COMPANY RESEARCH AND ANALYSIS REPORT

Fuyo General Lease Co., Ltd.

8424

Tokyo Stock Exchange Prime Market

26-Feb.-2024

FISCO Ltd. Analyst
Ikuo Shibata

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

Index

Summary — 01

1. Summary of 1H FY3/24 results ······ 01
2. FY3/24 results outlook ······ 01
3. Medium-term management plan ······ 02

Company profile — 03

1. Business overview ······ 03
2. History ······ 05

Financial results — 06

1. Key points for assessing results ······ 06
2. Past results trends ······ 06
3. Summary of 1H FY3/24 results ······ 08
4. Business performance and activities by business field ······ 10
5. Summary of 1H FY3/24 ······ 13

Business outlook — 14

1. FY3/24 results outlook ······ 14
2. FISCO's view ······ 14

Growth strategy — 15

1. Direction of the medium-term management plan ······ 15
2. The basic strategies and targets in each business field ······ 16
3. Primary medium- to long-term focuses ······ 18

Shareholder returns — 19

Summary

Steady expansion achieved in growth areas such as energy & environment, real estate and aircraft again in 1H FY3/24. Consecutive record-high profit (on an 1H basis) along with satisfactory progress attained through initiatives seeking further business expansion on all fronts

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 Bank, Ltd.) 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 ¥1,530.8bn and operating assets of ¥2,814.4bn (As of September 30, 2023). In addition to the steady increase in operating assets in business fields it has positioned as strategic fields, such as real estate and energy & environment, the Company is steadily expanding its earnings through expanding the functions of BPO services* from M&A. The Company started its medium-term management plan Fuyo Shared Value 2026 (five years) from FY3/23, and is aiming for sustainable growth by simultaneously "resolving social issues" and delivering "economic value."

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

1. Summary of 1H FY3/24 results

In the 1H FY3/24 results, operating profit increased 3.0% year-on-year (YoY) to ¥27.8bn, ordinary profit grew 6.8% to ¥33.2bn, and profit attributable to owners of parent rose 13.5% to ¥23.0bn, as all profit lines posted increases, with the Company marking a new record high in profit (on an 1H basis). Profit before interest expenses, which shows true business performance, grew steadily, increasing 16.6% to ¥62.1bn due to growth in energy & environment, real estate, aircraft and other growth drivers. Looking at ordinary profit by business field, ordinary profit in energy & environment incurred a brief setback attributable to upfront recognition of certain capital costs, but achieved growth in the respective operations of mobility, real estate and aircraft. As such, the Company accordingly continues to achieve balanced ordinary profit growth centered on its growth areas. In terms of activities, the Company made progress with initiatives for the future on all fronts through efforts including engagement with highly-specialized partner companies (including overseas companies) and intra-group collaboration.

2. FY3/24 results outlook

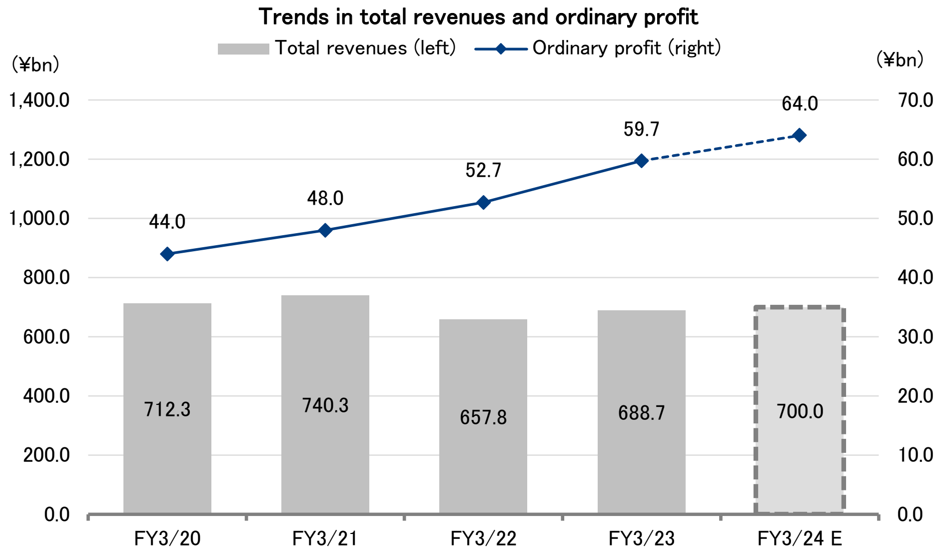
For the FY3/24 results, the Company is forecasting higher revenues and profits, unchanged from the initial forecast, with total revenues to increase 1.6% YoY to ¥700.0bn, operating profit to grow 10.5% to ¥57.0bn, ordinary profit to rise 7.2% to ¥64.0bn, and profit attributable to owners of parent to increase 10.4% to ¥43.0bn. It is also forecasting a higher dividend, which it has increased continuously since being listed. Factors including the continued strong performance in real estate, aircraft, and energy & environment, as well as growth in BPO/ICT driven by rising demand (increase in non-asset earnings), are expected to contribute to the increase in profit. The Company plans to improve ROA as well through asset control that prioritizes profitability and the growth of non-asset earnings.

3. Medium-term management plan

Fuyo Shared Value 2026 (five years), the Company's medium-term management plan that started from FY3/23, is based on a strategy of achieving sustainable growth by realizing enterprise value and social value simultaneously, and it sets both financial and non-financial items for its management targets. Growth will be driven by: 1) the Rising Transformation ("RT") field (mobility and circular economy) that is aiming for strategic growth enabled by capturing tectonic social changes; 2) the Accelerating Transformation "AT" field (energy & environment, BPO/ICT, and healthcare) that aims for accelerating growth based on an understanding of market trends, and; 3) the Growing Performance "GP" field (real estate and aircraft) that is aiming for 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.

Key Points

- New record highs set on all profit lines (on an 1H basis) amid steady expansion of growth areas again in 1H FY3/24
- In terms of activities, progress achieved with initiatives for the future on all fronts through engagement with partner companies including overseas companies
- The FY3/24 results outlook remains unchanged from the initial forecast, with projections of consecutive record highs again for the full fiscal year and first consecutive dividend increases since its shares were listed
- Started the medium-term management plan Fuyo Shared Value 2026 in FY3/23. It is aiming for sustainable growth by "resolving social issues" through human growth and dialogue while at the same time delivering economic value



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

Company profile

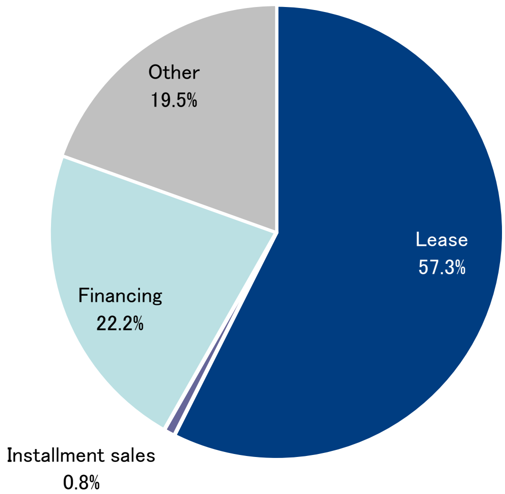
Comprehensive leasing company with strengths in real estate, energy & environment, and other areas. Also working to strengthen new domains, such as BPO/ICT and the mobility

1. Business overview

The Company has three business segments - lease and installment sales, financing, and other. Lease and installment sales disclose “lease” and “installment sales” separately. The mainstay lease business accounts for 57.3% of profit before interest expenses* and 61.2% of operating assets (1H FY3/24 results). As future growth drivers, the Company plans to proactively invest management resources in business fields including mobility, energy & environment, BPO/ICT, and healthcare, to differentiate in real estate and aircraft, and over the medium to long term its policy is to move away from “nontraditional leasing” and “non-financial services.”

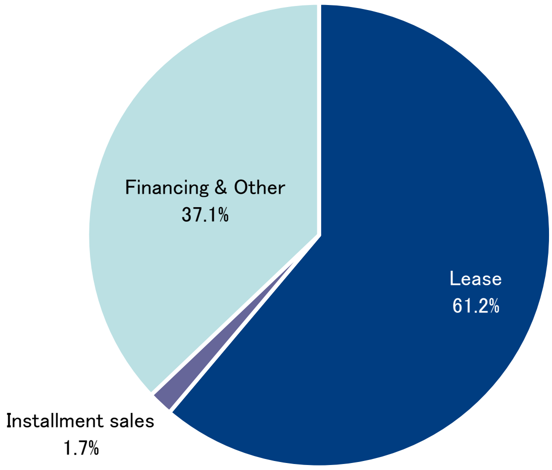
* Gross profit before deducting interest expenses.

Composition of profit before interest expenses by segment (1H FY3/24)



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

Ratio of operating assets by segment (1H FY3/24)



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 transactions 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. 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 Outsourcing & Consulting, Inc. (hereinafter, “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, 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 Bank) 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 competitive 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 CORPORATION * (holds a large share in medical equipment and welfare equipment) with NICHIIGAKKAN CO., LTD. in 1999.

* In January 2022, the Company carried out an absorption-type merger of Nihon Credit Lease with the Company as the surviving company.

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. In particular, SFC controls a strong share in the retail (vendor lease) area and can be said to have 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), 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 strengthening initiatives for 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. 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

Ordinary profit in FY3/23 at record high for sixth consecutive year due to factors that include accumulation of operating assets and 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 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

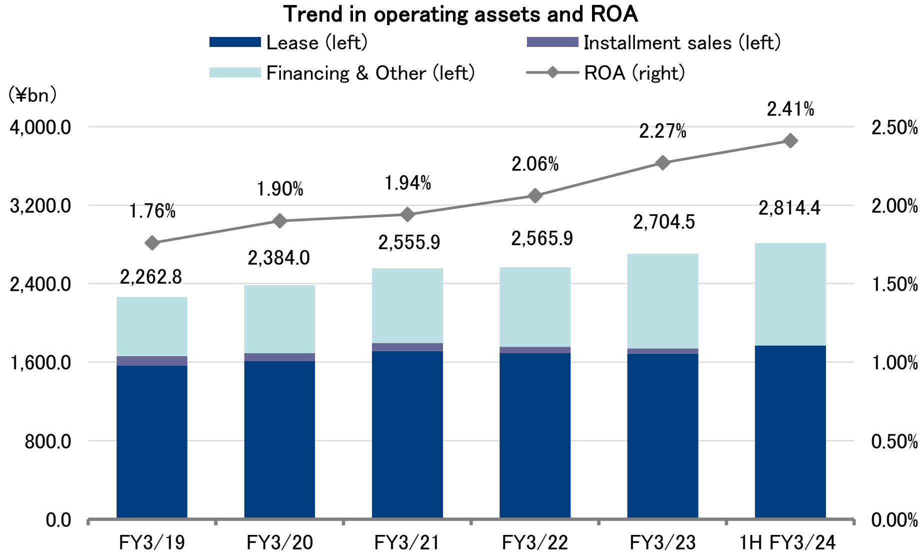
Looking back on past results trends, ordinary profit has also continued to increase from both the accumulation of operating assets and the improvement of ROA. The improvement of ROA has been particularly due to the growth of real estate leases and aircraft leases, which have comparatively high yields,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

From a cost perspective, meanwhile, Interest expenses 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. In FY3/23, interest on funding grew slightly, mainly due to an increase in funds in foreign currencies resulting from a greater number of overseas transactions. Additionally, the Company keeps personnel/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 FY3/23 reached an all-time high for the sixth consecutive year.

Interest-bearing debt has been growing due to the accumulation of operating assets, but the equity ratio remains steady at about the 10% level. The Company's 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.

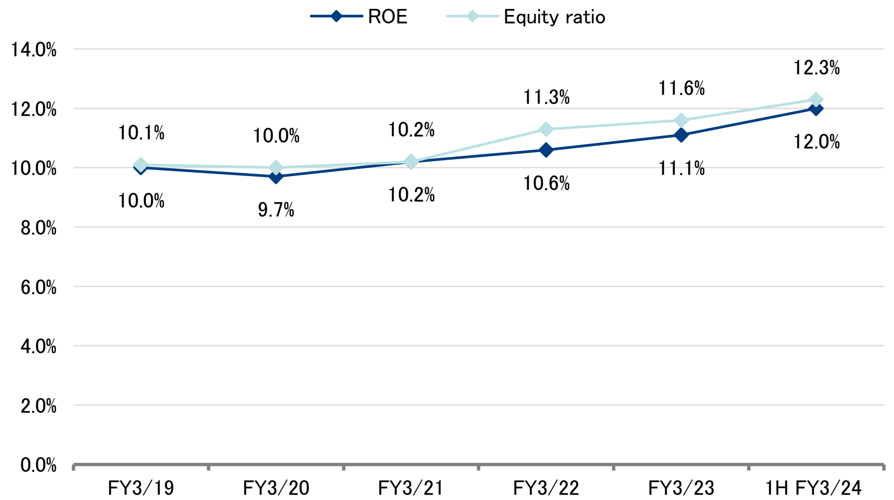
In addition, ROE (Return on Equity), which shows capital efficiency, has been increasing alongside the rise in the profit level, and it has exceeded 10% since FY3/21.

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 financial results

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

3. Summary of 1H FY3/24 results

In the FY3/24 results, total revenues decreased 1.6% YoY to ¥350.3bn, operating profit increased 3.0% YoY to ¥27.8bn, ordinary profit rose 6.8% to ¥33.2bn, and profit attributable to owners of parent grew 13.5% to ¥23.0bn, and every profit item increased and set new record highs* (on an 1H basis).

* Ordinary profit marked a new record high for the seventh consecutive period, while profit marked a new record high for the nineth consecutive period.

Profit before interest expenses (gross profit before deducting interest expenses), which shows true business performance, grew steadily, increasing 16.6% YoY to ¥62.1bn due to ongoing growth in the growth drivers such as energy & environment, real estate and aircraft.

Ordinary profit also increased 6.8% due to factors including the growth in profit before interest expenses and the increase in earnings from equity-method investments*. Looking at ordinary profit by business field, ordinary profit in energy & environment incurred a brief setback attributable to upfront recognition of certain capital costs, but achieved growth in the respective segments of mobility, real estate and aircraft. As such, the Company accordingly continues to achieve balanced ordinary profit growth centered on its growth areas.

* Attributable to steady earnings of equity-method affiliates and increased earnings from equity-method investments associated with the real estate business.

Looking at expenses, interest expenses escalated substantially, albeit within expectations, amid rising interest on funding mainly due to an increase in funds in foreign currencies associated with accumulation of overseas assets. Additionally, personnel/equipment expenses increased due to expansion of the Group, including the consolidation of Pacific Rim Capital, Inc.*, but OHR (overhead ratio: personnel/equipment expenses divided by gross profit) was maintained at a favorable level. Default risk of credit held by the Company was also kept at a low level.

* Pacific Rim Capital, Inc. is an independent operating leasing company based in the United States (mobility domain).

Newly executed contract volume increased significantly by 19.0% YoY to ¥834.7bn. In energy & environment, there were substantial increases in equity investment (participation in renewable energy business), real estate financing and aircraft leases. Particularly in leases, newly executed operating lease contract volume, a focal business domain of the Company, increased substantially, thereby contributing to higher profitability. Moreover, operating assets increased 4.1% versus the end of FY3/23 to ¥2,814.4bn amid steady accumulation of operating assets centered on the Company's growth driver domains of energy & environment, real estate, and aircraft.

As a result of the aforementioned factors, ROA* held to the high level of 2.41% (unchanged from 2.41% in the year-earlier period), thereby suggesting that the Company has established lasting improvement in profitability through its shift to a high-profit portfolio and its success in expanding its business domains.

* Ordinary profit (annualized) ÷ operating assets (average balance)

For the financial condition, total assets increased 3.9% from the end of the previous period to ¥3,271.6bn, while core capital increased 10.1% to ¥403.8bn due to the accumulation of internal reserves, and as a result the equity ratio improved to 12.3% (11.6% at the end of the previous period). Also, the Company has managed to strike a stable balance between short- and long-term debt amid a scenario where interest-bearing debt (excluding lease obligations) increased by 3.5% versus the end of FY3/23 to ¥2,600.9bn*1, but the long-term procurement ratio*2 was maintained at 64.3% (63.6% at the end of FY3/23).

*1 As the Company is accumulating operating assets, its procurement of corporate bonds (including hybrid bonds) and long-term borrowings has increased. Also, the Company has been proactively advancing ESG finance initiatives leveraging the Sustainable Finance Framework.

*2 The long-term procurement ratio 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 1H FY3/24 results

(¥bn)

	1H FY3/23		1H FY3/24		YoY change	
	Results	% of revenues	Results	% of revenues	Amount	%
Total revenues	356.0		350.3		-5.7	-1.6%
Profit before interest expenses	53.3	15.0%	62.1	17.7%	8.8	16.6%
Lease	29.6	55.5%	35.6	57.3%	6.0	20.4%
Installment sales	0.6	1.1%	0.5	0.8%	-0.1	-12.5%
Financing	11.9	22.3%	13.8	22.2%	2.0	16.5%
Other	11.2	21.0%	12.1	19.5%	0.9	8.3%
Interest expenses	4.8	1.3%	8.5	2.4%	3.8	78.5%
Gross profit	48.5	13.6%	53.6	15.3%	5.1	10.5%
SG&A expenses	21.5	6.0%	25.8	7.4%	4.3	20.0%
Operating profit	27.0	7.6%	27.8	7.9%	0.8	3.0%
Ordinary profit	31.1	8.7%	33.2	9.5%	2.1	6.8%
Profit attributable to owners of parent	20.3	5.7%	23.0	6.6%	2.7	13.5%
Newly executed contract volume	701.7		834.7		133.0	19.0%
Financing & Lease	112.8	16.1%	120.5	14.4%	7.7	6.8%
Operating & Lease	80.6	11.5%	152.0	18.2%	71.4	88.6%
Installment sales	11.8	1.7%	9.7	1.2%	-2.1	-17.9%
Financing & Other	496.4	70.8%	552.4	66.2%	56.0	11.3%

	As of March 31, 2023 Results	As of September 30, 2023 Results	YoY change	
			Amount	%
Operating assets	2,704.5	2,814.4	109.8	4.1%
Financing & Lease	890.8	877.7	-13.2	-1.5%
Operating & Lease	797.4	843.7	46.3	5.8%
Installment sales	52.8	48.9	-3.9	-7.4%
Financing & Other	963.6	1,044.1	80.5	8.4%

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

4. Business performance and activities by business field

(1) Mobility (RT field)

As of the end of September 2023, the balance of operating assets was ¥177.2bn (up ¥5.9bn from the end of FY3/23), ROA improved to 3.6% (3.1% in the year-earlier period), and ordinary profit increased to ¥3.1bn (up ¥0.6bn YoY). Performance of overseas operating companies was favorable, including that of the newly consolidated Pacific Rim Capital. However, whereas there have been signs of recovery with respect to delivery delays against a backdrop of the global shortage of semiconductors, a slight sense of uncertainty persists when it comes to the used car market going forward. The EV and FCV ownership ratio, a non-financial target, remained at the 0.7% level (unchanged from the end of FY3/23) against a backdrop of factors that include slow uptake of EVs (the medium-term management plan target is 30%). In terms of activities, meanwhile, the Company has been working with alliance partners in many areas of the EV domain*1, while also promoting the mobility business on a global basis*2.

*1 The Company has been expanding its business foundation to provide not only EV vehicles but also one-stop services such as chargers and maintenance networks. Moreover, the Company has embarked on initiatives to support the development and training of auto mechanic human resources involved in EV maintenance through collaboration with EV Motors Japan Co., Ltd., which develops, manufactures, and sells electric vehicles for commercial use, and with the NSG GROUP, which engages in educational and other businesses with a focus on Niigata and Fukushima prefectures.

*2 The Company aims to expand its global lifecycle management-oriented mobility business of providing one-stop support across the entire lifecycle of logistics equipment ranging from installation to recycling and disposal through initiatives that include collaboration with Rim Pacific Capital and establishing the GREEN FORK forklift lease package, mainly targeting Japan, North America and Thailand.

(2) Energy & environment (AT field)

As of the end of September 2023, the balance of operating assets increased substantially to ¥169.1bn (up ¥42.8bn from the end of FY3/23), ROA declined to 1.1% (3.6% in the year-earlier period), and ordinary profit decreased to ¥0.8bn (down ¥1.0bn YoY). The decline in ordinary profit is attributable to upfront recognition of financing costs associated with certain overseas renewable energy businesses (revenues from these businesses are to be recognized in 2H). The Company has achieved significant growth in the renewable energy field through engagement with global players, particularly with respect to a U.K. offshore wind power generation project and a renewable energy fund (solar PV, wind power, hydropower, etc.) in the European Economic Area. Renewable energy power generation capacity (a non-financial target) grew steadily, increasing 61MW compared to the end of FY3/23 to 576MW*1. In terms of activities, the Company sought to tap abundant investment opportunities in Europe by establishing a U.K. subsidiary and extending initiatives taken with new alliance partners. Moreover, the Company is also involved in the large-scale grid storage battery business*2 through a joint venture with Daiwa Energy & Infrastructure Co. Ltd. and ASTMAX Co., Ltd.

*1 The Company is on track to achieve its medium-term management plan target of 1,000MW given the substantial increase to 900MW (up 243MW relative to the end of FY3/23), which includes projects under development.

*2 In the large-scale grid storage battery business, which facilitates stability of utility grids, the Company plans to engage in trading in the wholesale power market, supply-demand adjustment market, and capacity market based on AI-based market forecasts, etc. after the start of operation in FY2025.

(3) BPO/ICT (AT field)

In 1H FY3/24, ordinary profit remained unchanged YoY at ¥1.8bn. The Company encountered sluggish results in terms of profits due to increased business expansion costs, but has been seeking to increase profitability by streamlining operations in part through use of AI going forward. The Company made steady progress in terms of the non-financial target of work hours saved by customers with 0.33 million hours having been saved compared with 0.18 million hours in the year-earlier period (the target in the medium-term management plan is one million hours). In terms of activities, the Company concluded a business agreement regarding use of AI technologies*1 and has also gained momentum with respect to various initiatives involving intra-group collaboration*2.

*1 In seeking to provide high-value-added BPO services using AI, the Company concluded a business agreement with AKARI Inc., a provider of digital transformation (DX) solutions enlisting algorithms and AI technologies.

*2 In the BPO field, the Company accelerated efforts to collaborate with Human Centrix Co., Ltd., a B2B video production and distribution company. In the ICT field, the Company has been making steady progress in arranging intra-group collaboration with WorkVision Corporation, which engages in DX support and related services, and FGL Techno-Solutions Co., Ltd.

(4) Healthcare (AT field)

The Company encountered sluggish results in terms of the balance of operating assets which stood at ¥85.3bn as of the end of September 2023 (down ¥2.6bn from the end of FY3/23). ROA declined to 1.9% (2.2% in the year-earlier period), and ordinary profit decreased to ¥0.8bn (down 0.2bn YoY). These sluggish results are attributable to a situation where the Company did not move forward in accumulating funds through factoring of medical and care fee credits given that financing needs were satisfied through financial support from the government and other entities. Revenue is likely to grow from Q3 onward given that the Company has accumulated a backlog of projects. The number of nursing care facilities for the elderly (number of new rooms provided), a non-financial target, increased steadily by 130 rooms from the end of FY3/23 to 683 rooms (medium-term management plan target of 1,330 rooms). In terms of activities, the Company engaged in initiatives that included executing the first deal enlisting the region-specific healthcare fund*1 established jointly with The 77 Bank, Ltd. <8341> and NIHONKEIEI GROUP and embarking on dental hygienist recruitment service business through Sharp Finance*2.

*1 This involves providing support for reconstruction of a hospital facility led by a medical corporation in Fukushima Prefecture through a real estate liquidation scheme.

*2 This is a recruitment service that involves matching dental clinics facing shortages of dental hygienists with dental hygienists seeking flexible work arrangements. Having been provided to approximately 40% of the dental clinics in Japan, the service addresses issues encountered by dental clinics leveraging the business platform of Sharp Finance, which has a high market share in the industry.

(5) Real estate (GP field)

As of the end of September 2023, the balance of operating assets was ¥1,066.9bn (up ¥36.4bn from the end of FY3/23) and ROA improved to 2.9% (2.3% in the year-earlier period). This resulted in substantially higher ordinary profit of ¥15.0bn (up ¥4.2bn YoY). The considerable profit increase is largely attributable to accumulation of assets beginning in the year-earlier period and recognition of gain on sale. Moreover, the Company made progress in terms of accumulating assets at a pace exceeding expectations as a result of it working with partner companies and given that it has been receiving business inquiries from a wide range of sources. The Company will continue efforts to gain business in a manner that is mindful of risk and return, which will involve astutely identifying changes in the environment surrounding the real estate market.

(6) Aircraft (GP field)

As of the end of September 2023, the balance of operating assets was ¥265.2bn (up ¥38.1bn from the end of FY3/23) and ROA held to the high level of 2.4% (2.6% in the year-earlier period). This resulted in higher ordinary profit of ¥3.0bn (up ¥0.3bn YoY). The considerable profit increase is attributable to factors that include results of having steadily increased the number of self-owned aircraft to 56 (an increase of 7 aircraft compared to the end of the previous period) and progress made in normalizing collections of overdue lease fees from airlines. The Company is poised to successively add more aircraft to its fleet from Q3 onward amid a favorable environment for orders from airlines due to recovery in passenger demand. In terms of activities, the Company has been making progress with efforts to establish a business platform for making a norm of an asset turnover-type business model of flexibly selling aircraft by enlisting a wide-ranging approach with respect to domestic and overseas lessors and investors.

Results by business field (financial/non-financial)

(¥bn)

	1H FY3/23 Results	1H FY3/24 Results	Change
Mobility			
Ordinary profit	2.6	3.1	0.6
ROA	3.1%	3.6%	+0.4pt
Operating assets	171.3	177.2	5.9
EV/FCV ownership ratio	0.7%	0.7%	+0.0pt
Energy & environment			
Ordinary profit	1.8	.8	-1.0
ROA	3.6%	1.1%	-2.5pt
Operating assets	126.2	169.1	42.8
Renewable energy power output (MW)	515 MW	576 MW	61 MW
*Figures in parentheses include projects in development	(657 MW)	(900 MW)	(243 MW)
BPO/ICT			
Ordinary profit	1.8	1.8	0.0
ROA	2.0%	1.7%	-0.3pt
Operating assets	46.3	45.4	-1.0
Customers' work reduction time (compared to FY3/23)	120,000 hours	330,000 hours	210,000 hours
Healthcare			
Ordinary profit	1.0	0.8	-0.1
ROA	2.2%	1.9%	-0.3pt
Operating assets	87.9	85.3	-2.6
Nursing care facilities for the elderly (number of new rooms provided)	110	683	573
Management support financing for the healthcare market	19.5	21.0	1.5
Real estate			
Ordinary profit	10.8	15.0	4.2
ROA	2.3%	2.9%	+0.6pt
Operating assets	1,030.5	1,066.9	36.4
Aicraft			
Ordinary profit	2.7	3.0	0.3
ROA	2.6%	2.4%	-0.1pt
Operating assets	227.1	265.2	38.1
Self-owned aircraft	45	56	11
Other aircraft (management aircraft, etc.)	57	55	-2

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

5. Summary of 1H FY3/24

To summarize 1H FY3/24, at FISCO we assign the Company high marks for its prevailing financial results in that it has achieved record-high profits in successive fiscal periods amid a scenario where it has attained steady growth in its focal growth areas, and also given that it is making favorable progress on all fronts with respect to its initiatives for further business expansion looking toward the future. In particular, the Company's initiatives that demonstrate its upside potential beyond established market boundaries are worthy of mention. This includes the company's considerable expansion of the renewable energy business overseas in its energy and environment segment. This also includes its establishment of a new business model with respect to the EV domain in its mobility segment, and its global expansion in the logistics area. In terms of activities, the Company has accelerated efforts looking toward business expansion on all fronts in part through engagement with partner companies both domestically and overseas.

Business outlook

For FY3/24, the Company will accumulate operating assets and expects improvements in ROA to yield record high full-year business results

1. FY3/24 results outlook

For the results in FY3/24, the Company has not changed its initial forecast and expects total revenues to increase 1.6% YoY to ¥700.0bn, and profits are expected to increase with operating profit to increase 10.5% to ¥57.0bn, ordinary profit to rise 7.2% to ¥64.0bn, and profit attributable to owners of parent to grow 10.4% to ¥43.0bn.

Factors including strong performance in real estate, aircraft, and energy & environment, as well as growth in BPO/ICT driven by rising demand (increase in non-asset earnings), are expected to contribute to the increase in profit.

The Company plans to steadily improve ROA as well through asset control that prioritizes profitability and the growth of non-asset earnings.

FY3/24 outlook

(¥bn)

	FY3/23		FY3/24		YoY change	
	Results	% of revenues	Results	% of revenues	Amount	Change %
Total revenue	688.7		700.0		11.4	1.6%
Operating profit	51.6	7.5%	57.0	8.1%	5.5	10.5%
Ordinary profit	59.7	8.7%	64.0	9.1%	4.4	7.2%
Profit attributable to owners of parent	38.9	5.7%	43.0	6.1%	4.1	10.4%

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

2. FISCO's view

In H2, operating profit of ¥29.2bn, ordinary profit of ¥30.8bn, and net profit of ¥20.0bn will be adequate in order for the Company to achieve its anticipated results. Of course, continued attention is warranted with respect to the external environment, which is subject to future uncertainty including the impacts of worldwide inflationary trends and rising interest rates. Nevertheless, at FISCO, we consider it fully possible that the Company will achieve its results forecast taking into account progress in 1H results and the Company's accumulation of highly profitable assets of its real estate, aircraft, energy & environment and other such segments. Meanwhile, with BPO/ICT having been subject to delayed progress in 1H, we anticipate that the Company will be able to tap new BPO/ICT demand and improve profitability in that regard given that the Company has prepared a framework that utilizes DX and AI, which is in addition to the notion that it is encountering growing demand particularly when it comes to businesses pursuing greater efficiency and workstyle reforms. Likewise, we deem it sufficiently possible that the Company will also be able to catch up in healthcare given that it has accumulated a backlog of projects. Over both the short term as well as the medium to long term, we will closely follow progress being made with respect to the Company's initiatives aimed at achieving the financial targets and non-financial targets it has laid out in the medium-term management plan.

Growth strategy

Aims at achieving sustainable growth by “resolving social issues” while at the same time delivering “economic value”

1. Direction of the medium-term management plan

The Company is now entering the second year of its five-year medium-term management plan, which was initiated in FY3/23. Under the vision 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.” 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 that is aiming for strategic growth enabled by capturing tectonic social changes, 2) the AT field that is aiming for accelerating growth based on an understanding of market trends, and 3) the GP field 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 healthcare 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. 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 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 moving away from traditional leasing and financing services.

(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 “corporate value” and “social value.” The four 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

	Base year		Final year			
	FY3/22 Results	% of revenues	FY3/27 Target	% of revenues	Change	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	2.1%		2.5%		0.44pt	
Equity ratio	11.3%		13%~15%		1.7pt~3.7pt	
ROE	10.6%		10% or more		-	
Operating assets (Imagined)	¥2.5tn		¥3.0tn		¥0.5tn	
RT and AT	¥0.4tn		¥0.8tn		¥0.4tn	
GP	¥1.1tn		¥1.3tn		¥0.2tn	
General lease & financing	¥1.0tn		¥0.9tn		-¥0.1tn	

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

Non-financial targets (excerpt)

			FY3/27 Target
Environment	Decarbonized society	Contribution to CO_2 reduction targets	500,000 t-CO_2/year
		Amount of investment to progress decarbonization	¥300.0bn
		Renewable energy power output	1,000MW
		Ratio of EV and FCV 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

2. 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 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, 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 (up ¥3.7bn from FY3/22) and ROA of 2.5% (up 0.6 points). The non-financial targets include an EV and FCV ownership ratio of 30% (up 30 points).

*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)

The circular economy is an economic system that aims to conserve and maintain the value of products and resources for as long as possible and to minimize waste. 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% (up 100 points).

(3) Energy & environment (AT field)

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 three 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. 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 (up ¥3.4bn from FY3/22) and ROA of 2.0% (up 0.2 points). The non-financial targets are 1) a renewable energy power generation capacity of 1,000MW (up 682MW) 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 (AT field)

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 (up ¥5.1bn from FY3/22) and ROA of 5.4% (up 3.9 points), while the non-financial targets are to reduce customers' work hours by an additional 1mn (up 1mn hours).

(5) Healthcare (AT field)

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 healthcare 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% (up 1.3 points), while the non-financial targets are 1) 1,000 rooms in nursing care facilities for the elderly, and 2) financing of ¥56.0bn to support management in the healthcare 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 (GP field)

The Company is focusing on enhancing sophistication and differentiation in this business, and its strategy is to aim to stably grow profits through improving profitability. 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 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 (GP field)

It is anticipated that the business environment will gradually recover, 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% (up 1.7 points) (it has not set non-financial targets).

3. Primary medium- to long-term focuses

At FISCO, we think that as the business environment continues to undergo significant change, it makes sense for the Company to aim to create new value through alliances with partners in high-growth fields that are also highly-compatible with domains that the Company has built up its business in over the years. In particular, one key point will be how the Company links its initiatives aimed at “resolving social issues,” including tackling climate change in which it has been the industry leader, to growth opportunities. The medium-term management plan has just entered its second year, and although substantial changes to the earnings structure are yet to come, we shall be focusing on what ways the Company strengthens the RT and AT fields that will be the growth drivers towards evolving the earnings portfolio into the portfolio that it is aiming for. Also, with respect to initiatives for “resolving social issues,” we will follow the progress on KPI set as non-financial targets, and also pay close attention from a medium- to long-term perspective on the path the Company takes in terms of how it will link those KPI to creating new markets, strengthening competitiveness, and building new business models and other initiatives, and thereby connect to economic value (profit growth, etc.).

Shareholder returns

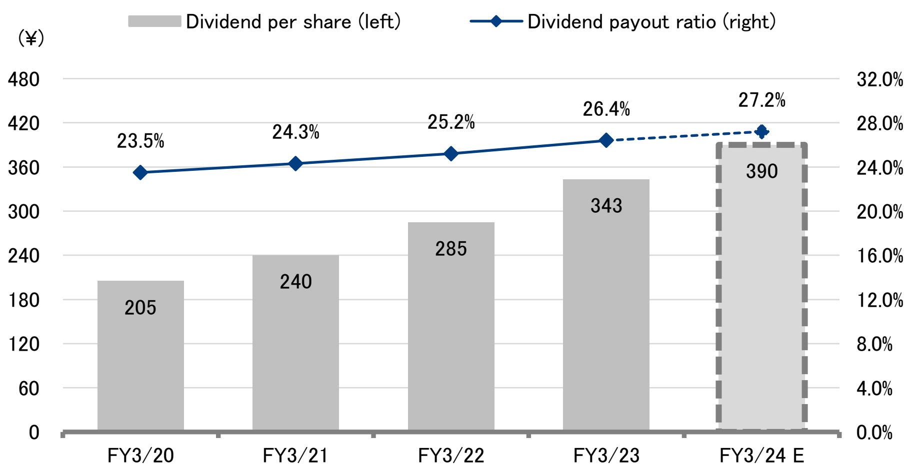
In FY3/24, is forecasting a dividend per share of ¥390, up ¥47 YoY. Is aiming to increase the dividend payout ratio to at least 30% by the final fiscal year of the medium-term management plan

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 FY3/24 annual dividend, the Company is forecasting a dividend per share of ¥390 (interim dividend of ¥195 and period-end dividend of ¥195), an increase of ¥47 YoY (forecast dividend payout ratio, 27.2%).

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

Disclaimer

■ For inquiry, please contact: ■
FISCO Ltd.
5-13-3 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062
Phone: 03-5774-2443 (IR Consulting Business Division)
Email: support@fisco.co.jp