COMPANY RESEARCH AND ANALYSIS REPORT

Fuyo General Lease Co., Ltd.

8424

Tokyo Stock Exchange Prime Market

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Index

Summary

In FY3/24, the growth areas steadily expanded, and results once again set new record highs. Profits are forecast to decline in FY3/25, but if based on actual values after excluding special factors, the outlook is for profits to continue to increase

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 ¥1,742.8bn and operating assets of ¥2,877.4bn (FY3/24). In addition to the steady increase in operating assets in business fields it has positioned as growth drivers, 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 FY3/24 results

In the FY3/24 results, operating profit increased 16.5% year-on-year (YoY) to ¥60.0bn, ordinary profit grew 14.5% to ¥68.4bn, and profit attributable to owners of parent rose 21.3% to ¥47.2bn, as all profit lines posted increases, with the Company marking a new record high in profit. Profit before interest expenses, which shows true business performance, increased steadily from the growth of energy & environment, and real estate and aircraft, which are the growth drivers. Ordinary profit also increased significantly, because in addition to the growth of profit before interest expenses when based on actual values, there were overlapping special factors of a recording of a large gain on sale and a temporary decrease in retirement benefit costs. Looking by business field, profits temporarily decreased in energy & environment because of a rise in foreign currency interest rates and upfront costs associated with the expansion of the business area. But profits grew in each of mobility, BPO/ICT, real estate, and aircraft, and profits continue to grow with a good balance, centered on the growth areas. In activities, the Company progressed initiatives for the future in various areas, such as collaborations with partner companies with high levels of specialism (including overseas companies) and collaborations between Group companies.

2. FY3/25 results outlook

For the FY3/25 results, the Company is forecasting the profits will decline due to the end of the special factors that occurred in the previous period, with operating profit to fall 0.1% to ¥60.0bn, ordinary profit to decline 3.4% to ¥66.0bn, and profit attributable to owners of parent to decrease 4.7% to ¥45.0bn. However, when looking at ordinary profit excluding the special factors (based on actual values), the outlook is for it to continue to increase, rising 2.5%. Also, with regards to the medium-term management plan that is approaching its third year, ordinary profit is expected to hit the upper limit of the plan's interim target (¥64.0bn to ¥66.0bn), so it is reasonable to view the Company as making steady progress. While domestic interest rates are expected to rise in the second half of the fiscal year, all of the businesses are accumulating assets with a good balance, and in addition, it seems that the growth of BPO/ICT (the expansion of non-asset revenues), for which demand is increasing, will contribute to raising the bottom line. The outlook is also for ROA to maintain its high level through asset controls that prioritize profitability and the expansion of non-asset earnings.

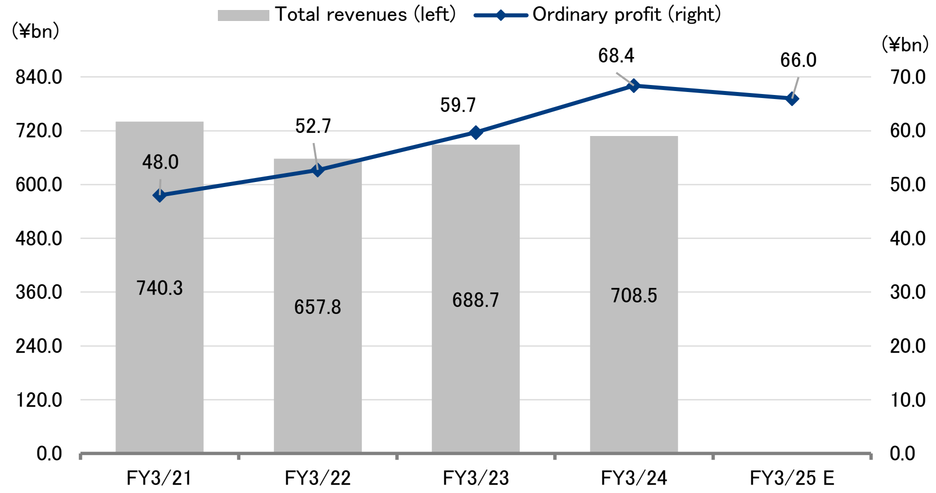
3. Medium-term management plan

Fuyo Shared Value 2026, which is the five-year medium-term management plan that was started in FY3/23, is the basis for the Company's strategy of achieving sustainable growth by solving societal problems at the same time as realizing economic value. The plan also sets various management targets, both financial and non-financial. 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 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 amid steady expansion of growth areas again in FY3/24
- In terms of activities, progress achieved with initiatives for the future on all fronts through engagement with partner companies including overseas companies
- Profits are forecast to decline in FY3/25, but when based on actual values excluding the special factors, the outlook is for profits to continue to increase
- 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"

Trends in total revenues and ordinary profit



Note: Will not disclose a total-revenues forecast from FY3/25
Source: Prepared by FISCO from the Company's financial results

Company profile

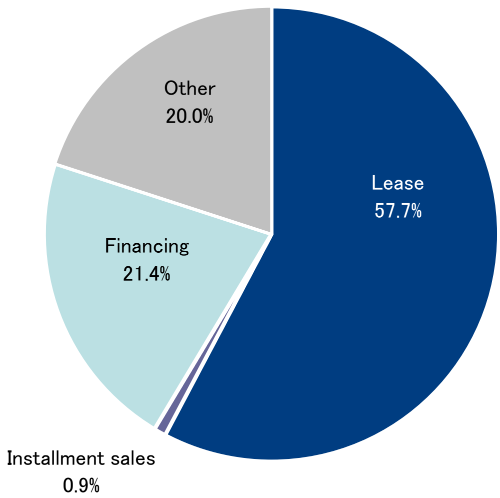
Comprehensive leasing company with strengths in real estate, energy & environment, and other areas. Also working to strengthen new domains, such as BPO/ICT and the mobility

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 57.7% of profit before interest expenses* and 62.4% of operating assets (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."

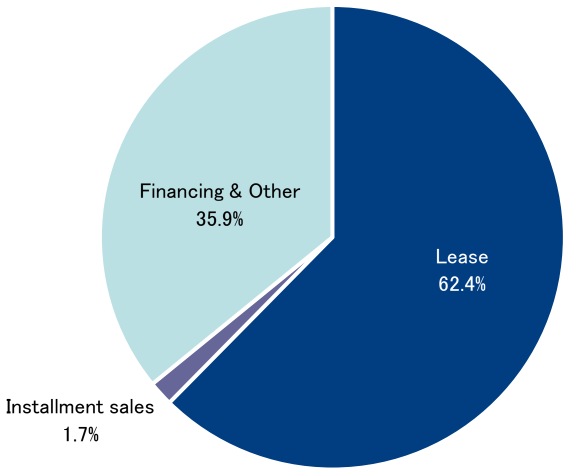
* Gross profit before deducting interest expenses.

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



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

Ratio of operating assets by segment (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. It includes fund investments in the renewable energy business and investments for retail by consolidated subsidiary Sharp Finance Corporation (hereafter, SFC). Also, the factoring business* was added to it following the consolidation of Accretive Co., Ltd. (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. (currently Fuyo Outsourcing & Consulting Inc., hereinafter, “FOC”) which was made into a consolidated subsidiary in August 2019. In October 2021, the Company expanded its service functions with the consolidation of WorkVision, which provides IT solutions centered on cloud packages (DX support, etc.) Moreover, through a business agreement with AKARI Inc., which provides DX solutions that make use of algorithms and AI technologies, it is working on developing high-value-added BPO services that utilize AI.

* 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. (now 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 FOC, 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 FY3/24 at record high for seventh 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

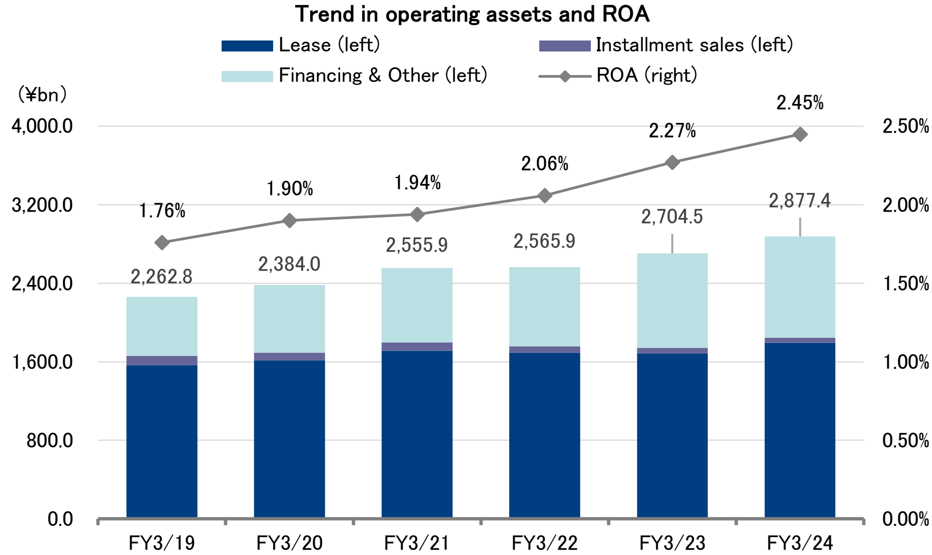
Looking back on past results trends, ordinary profit has also continued to increase from both the accumulation of operating assets and the improvement of ROA. The improvement of ROA has been particularly due to the growth of real estate leases and aircraft leases, which have comparatively high yields, 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 FY3/24, interest on funding grew significantly, mainly due to an increase in funds in foreign currencies resulting from a greater number of overseas transactions. On the other hand, 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 FY3/24 reached an all-time high for the seventh consecutive year.

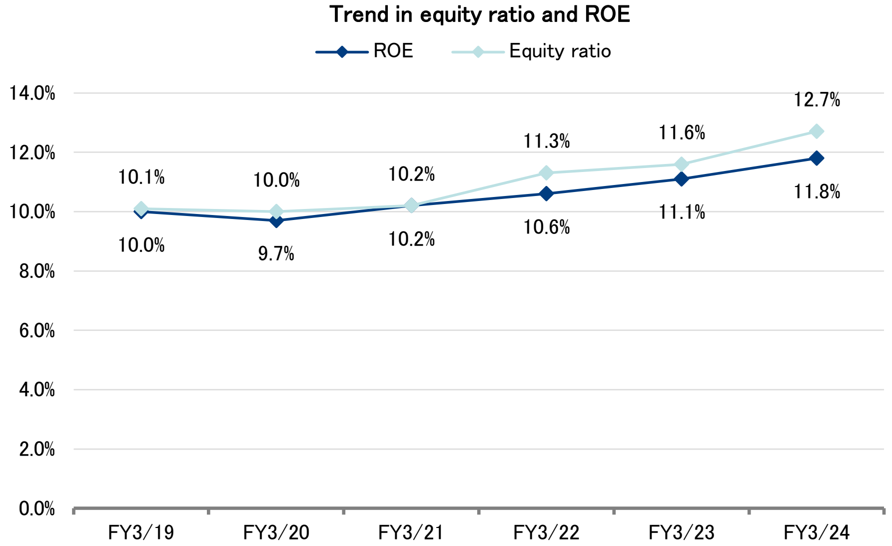
Interest-bearing debt has increased alongside the accumulation of operating assets, but in FY3/24, the equity ratio was secured at a level of over 12%. The Company's range does not compare unfavorably to other companies in the leasing industry, which possesses large amounts of highly liquid operating 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 (annualized) ÷ operating assets (average balance)
Source: Prepared by FISCO from the Company's results briefing materials



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 FY3/24 results

In the FY3/24 results, operating profit increased 16.5% YoY to ¥60.0bn, ordinary profit rose 14.5% to ¥68.4bn, and profit attributable to owners of parent grew 21.3% to ¥47.2bn, and every profit item increased and set new record highs*.

> * Ordinary profit marked a new record high for the seventh consecutive period, while profit attributable to owners of parent marked a new record high for the ninth consecutive period.

Profit before interest expenses (gross profit before deducting interest expenses), which shows true business performance, grew steadily, increasing 18.8% YoY to ¥128.6bn due to ongoing growth in the growth drivers such as energy & environment, real estate and aircraft.

Ordinary profit also increased significantly, up 14.5% YoY*1, because in addition to the growth of profit before interest expense, there were overlapping special factors of an increase in equity-method investment income*2 and a temporary decrease in retirement benefit costs. Looking by business field, profits temporarily decreased in energy & environment because of a rise in foreign currency interest rates and upfront costs associated with the expansion of the business area. But profits grew in each of mobility, BPO/ICT, real estate, and aircraft, and it can be said that profits are continuing to grow with a good balance, centered on the growth areas.

> *1 Ordinary profit after excluding the special factors (based on actual values) increased 7.9% YoY to ¥64.4bn.
> *2 As a special factor, profits increased alongside the growth of 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. Also, personnel/equipment expenses increased due to the expansion of Group, including the consolidation of Pacific Rim Capital, Inc.* But retirement benefit costs temporarily declined and OHR (overhead ratio: personnel/equipment expenses divided by gross profit) was maintained at a favorable level. The 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 US (mobility domain).

Newly executed contract volume increased significantly by 13.8% YoY to ¥1,742.8bn. 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 6.4% versus the end of FY3/23 to ¥2,877.4bn 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*1 held to the high level of 2.45% (2.27% in the year-earlier period)*2, 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.

*1 Ordinary profit (annualized) ÷ operating assets (average balance)
*2 ROA excluding the previously mentioned special factors (based on actual values) also improved to 2.31%.

For the financial condition, total assets increased 7.6% from the end of the previous period to ¥3,390.3bn, while core capital increased 17.7% to ¥431.7bn due to the accumulation of internal reserves, and as a result the equity ratio improved to 12.7% (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 6.7% versus the end of the previous period to ¥2,682.6bn*1, but the long-term procurement ratio*2 was maintained at 68.4% (63.6% at the end of the previous period).

*1 Against the background of the accumulation of operating assets, funding increased through corporate bonds (including hybrid bonds) and long-term borrowings. The Company is also making progress in diversifying its sources of funding, including by utilizing sustainable financing and concluding a financing agreement with the Japan Bank for International Cooperation. The amount of funds raised through ESG financing was ¥186.3bn (up ¥54.0bn YoY), and its ratio of the long-term funding amount increased to 32% (up 6 percentage points (pt)).
*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 FY3/24 results

(¥bn)

	FY3/23		FY3/24		YoY change	
	Results	% of revenues	Results	% of revenues	Amount	%
Total revenues	688.7		708.5		19.9	2.9%
Profit before interest expenses	108.3	15.7%	128.6	18.2%	20.3	18.8%
Lease	59.4	54.8%	74.2	57.7%	14.8	25.0%
Installment sales	1.2	1.1%	1.1	0.9%	-0.1	-5.7%
Financing	25.0	23.1%	27.5	21.4%	2.5	10.1%
Other	22.6	20.9%	25.7	20.0%	3.0	13.3%
Interest expenses	10.9	1.6%	19.0	2.7%	8.1	73.5%
Gross profit	97.3	14.1%	109.6	15.5%	12.3	12.6%
SG&A expenses	45.8	6.7%	49.5	7.0%	3.8	8.2%
Operating profit	51.6	7.5%	60.0	8.5%	8.5	16.5%
Ordinary profit	59.7	8.7%	68.4	9.7%	8.7	14.5%
Profit attributable to owners of parent	38.9	5.6%	47.2	6.7%	8.3	21.3%
Newly executed contract volume	1,530.8		1,742.8		212.0	13.8%
Financing & Lease	229.1	15.0%	249.0	14.3%	19.9	8.7%
Operating & Lease	232.0	15.1%	358.7	20.6%	126.8	54.7%
Installment sales	21.5	1.4%	26.4	1.5%	4.9	22.9%
Financing & Other	1,048.3	68.5%	1,108.7	63.6%	60.4	5.8%

	As of March 31, 2023		As of March 31, 2024		Change amount	Change %
	Results	%	Results	%		
Operating assets	2,704.5		2,877.4		172.9	6.4%
Financing & Lease	890.8	32.9%	858.7	29.9%	-32.1	-3.6%
Operating & Lease	797.4	29.5%	936.1	32.5%	138.8	17.4%
Installment sales	52.8	2.0%	49.9	1.7%	-2.9	-5.5%
Financing & Other	963.6	35.6%	1,032.7	35.9%	69.1	7.2%

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 FY3/24, the balance of operating assets was ¥194.0bn (up ¥22.7bn from the end of FY3/23), ROA improved to 3.5% (3.4% in the year-earlier period), and ordinary profit increased to ¥6.3bn (up ¥0.6bn YoY). Performance of overseas operating companies was favorable, including that of the newly consolidated Pacific Rim Capital. However, while the delays to deliveries that occurred against the backdrop of the global semiconductor shortage are recovering, a factor behind the lower profits was the normalization of the used-car market. The EV/FCV ownership ratio, which is a non-financial target, remained at only 1.0% (0.7% in the previous period), due to the delay in the spread of EV (the target in the medium-term management plan is 30%) and other factors. In activities, the Company worked on initiatives including collaborating with alliance partners in various areas in the EV domain*1, expanding the logistics area*2, and promoting the mobility business on a global basis*3.

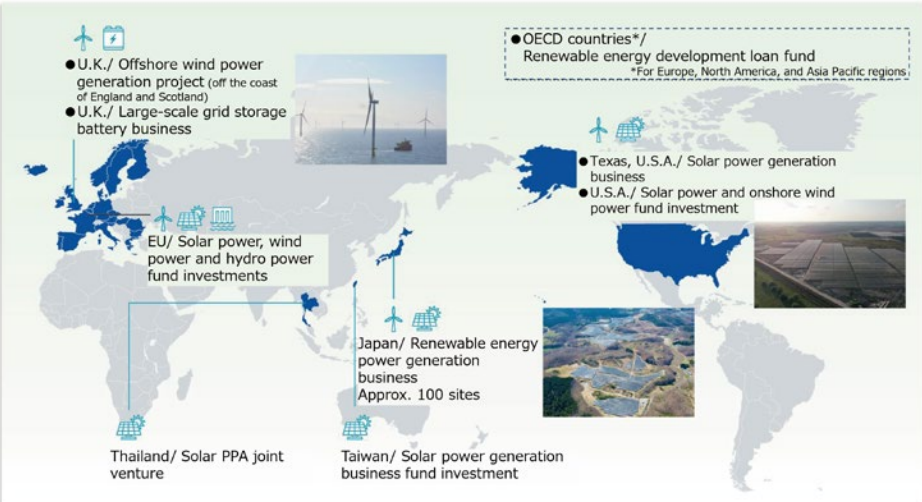
*1 The Company has been expanding its business foundation to provide not only EV vehicles but also one-stop services such as chargers and maintenance networks. Moreover, the Company has embarked on initiatives to support the development and training of auto mechanic human resources involved in EV maintenance 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. In addition, it concluded a capital and business alliance agreement with folofly Co., Ltd., which is a commercial EV manufacturer, in order to promote the spread of EV and to expand EV-related services.
*2 Through a capital and business alliance with PAL Co., Ltd., which is working on DX in the logistics area, the Company promoted the expansion of the logistics solutions area.
*3 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 FY3/24, the balance of operating assets increased substantially to ¥182.0bn (up ¥55.8bn from the end of FY3/23), ROA declined to 1.1% (1.9% in the year-earlier period), and ordinary profit decreased to ¥1.7bn (down ¥0.4bn YoY). The decrease in profits was due to the rise in foreign currency interest rates and also the upfront costs alongside the expansion of the business areas. Renewable energy grew significantly through collaborations with global players, including an offshore wind power project in the UK and renewable energy funds in the European Economic Area (solar PV, wind power, hydropower, etc.) Also, the renewable energy power generation capacity, which is a non-financial target, grew steadily to 705MW (up 190MW on the end of the previous period)*1. In activities, the Company established a local subsidiary in the UK (London) toward business expansion in Europe, where there are an abundance of investment opportunities, while it also expanded initiatives with new alliance partners*2. Domestically as well, it participated in a large-scale grid storage battery business*3 as a joint business with Daiwa Energy & Infrastructure Co. Ltd. and ASTMAX Co., Ltd. <7162>, while it also achieved a certain level of results in new areas like the secondary energy area through initiatives including off-site corporate PPA*4 through a joint business with the TODA Group and the ENERES Group.

*1 The Company is on track to achieve its medium-term management plan target of 1,000MW given the substantial increase to 995MW (up 338MW relative to the end of FY3/23), which includes projects under development.
*2 It invested in a renewable energy development loan fund managed by Copenhagen Infrastructure Partner, which has the world's largest assets under management in the renewable energy sector. It seems the Company is developing collaborations for individual projects through strengthening partnerships with overseas alliance partners, following on from Equitix Investment Management Ltd. and Aquila Capital Holding GmbH.
*3 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.
*4 This is an initiative in which the business operator installs a renewable energy power generation facility outside the customer's premises. It began supplying electricity to MARISSA RESORT sazanseto suo-oshima, which is a resort hotel operated by TOWA KANKO KAIHATSU Co., Ltd., a TODA Group company.

Global expansion of renewable energy power generation business



Source: The Company's results briefing materials

(3) BPO/ICT (AT field)

In FY3/24, ordinary profit increased to ¥4.4bn (up ¥0.9bn on the previous period). Capturing demand relating to the invoice system and the Electronic Ledgers Act contributed to the higher profits. Also, it seems that orders grew for PC rentals against the backdrop of the PC replacement demand in advance of the end of support for Windows10. Going forward also, the Company's policy is to increase profitability by expanding its consulting capabilities through Group synergies and improving its operational efficiency, including through the use of AI. Elsewhere, the amount of work time reduced at customers (compared to FY3/22), which is a non-financial target, steadily increased to 490,000 hours (180,000 hours in the previous period, the medium-term management plan's numerical target is 1,000,000 hours). In activities, the Company concluded a business agreement toward the utilization of AI*1, while various other activities in intra-Group collaborations*2 were also made more active.

*1 It concluded a business agreement with AKARI, which provides DX solutions that make use of algorithms and AI technologies, toward providing high-value-added BPO services that utilize AI, and it is currently jointly implementing PoC (Proof of Concept) for several Group and external companies that are aiming to promote DX (some results have already been achieved).

*2 Includes a collaboration with WorkVision to meet needs to introduce systems in response to the revisions to the invoice system and to the Electronic Ledgers Act.

(4) Healthcare (AT field)

At the end of FY3/24, operating assets had decreased to ¥87.4bn (down ¥0.5bn on the end of the previous period). However, ROA improved slightly to 2.1% (2.0% in the previous period), while ordinary profit was basically unchanged at ¥1.8bn. 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. However, the repayment of the COVID-19 financing from the Welfare and Medical Service Agency will become fully fledged from 2025, so financing demand is expected to increase in the future. Elsewhere, the number of new rooms provided in nursing care facilities for the elderly, which is one of Company's non-financial targets, increased to 763 (up 210 on the end of the previous period, the medium-term management plan's target is 1,330 rooms). In activities, the Group is working on initiatives including implementing Project No.1*1 for the region-specific type healthcare fund formed jointly with the 77 Bank, Ltd. <8341> and the Nihon Keiei Group, while SFC launched a dental hygienist placement service*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 FY3/24, the balance of operating assets was ¥1,093.9bn (up ¥63.4bn 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 ¥31.2bn (up ¥9.0bn 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)

At the end of FY3/24, operating assets had increased significantly to ¥307.9bn (up ¥80.8bn on the end of the previous period), but ROA had fallen slightly to 1.9% (2.0% in the previous period), including due to the recording of an impairment loss arising from a conservative judgment. Ordinary profit increased to ¥5.1bn (up ¥0.9bn on the previous period). There were steady increases in the number of aircraft owned by the Company to 58 (up 9 on the end of the previous period) and other aircraft (managed aircraft, etc.) to 57 (up 2), and progress was made in normalizing the collection of lease fees from airlines, which contributed to the significant increase in profits. Due to the recovery of passenger demand, the ordering environment from airlines is favorable and the number of aircraft is expected to further increase. In activities, the Group continues to build a high-quality portfolio through the selection of projects, while at the same time, it is working to further improve its profitability by promoting a turnover-oriented business that sells aircraft in a flexible manner through adopting a wide range of approaches to lessors and investors both in Japan and overseas.

Results by business field (financial/non-financial)

(¥bn)

	FY3/23 Results	FY3/24 Results	Change
Mobility			
Ordinary profit	5.7	6.3	0.6
ROA	3.4%	3.5%	0.0pt
Operating assets	171.3	194.0	22.7
EV/FCV ownership ratio	0.7%	1.0%	0.3pt
Energy & environment			
Ordinary profit	2.0	1.7	-0.4
ROA	1.9%	1.1%	-0.8pt
Operating assets	126.2	182.0	55.8
Renewable energy power output (MW)	515MW	705MW	190MW
*Figures in parentheses include projects in development	(657MW)	(995MW)	(338MW)
BPO/ICT			
Ordinary profit	3.5	4.4	0.9
ROA	1.7%	2.5%	0.9pt
Operating assets	46.3	51.2	4.8
Customers' work reduction time (compared to FY3/22)	180,000 hours	490,000 hours	310,000 hours
Healthcare			
Ordinary profit	1.8	1.8	0.0
ROA	2.0%	2.1%	0.0pt
Operating assets	87.9	87.4	-0.5
Nursing care facilities for the elderly (number of new rooms provided)	553	763	210
Management support financing for the healthcare market	21.7	22.9	1.2
Real estate			
Ordinary profit	22.2	31.2	9.0
ROA	2.3%	2.9%	0.7pt
Operating assets	1,030.5	1,093.9	63.4
Aicraft			
Ordinary profit	4.2	5.1	0.9
ROA	2.0%	1.9%	-0.1pt
Operating assets	227.1	307.9	80.8
Self-owned aircraft	49	58	9
Other aircraft (management aircraft, etc.)	55	57	2

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

5. Summary of FY3/24

To summarize FY3/24, results were pushed up by special factors of the recording of a large gain on sale and a temporary decrease of retirement benefit costs. But even when based on actual values excluding these factors, results once again set new record highs, while for the future as well, steady progress was made in various areas for initiatives to expand business scope, and the Company can be highly evaluated for achieving both quantitative and qualitative results. In particular, the energy & environment business can be highly evaluated for initiatives that give a sense of upside potential that goes beyond the boundaries of conventional markets, including the significant expansion of the overseas renewable energy business, the creation of a new business model in the EV field in mobility, and the global development of the logistics field. In activities as well, through collaborations with domestic and overseas partner companies and other initiatives, it accelerated the movement toward business expansion in various areas. On the other hand, it will be necessary to pay attention to future developments with regards to the changes on the fund-raising side—namely, the increase in foreign currency fund raising due to the accumulation of overseas assets and the prospect of higher domestic interest rates—although these are not considered to be factors that will change results significantly.

Business outlook

Profits are forecast to decline in FY3/25, but when based on actual values excluding the special factors, the outlook is for profits to continue to increase

1. FY3/25 results outlook

For the FY3/25 results, the Company is forecasting the profits will decline due to the end of the special factors that occurred in the previous period, with operating profit to fall 0.1% to ¥60.0bn, ordinary profit to decline 3.4% to ¥66.0bn, and profit attributable to owners of parent to decrease 4.7% to ¥45.0bn. However, when looking at ordinary profit excluding the special factors (based on actual values), the outlook is for it to continue to increase, rising 2.5%. Also, with regards to the medium-term management plan that is approaching its third year, ordinary profit is expected to hit the upper limit of the plan's interim target (¥64.0bn to ¥66.0bn), so it is reasonable to view the Company as making steady progress.

While domestic interest rates are expected to rise in the second half of the fiscal year, it appears that all of the businesses, including energy & environment, real estate, and aircraft that continue to perform well, and healthcare that is lagging behind in terms of progress made, are expected to accumulate assets with a good balance. In addition, it seems that the growth of BPO/ICT (the expansion of non-asset revenues), for which demand is increasing, will contribute to raising the bottom line.

The outlook is also for ROA to maintain its high level through asset controls that prioritize profitability and the expansion of non-asset earnings.

FY3/25 outlook

(¥bn)

	FY3/24 Results	FY3/25 Forecast	YoY change	
			Amount	%
Operating profit	60.0	60.0	0.0	-0.1%
Ordinary profit	68.4	66.0	-2.4	-3.4%
Profit attributable to owners of parent	47.2	45.0	-2.2	-4.7%

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

2. FISCO's view

While it is necessary to continue to pay attention to the external environment that contains uncertain elements for the future, such as the unstable international conditions and the rise in domestic interest rates, when considering the Company's accumulation of highly profitable assets in real estate, aircraft, energy & environment, and other areas, at FISCO, we consider its results forecasts to be fully achievable. Also, while it is forecasting a decline in profits, this does not necessarily indicate a worsening of results, and in order to avoid making an incorrect investment judgment, it is necessary to be aware that when viewed based on actual values, profits are continuing to increase. From a medium-to long-term perspective, we should focus on the AT fields of energy & environment, BPO/ICT, and healthcare for which the Company is aiming for accelerated growth on ascertaining market trends. In energy & environment, in addition to the potential for global business expansion through strengthening collaborations with powerful partners, it will also be necessary to follow trends in new areas, such as secondary energy in Japan. For BPO/ICT, demand is growing including for improving work efficiency and workstyle reforms, and in addition, with a structure in place that utilizes DX and AI, the Company expects to capture new demand and for profitability to improve. In healthcare whose progress appears to be lagging behind, it seems the key points to it catching up will be the recovery of stagnating financing needs and the timing of this.

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 five-year medium-term management plan, which was started in FY3/23, is approaching its third year. Based on factors such as the progress made so far and the awareness of the environment, the Company has not changed its strategy direction or numerical targets. With Fuyo Shared Value 2026 as its vision, its policy is to aim for sustainable growth by solving societal problems at the same time as realizing economic value through the growth of people and dialogues, while the plan also set both financial and non-financial 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 and progress made

	Base year		2nd year (progress made)		Final year		Change	
	FY3/22 results	% of revenues	FY3/24 results	% of revenues	FY3/27 target	% of revenues	Vs. FY3/22	CAGR
Ordinary profit (¥bn)	52.7		68.4		75.0		22.3	7.3%
RT and AT	10.0	19.0%	14.1	20.6%	25.0	33.3%	15.0	20.1%
GP	21.7	41.2%	36.2	52.9%	30.0	40.0%	8.3	6.7%
General lease & financing	21.0	39.8%	18.0	26.3%	20.0	26.7%	-1.0	-1.0%
ROA	2.1%		2.5%		2.5%		0.44pt	
Equity ratio	11.3%		12.7%		13%-15%		1.7pt-3.7pt	
ROE	10.6%		11.8%		10% or more		-	
Operating assets (Imagined)	¥2.6tn		¥2.9tn		¥3tn		¥0.4tn	
RT and AT	¥0.4tn		¥0.5tn		¥0.8tn		¥0.4tn	
GP	¥1.1tn		¥1.4tn		¥1.3tn		¥0.2tn	
General lease & financing	¥1.0tn		¥1.0tn		¥0.9tn		-¥0.1tn	

Source: Prepared by FISCO from the Company's results briefing materials and new medium-term management plan

Non-financial targets (excerpt) and progress

			2nd year (progress made) FY3/24 results	Final year FY3/27 target
Environment	Decarbonized society	Contribution to CO_2 reduction targets	330,000 t-CO_2/year	500,000 t-CO_2/year
		Amount of investment to progress decarbonization	¥151.3bn	¥300.0bn
		Renewable energy power output	705MW	1,000MW
		Ratio of EV and FCV to number of vehicles owned	1.0%	30.0%
	Recycling-based society	Reuse and recycling rate of returned equipment	100.0%	100.0%
		Waste plastic materials/chemicals recycling rate	45.3%	100.0%
Society and people	Customers' work reduction time		490,000 hours (compared to FY3/22)	1 million hours (compared to FY3/22)
Human resources investment	Human resources developmentrelated expenses (standalone)		249% (compared to FY3/22)	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 pt). The non-financial targets include an EV and FCV ownership ratio of 30% (up 30 pt).

*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 pt).

(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 pt). 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 pt), while the non-financial targets are to reduce customers' work hours by an additional 1 million (up 1 million 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 pt), 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).

* 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 pt) (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 entered its third 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

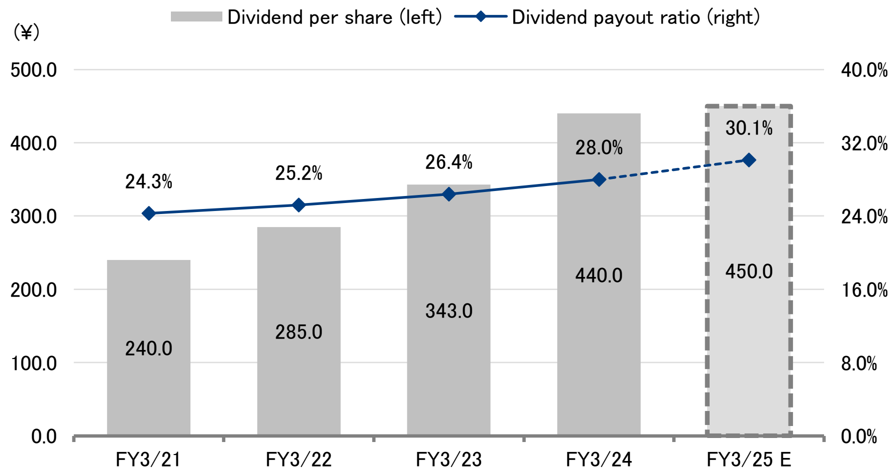
For FY3/25, is forecasting a dividend per share of ¥450, an increase of ¥10 YoY. Expects to achieve the medium-term management plan's dividend payout ratio target of at least 30% two years ahead of schedule

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.

The FY3/24 annual dividend was ¥440 per share (interim dividend ¥195, period-end dividend ¥245, dividend payout ratio 28.0%), which was an upward revision of ¥50 on the initial forecast and an increase of ¥97 YoY. For FY3/25, the Company is forecasting a dividend per share of ¥450 (interim dividend ¥225, period-end dividend ¥225), an increase of ¥10 YoY, and it expects to achieve the medium-term management plan's dividend payout ratio target of at least 30% two years ahead of schedule (forecast dividend payout ratio of 30.1%).

At FISCO, we think there is plenty of room to increase the dividend through profit growth in the future.

Dividend per share and dividend payout ratio



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

FISCO

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