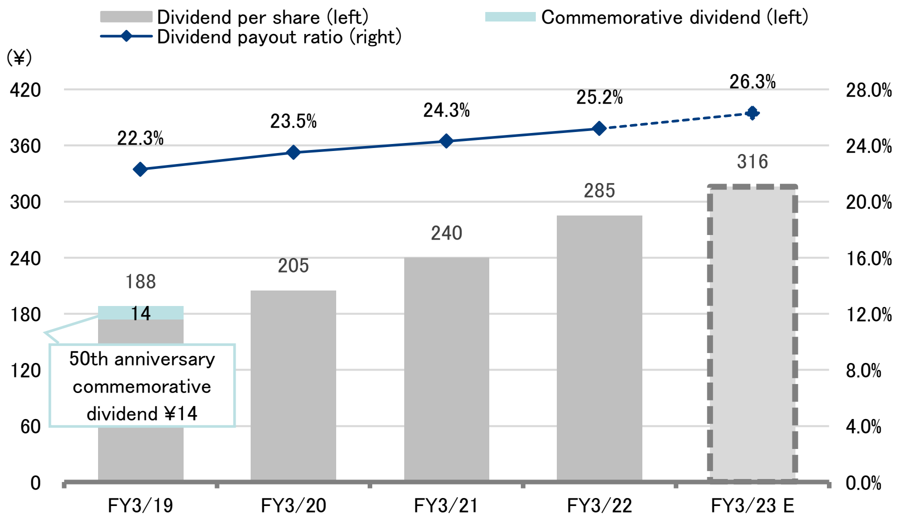
In FY3/23, is forecasting a dividend per share of ¥316, up ¥31 YoY. Is aiming to increase the dividend payout ratio to at least 30% by the final fiscal year of the medium-term management plan

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 position, taking into account its profits and business goals. Supported by strong profits, the Company has been continuously increasing its dividend since its shares were listed in 2004. Under the medium-term management plan, the Company has a policy of aiming for a dividend payout ratio of 30% or more by the final year of the plan.

For the FY3/22 annual dividend, the Company upwardly revised the initial forecast by ¥25 and paid a dividend per share of ¥285 (interim dividend of ¥130 and period-end dividend of ¥155), an increase of ¥45 YoY (dividend payout ratio, 25.2%). For the FY3/23 annual dividend, it is forecasting a dividend per share of ¥316 (interim dividend of ¥158 and period-end dividend of ¥158), an increase of ¥31 YoY (forecast dividend payout ratio, 26.3%).

In addition to the higher dividend from profit growth, the Company has been gradually raising 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.

Dividend per share and dividend payout ratio



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

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