COMPANY RESEARCH AND ANALYSIS REPORT

NEC Capital Solutions Limited

8793

Tokyo Stock Exchange Prime Market

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Summary

The Company is creating new social value as the NEC Group's financial services company

NEC Capital Solutions Limited <8793> (hereinafter, the Company) is an equity-method affiliate of NEC Corporation <6701> that offers leasing, installment and factoring (purchasing sales credits) of information and communications equipment, including NEC products, office equipment, industrial machinery and facilities and other various types of equipment and facilities, as well as lending, and collection agent services. Up until now, it has steadily increased handling of non-ICT products and expanded service areas. Furthermore, it aims to shift to high value-added businesses and pursue diversification with investments and loans, fund formation, and other financial services. The Company also practices "Creating Shared Value (CSV) management," which aims to combine improvement of "social value" with the creation of "economic value" while sustaining growth.

1. FY3/23 results

In the Company's FY3/23 results, revenues were ¥258,107mn (up 3.3% YoY), operating income was ¥11,715mn (up 12.1%), ordinary income was ¥12,440mn (up 8.9%), and profit attributable to owners of parent was ¥6,418mn (down 7.5%). Revenues and gross profit increased YoY due to growth of the Finance Business, Investment Business and Other Business, although the Leasing Business was more or less flat after recording the sale of a large leased asset in FY3/22. Operating income and ordinary income were also up YoY, because SG&A expenses decreased due to an improvement in credit costs. Profit attributable to owners of parent declined YoY due to an increase in profit attributable to non-controlling interests. The Leasing Business, which accounts for almost 90% of total revenues, recorded a 1.4% drop in contracts executed. However, this was due to the execution of large GIGA school projects in FY3/22, and contracts executed were higher YoY adjusted for this factor as a result of a recovery in private-sector demand.

2. FY3/24 forecasts

For the FY3/24 results, the Company forecasts revenues of ¥260,000mn (up 0.7% YoY), operating income of ¥12,000mn (up 2.4%), ordinary income of ¥12,500mn (up 0.5%), and profit attributable to owners of parent of ¥7,500mn (up 16.8%). The Company targets sustained growth in the Leasing Business following an increase in new transactions in FY3/23, reflecting a recovery in demand in the public and private sectors. It also plans to increase earnings of the profitable Finance Business and Investment Business. The Company thinks that higher energy costs and rising prices are unavoidable despite gradual domestic economic recovery because of Russia's long, drawn-out war in Ukraine. While increased credit costs, rising leased asset prices, and higher financing costs are a concern going forward, the Company thinks their impact on its management will be limited, because it does not do much business with smaller companies with a high risk of collapse after pandemic subsidies were withdrawn. With regard to interest rate increases, FISCO plans to follow closely what impact the subtle nuances of the Bank of Japan's monetary policy will have on domestic interest rates and foreign exchange markets, although we think economic conditions are becoming more conducive to customers being more accepting of higher interest rates being passed onto leasing fees.

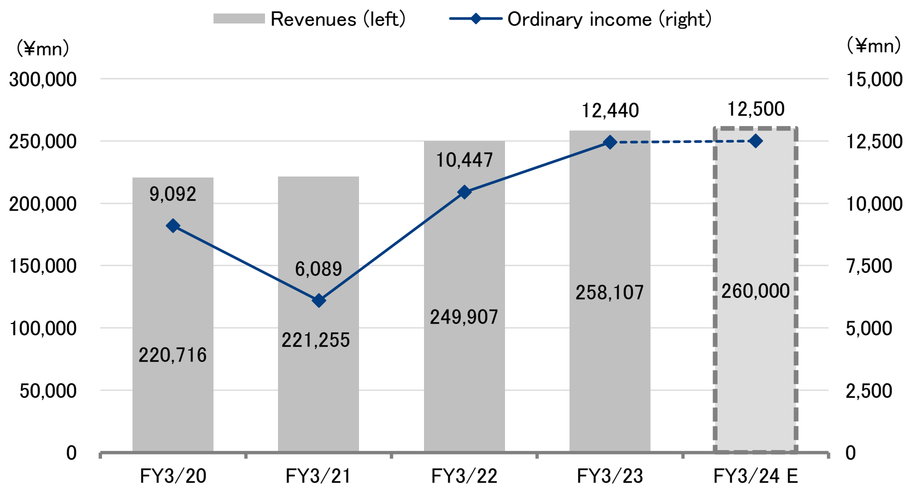
3. Group Vision 2030 and the Medium-term Plan 2025

In April 2023, the Company unveiled its new group vision "Solution Company leading the next-generation circular economy" and Medium-term Plan 2025 (FY2023–FY2025), based on the results of Medium-term Plan 2020. With its previous concept of Creating Shared Value (CSV) management as the foundation, the Company aligned its medium-term plan with SDGs and set 2030 as a target date. The Company aims to realize a "next-generation circular economy" in the years beyond 2030 by providing services beyond the use of leasing in the cyclical use of resources. These services lead to virtuous cycles for the environment and growth, such as those that lead to the cyclical use of products, those that lead to a virtuous cycle for local economies and societies, and those that lead to a virtuous cycle for corporate growth. To this end, the Company has defined three steps to create, develop, and make profitable its own circular services. As the first step, in Medium-term Plan 2025 (FY2023–FY2025) it aims to create services. It set financial three-year targets of profit attributable to owners of parent of ¥10bn, ROA of 0.9%, and ROE of 8%. It also set non-financial targets such as a 20% reduction in CO_2 emissions versus its FY2022 forecast as a benchmark for reducing CO_2 emissions to achieve carbon neutrality, establishing social infrastructure, promoting cyclical use following expansion of ICT businesses, and responding to climate change.

Key Points

- Promotes collaboration with NEC in a strategic partnership
- Double-digit operating profit growth, but net income decline in FY3/23
- Medium-term Plan 2025 targets profit attributable to owners of parent of ¥10.0bn and ROE of 8%
- Taking the lead in a cyclical economy and society that continue to create new added value

Results trends



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

Company overview

Provides services that combine finance with the latest information and communications technologies (ICT)

The Company is an equity-method affiliate of NEC Corporation, which possesses cutting-edge technology such as biometrics and AI. It offers leasing of information and communications equipment, including NEC products centering on ICT (information and communication technology) devices, leasing and installment sales of office equipment, industrial machinery and facilities, other various types of equipment and facilities, factoring (purchasing sales credits), lending, and collection agent services and is expanding its financing services offerings to help companies solve their management issues. In addition to promoting the development of social infrastructure in transactions with government agencies and municipalities, which has been a strength for many years, the Company has steadily increased handling of non-ICT products and expanded service areas with additions of investments and loans, fund formation, and other services and aims to transition to high value-added business.

It has cultivated three strengths of “strategic partnership with NEC,” “wealth of ICT knowledge,” and “broad range of financial solutions.” The Company strives to create and supply high-value-added services that integrate these elements and pursue initiatives to realize CSV management that targets sustainable growth while enhancing “social value” and generating “economic value.” Through the practice of CSV management, the Company aims to realize a “next-generation circular economy” by providing services that lead to a virtuous cycle of environment and growth.

The Company started in 1978 as an entity handling sales financing for NEC products. Since its founding, it has supplied a menu of financing services centered on leases for various kinds of equipment and facilities such as ICT. It was listed on the Tokyo Stock Exchange’s Second Section (TSE-2) Market in 2005 and was transferred to the First Section (TSE-1) Market in 2006. It moved to the new market category known as the Prime Market in April 2022 due to the reevaluation of new market classifications. After broadening the scope of financial solutions, it changed the company name to NEC Capital Solutions Limited in 2008. The Company formed a capital and business alliance with RISA Partners, Inc.* in 2009 and promoted a shift to higher value-added business. It actively diversified business even during economic slowdowns from the global financial crisis and Great East Japan Earthquake.

* The Company acquired RISA Partners, Inc. as a wholly owned subsidiary in December 2010.

History

Date	History
November 1978	NEC Leasing, Ltd. started operation of finance lease and installment sales transactions primarily of information related equipment. (with a capitalization of ¥72mn.)
March 1979	Joined the Japan Lease Association as an associated member.
September 1979	Capital increased to ¥100mn.
September 1987	Joined the Japan Lease Association as a regular member.
April 1989	Capital increased to ¥400mn.
March 1996	Outstanding value of active assets (purchase price basis) surpassed ¥1,000,000mn
May 1999	Capital increased to ¥800mn.
December 1999	Obtained "ISO14001" certification, international standard for environmental management systems.
February 2002	Changed name to NEC Leasing, Ltd.
July 2004	Capital increased to ¥1,041mn.
February 2005	Capital increased to ¥3,776mn. Listed in the Second Section of the Tokyo Stock Exchange.
March 2006	Listed in the First Section of the Tokyo Stock Exchange. Obtained "ISO27001" certification, international standard for Information Security Management Systems (ISMS).
October 2007	Established NL Asset Service, Ltd.
April 2008	Established Reboot Technology Services.
November 2008	Changed name to NEC Capital Solutions Limited.
December 2010	Acquired RISA Partners Inc.
April 2012	Changed the name of Asset Service, Ltd. to Capitech Limited. Established Innovative Venture Fund Investment Limited Partnership.
December 2012	Established NEC Capital Solutions Singapore Pte. Limited.
December 2013	Established NEC Capital Solutions Malaysia Sdn. Bhd.
October 2015	Reboot Technology Services merged Capitech Limited and changed the name to Reboot Technology Services and Capitech Limited.
September 2018	Obtained "ISO9001" certification, international standard for Quality Management System. (Government, Public and Social System Sales Division)
April 2020	Obtained Privacy Mark certification
November 2020	Made NEC Financial Services, LLC, of the US a consolidated subsidiary
April 2022	Moved to the TSE Prime Market in conjunction with the Tokyo Stock Exchange's revision of its market classifications

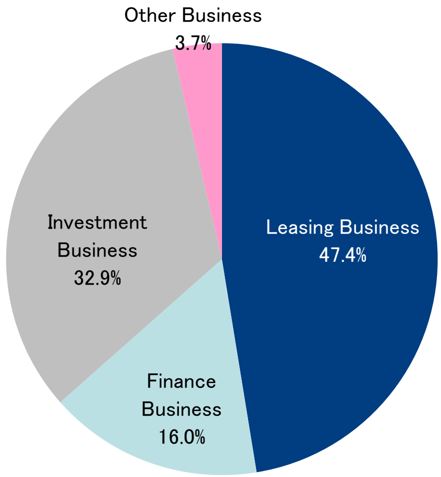
Source: Prepared by FISCO from the Company's website

Business overview

In addition to a wide range of financial services, has ICT knowledge acquired from the experience of many years of transactions. Has a lot of track record of transactions with government agencies and municipalities throughout the country, and RISA Partners has a network of regional financial institutions nationwide.

The Company provides a broad range of financial solutions from leases to corporate loans, securitization, and fund formation and equity investments. The Company has grown while closely collaborating with NEC due to its history of being established to handle sales financing services for NEC products. In the case of transactions with government agencies and municipalities, which account for the majority of contracts executed by industry (based on FY3/23 results), NEC and other vendors deliver solutions that utilize ICT technology to improve business efficiency and enhance the quality of public services. The Company supports these solutions financially with contract formats tailored to single fiscal-year budgets of government agencies and municipalities. It has transactions with government agencies and municipalities, and these are key components of the customer base as seen in its roughly 30 sites around the country and registration as a designated bidder with about 1,800 local entities. The Company has accumulated knowhow on the work process and other characteristics of government agencies and municipalities through experience in transactions over many years, and it is leveraging those strengths in the PFI and PPP (formats for private-sector participation in provision of public services) business. In contracts executed by product type in FY3/23, ICT equipment accounted for roughly 80%, reflecting the Company's strength in ICT equipment due to its history of having grown alongside NEC. The Company has assembled operations that meet a variety of customer requests, including provision of services that integrate its experience with ICT transactions over many years and financial services such as PIT Managed Service that provides from deployment to management and operation of ICT equipment utilizing a service-fee payment format.

Operating income by business segment (FY3/23)



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

In light of the expansion of its business areas, beginning in 1Q of FY3/22, the Company changed its reporting segments to reflect the reality of its business more accurately. The Leasing and Installment Sales Business was renamed the Leasing Business, while consolidation of profit and loss items related to leasing, previous classified under Other Business, will more accurately present profit and loss in the Leasing Business. Meanwhile, the RISA Business was renamed the Investment Business, consolidating investment business aside from RISA Partners. The aim is to have a precise understanding of segment profit and loss status in consolidated management. Note that the composition of gross profit (based on FY3/23 results) will be 47.4% from the Leasing Business, 16.0% from the Finance Business, 32.9% from the Investment Business and 3.7% from Other Business.

(1) Leasing Business

Leasing, rental and installment sales of information and office equipment, industrial and civil engineering and construction equipment, and other equipment. Handles buying/selling of goods, property sales related to leasing contract completion and early terminations, leased equipment maintenance services and others.

(2) Finance Business

Finance Business handles money lending business, factoring business, and investment business for securities owned to obtain business purpose income. It loans funds to established specific purpose companies (SPC), and it also provides funds in the form of investing in SPCs.

(3) Investment Business

Invests in venture companies, etc. with the objective of receiving gains from the sale of securities. Subsidiary RISA Partners will develop business in corporate investment, credit investment, real estate, financial services and the advisory business.

(4) Other Business

New businesses in the fields of energy, tourism, agriculture and healthcare. It also promotes PFI and PPP (formats for private- sector participation in provision of public services) business with support from the customer base of government agencies and municipalities cultivated in Leasing Business. It mainly participates in projects in forms such as constructing structures optimized for businesses, supporting fund raising with low interest rates, and preparing proposals for government agencies and municipalities.

Strength

Collaborates with NEC in a strategic partnership. Half of its customer base is government agencies and municipalities and it has wealth of ICT knowledge

The Company provides services that combine its three strengths, which are “a strategic partnership with NEC,” “wealth of ICT knowledge,” and “a broad range of financial solutions.” It has a strategic partnership with NEC that stems from being established to handle sales financing of NEC products and having grown while collaborating with NEC. The fact that government agencies and municipalities comprise half of the customer base, which is one of the Company’s main characteristics, is also related to its background of having grown alongside NEC. The Company has extensive knowledge related to ICT as evidenced by the presence of ICT equipment as almost 80% of executed lease contract value (FY3/23 results; contracts executed by equipment type). It hence goes beyond just leasing to provision of a wide range of service utilizing broad knowhow, including procurement and installation as well as operation and management of ICT equipment. It also delivers services coordinated to lifecycle management to meet rising needs because ICT equipment, an area with rapid technology innovation, has a higher frequency of upgrades to the latest model than other equipment. Additionally, it supports one-stop provision of peripheral businesses related to ICT products (above-mentioned PIT Managed Service) via group member Reboot Technology Services and Capitech Limited (CRTS) that handles ICT equipment kitting (set-up work for installing PCs and other products) and sales of ICT-related equipment that has finished the lease period.

Image of the business model

Source: Company’s website

Another strength is provision of a broad range of financial solutions. The Company offers financing programs designed from the standpoint of manufacturers and sales companies, such as vendor finance that supports product sales by manufacturers and sales companies including the customer payment method. It is bolstering its service menu as a financial services company engaged in corporate loans, securitization, fund formation, and equity investments. RISA Partners, a professional services company in investments and loans and advisory services, delivers solutions that combine "investments and loans" as capital assistance and "advisory" as advice on financing, real estate, and other matters from an expert perspective. FISCO sees growth opportunities from expansion of business scope considering the different customer bases of RISA Partners, which has a network with regional financial institutions, and the Company, which focuses on government agencies and municipalities, and ordinary companies.

The Company has been involved in the venture fund business since 2012, investing in venture companies. In 2012, it established the Innovative Venture Fund Investment Limited Partnership to invest in venture companies with strengths in technology; in 2016 and 2018, it established the CSV Venture Fund and the CSV Venture Fund 2, respectively, with investments targeting venture companies in the social solutions field. The Company has successfully completed multiple exits (sales) via IPO and M&A. Having acquired knowledge and established a solid track record through investments in venture companies, the Company established a new fund in February 2022 called NVC1 fund. It invests in startups in solutions and services whose main focus is to solve social problems, materials and device technologies that contribute toward pioneering new technologies, and new business areas such as digital transformation (DX) and responding to climate change.

Results trends

Revenues and ordinary income rose in FY3/23 driven by growth of Investment Business

1. FY3/23 results

In the Company's FY3/23 results, revenues were ¥258,107mn (up 3.3% YoY), operating income was ¥11,715mn (up 12.1%), ordinary income was ¥12,440mn (up 8.9%), and profit attributable to owners of parent was ¥6,418mn (down 7.5%). The Company upwardly revised its forecast in January 2023, because gross profit of the Leasing Business and Finance Business and earnings of the Investment Business were likely to surpass initial expectations, but after announcing the upward revision, the Company accrued credit costs in the Leasing Business and Investment Business. As a result, revenues declined 0.7% YoY, operating income fell 9.9%, ordinary income was down 7.8%, and profit attributable to owners of parent fell 14.4%.

In FY2022, despite deepening uncertainty associated with Russia's war in Ukraine, rising food and energy prices and global economic slowdown, social and economic activity in Japan returned to normal as COVID 19-related restrictions were relaxed, resulting in gradual economic recovery. Japan Leasing Association statistics show that total lease transaction volume grew 2.2% YoY in FY2022 to ¥4,310.6bn increasing for the first time in three years.

FY3/23 results

(¥mn)

	FY3/22 Results	FY3/23	
		Results	YoY
Revenues	249,907	258,107	3.3%
Operating income	10,447	11,715	12.1%
Ordinary income	11,422	12,440	8.9%
Profit attributable to owners of parent	6,939	6,418	-7.5%

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

Under these conditions, contracts executed in the Leasing Business declined 1.4% YoY, but this is mainly due to recording large GIGA school projects in FY3/22. Adjusted for this factor, contracts executed were up YoY. New transactions in the Leasing Business grew in both the public and private sectors for an increase of 8.7% YoY overall.

Earnings by business

(¥mn)

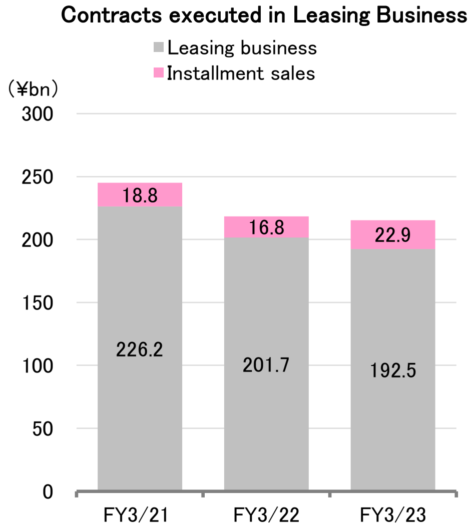
		FY3/22	FY3/23	YoY
Leasing Business	Revenues	224,200	224,307	0.0%
	Gross profit	16,570	16,607	0.2%
	Operating income	7,120	6,368	-10.6%
Finance Business	Revenues	5,219	6,569	25.9%
	Gross profit	4,142	4,830	16.6%
	Operating income	-655	2,154	-
Investment Business	Revenues	16,366	22,813	39.4%
	Gross profit	9,570	8,833	-7.7%
	Operating income	5,395	4,412	-18.2%
Other Business	Revenues	4,180	4,462	6.8%
	Gross profit	1,451	1,677	15.6%
	Operating income	275	493	79.3%
Total	Revenues	249,907	258,107	3.3%
	Gross profit	31,701	31,920	0.7%
	Operating income	10,447	11,715	12.1%

Note: Information on financial results segments excluding adjustment amounts
Source: Prepared by FISCO from the Company's financial results and results briefing material

2. Results trends by business

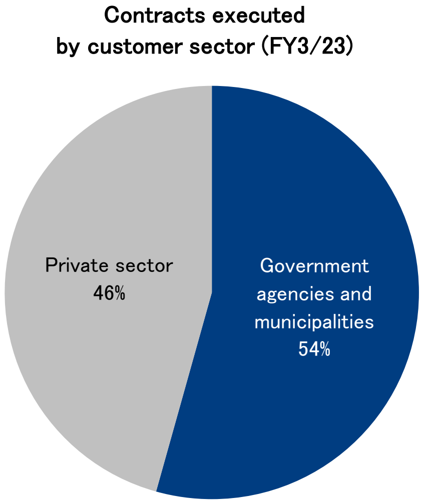
In the Leasing Business, revenues came to ¥224,307mn (up 0.0% YoY) and gross profit was ¥16,607mn (up 0.2%), little changed from FY3/22 despite the sale of large leased asset a year earlier. Operating income was ¥6,368mn (down 10.6%) due to a rise in credit costs and personnel expenses. Contracts executed totaled ¥215.4bn (down 1.4%) and new transactions in the leasing business totaled ¥220.6bn (up 8.7%). The main factor behind the decline in contracts executed was, as previously stated, a spike in demand associated with GIGA school projects in FY3/22, but adjusted for this factor, they steadily increased by approximately 5% YoY.

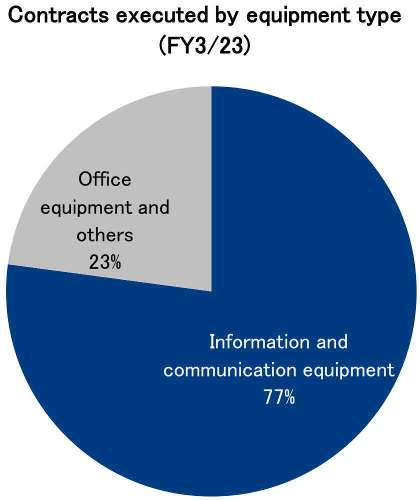
Results trends



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

The percentages of Leasing Business contracts executed by customer sector were 54% (58% in FY3/22) for government agencies and municipalities, and 46% (42%) for the private sector (service industry, distribution industry, manufacturing industry, and other), resulting in an increase to the percentage of private demand, while the percentages of contracts executed by equipment type were 77% (78%) for information and communications equipment (Computer Hardware, Computer Software, Telecommunications Equipment), and 23% (22%) for office equipment and other. The share of information and communications equipment decreased, because contracts executed for Computer Software (which has a large weighting) turned down, although those for Telecommunications Equipment increased.

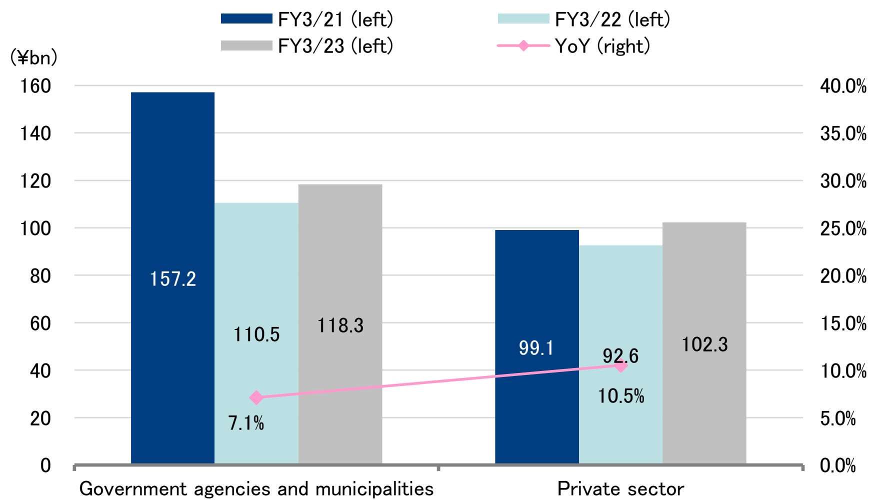




Source: Prepared by FISCO from the Company's results briefing material

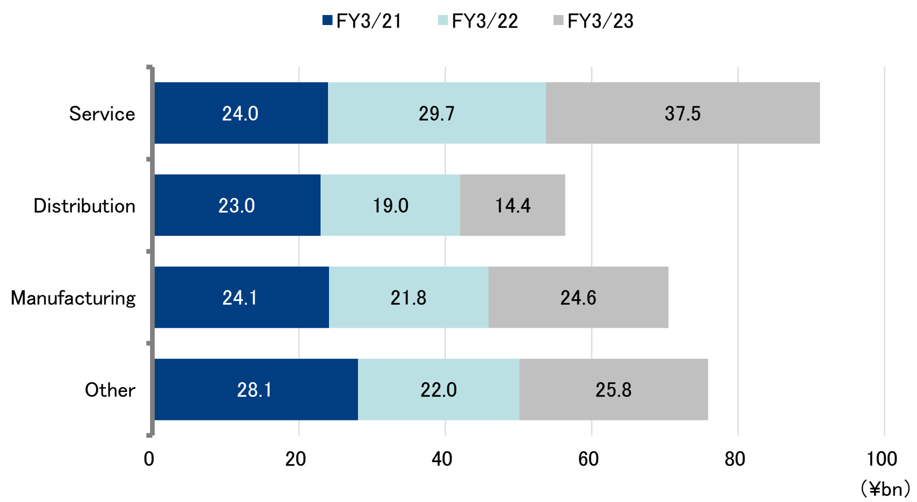
The volume of contracts with government agencies and municipalities contracted 8.3% YoY because of the dropout of GIGA school project-related demand. For the private sector, although the number of contracts with the service industry grew 16.8%, manufacturing industry's increased 16.4%, and the volume of contracts with other industries grew 14.4%, the distribution industry's contracted 20.0%. However, new transactions in the Leasing Business were up YoY in the public and private sectors. In the private sector, new transactions in the Leasing Business grew 26.4% YoY for the service industry, 12.5% for the manufacturing industry, and 17.1% for other, but declined 24.2% for the distribution industry.

New transactions in the Leasing Business by sector



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

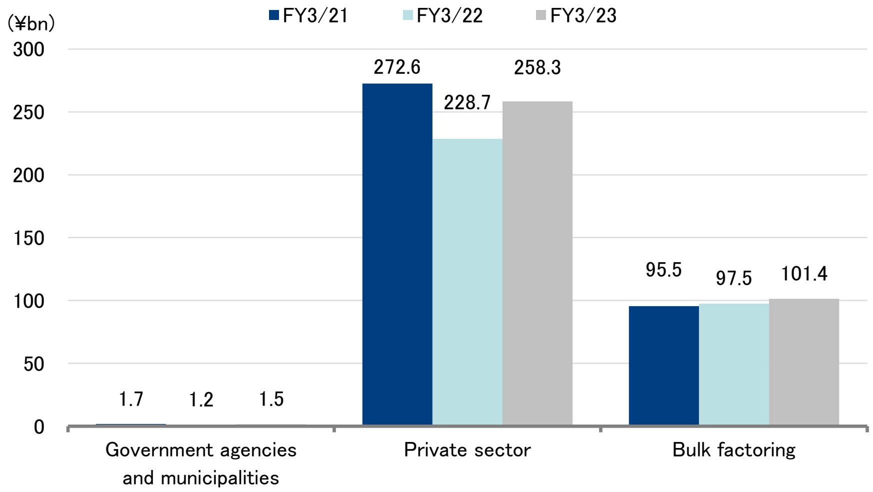
Detail of new transactions in the Leasing Business by sector (Private sector)



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

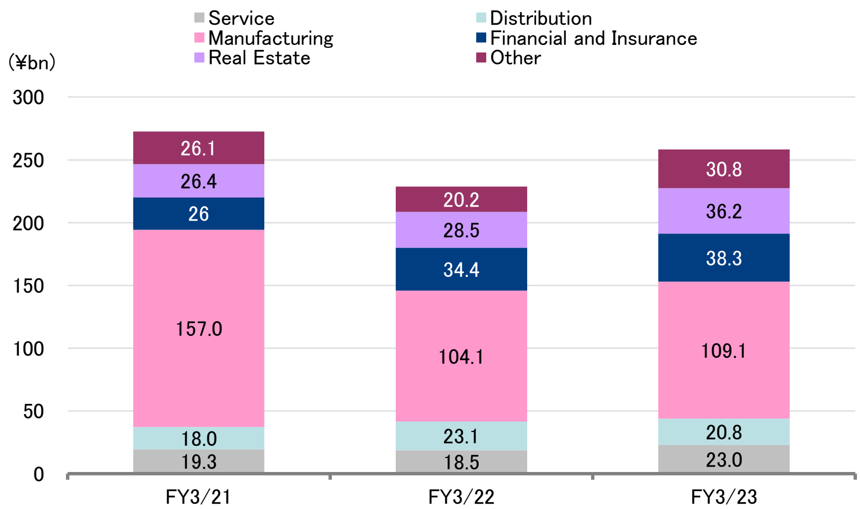
In the Finance Business, revenues were ¥6,569mn (up 25.9% YoY), with gross profit of ¥4,830mn (up 16.6%) due to an increase in interest income. For operating income (loss), the Company recorded ¥2,154mn, up ¥2,809mn YoY due to a loss recorded in the previous fiscal year. This is mainly due to increases in contracts executed and assets (mostly factoring business and corporate loans), and a decrease in credit costs. In the private sector, operating income was up across all industries except the distribution industry, which has seen a drop in overseas projects.

Contracts executed in Finance Business



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

Contracts executed in Finance Business (Private sector)



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

In the Investment Business, the sale of a large property (real estate for sale) boosted revenues by 39.4% YoY to ¥22,813mn. However, operating income fell 18.2% to ¥4,412mn on decreases in significant dividend earnings from real estate companies recorded in FY3/22 and profit from exiting investments in venture companies, in addition to increased credit costs.

Investment Business change

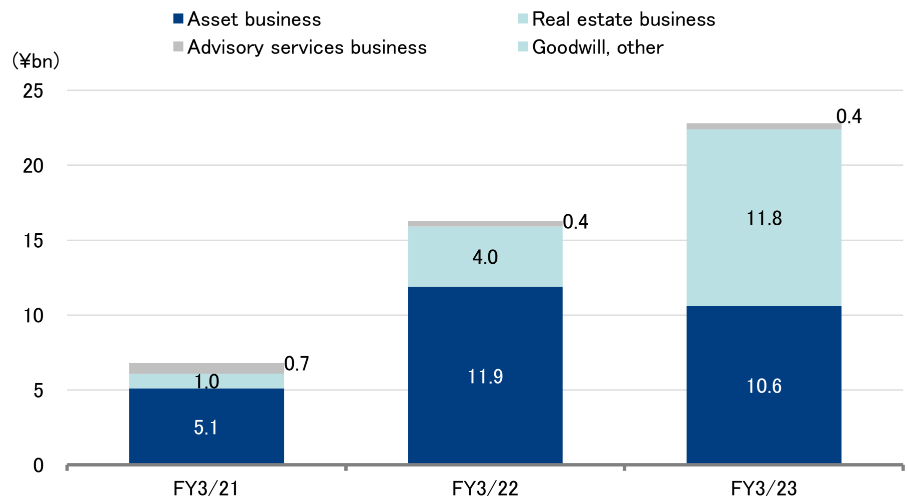
(¥bn)

		FY3/21	FY3/22	FY3/23	YoY
Asset business	Revenues	51	119	106	-10.9%
	Gross profit	37	67	65	-3.0%
	Operating income	12	36	32	-11.1%
Real estate business	Revenues	10	40	118	195.0%
	Gross profit	8	25	20	-20.0%
	Operating income	4	20	14	-30.0%
Advisory services business	Revenues	7	4	4	0.0%
	Gross profit	7	4	4	0.0%
	Operating income	2	-1	-1	-
Goodwill, other	Revenues	0	0	0	-
	Gross profit	0	0	0	-
	Operating income	-11	-1	-0	-
Consolidated basis Total	Revenues	68	164	228	39.4%
	Gross profit	52	96	88	-7.7%
	Operating income	7	54	44	-18.2%

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

The asset business posted lower revenues and profits. Revenues were ¥10.6bn (down 10.9% YoY) and operating income was ¥3.2bn (down 11.1%) due to reduced profit from exiting multiple investments in venture companies that were recorded in the previous fiscal year. The real estate business recorded sharply higher revenues of ¥11.8bn (up 195.0% YoY), because it sold a large property (real estate for sale), but operating income was ¥1.4bn (down 30.0%) after booking large dividend income in FY3/22. The advisory business posted flat YoY earnings, with revenues of ¥0.4bn and operating loss of ¥0.1bn. For goodwill, other, amortization of goodwill ended in FY3/22.

Investment Business change

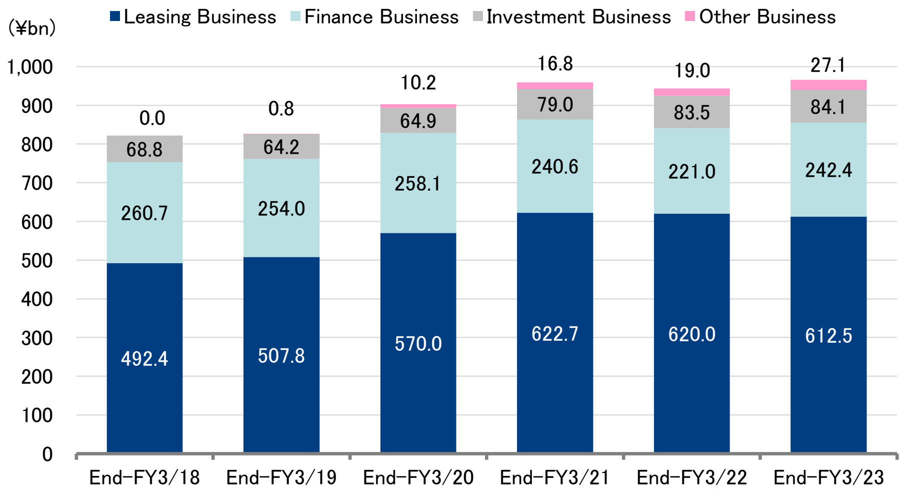


Source: Prepared by FISCO from the Company's results briefing material

3. The operating asset balance situation

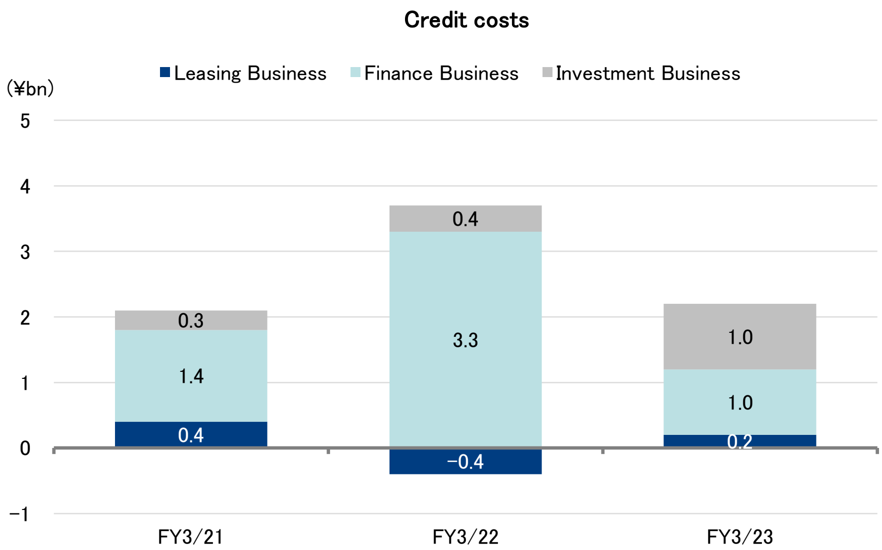
The operating asset balance increased by ¥22.7bn YoY to ¥966.1bn in FY3/23, breaking down as follows. The operating asset balance was down ¥7.5bn YoY to ¥612.5bn for the Leasing Business, although it was flat in real terms because of the sale of the large leased asset in FY3/22. The Finance Business increased its assets, mainly in the factoring business and corporate loans, with an operating asset balance of ¥242.4bn (up ¥21.4bn YoY). The operating asset balance for the Investment Business was largely unchanged from the previous fiscal year at ¥84.1bn, despite the sale of a large property due to an increase in investment securities. The Other Business increased its operating asset balance to ¥27.1bn (up ¥8.1bn) as a result of acquiring a healthcare facility and other factors.

Operating asset balance situation



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

Credit costs improved overall, increasing in the Leasing Business and Investment Business, but contracting a sharp ¥2.3bn in the Finance Business.



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

Outlook

Accelerate efforts to improve profitability and promote sustainability management to realize next-generation circular economy

1. FY3/24 forecasts

For FY3/24 results, the Company forecasts revenues of ¥260,000mn (up 0.7% YoY), operating income of ¥12,000mn (up 2.4%), ordinary income of ¥12,500mn (up 0.5%), and profit attributable to owners of parent of ¥7,500mn (up 16.8%). The Company targets sustained growth in the Leasing Business following an increase in new transactions in FY3/23, reflecting a recovery in demand in the public and private sectors. It also plans to increase earnings of the profitable Finance Business and Investment Business. The Company thinks that higher energy costs and rising prices are unavoidable despite gradual domestic economic recovery because of Russia's long, drawn-out war in Ukraine. While increased credit costs, rising leased asset prices, and higher financing costs are a concern going forward, the Company thinks their impact on its management will be limited, because it does not do much business with smaller companies with a high risk of collapse after pandemic subsidies were withdrawn. With regard to interest rate increases, FISCO plans to follow closely what impact the subtle nuances of the Bank of Japan's monetary policy will have on domestic interest rates and foreign exchange markets, although we think economic conditions are becoming more conducive to customers being more accepting of higher interest rates being passed onto leasing fees.

FY3/24 forecasts

(¥mn)

	FY3/23 Results	FY3/24	
		Forecast	YoY
Revenues	258,107	260,000	0.7%
Operating income	11,715	12,000	2.4%
Ordinary income	12,440	12,500	0.5%
Profit attributable to owners of parent	6,418	7,500	16.8%

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

2. Group Vision 2030 and the Medium-term Plan 2025

(1) Review of Medium-term Plan 2020

In 2013, the Company formulated a Group Vision looking 10 years ahead with the goal "to be a global solution service company that aims to enhance social value with customers" and worked through three Medium-term Plans in 10 years, building on each one. In the final year of Medium-term Plan 2020 (FY3/21–FY3/23), the Company attracted COVID 19-related demand mainly in the Leasing Business and attained quantitative financial targets such as three-year total profit attributable to owners of parent of over ¥17.0bn and ROA of 1.3%. Its external credit rating by Rating & Investment Information, Inc. (R&I) and Japan Credit Rating Agency (JCR) also improved to A- and A, respectively. With regard to the business strategy of expanding core areas, the Company created service models based on collaboration with partners mainly in the NEC Group, did more business with foreign ICT companies, and established new service foundations with vendors, including making NEC Financial Services LLC of the US a subsidiary. As well, in the Investment Business, the Company recorded profit from exiting several investments in companies (including ventures) by IPO and other means and from the sale of properties (real estate for sale), which made a large contribution to earnings. It also worked on harvesting new businesses. For example, in healthcare, the Company made a profit by building up assets in the warehousing business and selling them to REITs. In the area of energy, in April 2022 the Company established the Renewable Energy Business Division to expand power purchase agreement (PPA) services. Although it promoted a range of initiatives in the areas of tourism and agriculture, turning them profitable remains a challenge.

Management goals in the Medium-term Plan 2020

(¥mn)

	FY3/21 results	FY3/22 results	FY3/23 results	FY3/23 Medium-term Plan goals
Operating income	5,965	10,447	11,715	11,000
Ordinary income	6,089	11,422	12,440	12,000
Profit attributable to owners of parent	4,118	6,939	6,418	7,500

Source: Prepared by FISCO from the Company's financial results, results briefing material, and the Medium-term Plan 2020 materials

Cumulative period of the Medium-term Plan 2020

(¥mn)

	FY3/21	FY3/22	FY3/23	Three-year total
Management goals in the Medium-term Plan 2020	4,000	5,500	7,500	17,000
Results of profit attributable to owners of parent	4,118	6,939	6,418	17,475

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

With regard to the business strategy of expanding core areas, the Company made progress with creating service models based on collaboration with partners mainly in the NEC Group and establishing new service models with foreign ICT vendors targeting healthcare and ICT equipment. It also built a new service foundation with vendors, such as making NEC Financial Services LLC of the US a subsidiary. In the Investment Business, the Company recorded profit from exiting several investments in companies (including venture companies) by IPO and other means and from the sale of properties (real estate for sale), which made a large contribution to earnings. In terms of harvesting new businesses, the Company made its healthcare warehousing business profitable by acquiring assets and selling them to REITs. It is also making progress with turning the PFI business profitable, winning an order in December 2022 as a consortium for Kasai Rinkai Aquarium (provisional name) construction project – its second as a representative company project. In the area of energy, in April 2022 the Company established the Renewable Energy Business Division to expand the range of power purchase agreement (PPA) services. The areas of tourism and agriculture on the other hand have been badly impacted by the COVID-19 pandemic, and turning them profitable remains a challenge.

In the area of strengthening the management foundation to support its business strategy, integrated management consulting firm ABeam Consulting Ltd. announced ABeam Cloud Asset & Finance Platform in February 2022. It is a shared business platform to support the business transformation of the whole leasing industry. The Company began development of the platform in collaboration with ABeam Consulting (the first scheduled user). In April 2022, the Company was recognized by the Ministry of Economy, Trade and Industry (METI) as a DX-certified operator under the ministry's DX Certification Initiative. As well, the Company provided a teleworking environment for all employees and carried out work style reviews as initiatives to improve employee satisfaction and engagement. It also received the Ministry of Health, Labour and Welfare's Eruboshi* certification and was selected as an "Health & Productivity Management Outstanding Organization 2023" by METI and Nippon Kenko Kaigi (March 2023).

* A certification system under the Act on Promotion of Female Participation and Advancement in the Workplace. Eruboshi certification is awarded by the Minister of Health, Labour and Welfare to companies that formulate, register, and submit an action plan, and make strong progress with implementing the plan. The Company obtained the second level of certification in 2017, and in October 2021, it obtained the third (upper) level of certification by satisfying five criteria (in recruiting; continued employment; working hours; ratio of women in management; and diverse career tracks).

In addition, as recognition of efforts to strengthen sustainability initiatives, the Company received the top ranking for the 19th consecutive year in the Development Bank of Japan (DBJ) Environmentally Rated Loan Program. The program uses a proprietary screening system developed by DBJ that evaluates companies' non-financial information and provides loans to selected companies. The Company also obtained an AAA rating for ESG/SDGs (positive impact-type) evaluated financing by Sumitomo Mitsui Banking Corporation (SMBC) and Japan Research Institute (JRI) and signed a loan agreement based on the rating. This is an investment product that complies with the Principles for Positive Impact Finance formulated by the United Nations Finance Initiative (UNEP FI). We think these measures help to diversify sources of funding as well as strengthening the Company's sustainability efforts.

(2) Group Vision 2030 and the Medium-term Plan 2025

In April 2023, the Company unveiled its new group vision "Solution Company leading the next-generation circular economy" and Medium-term Plan 2025 (FY3/24–FY3/26), based on the results of Medium-term Plan 2020. With its previous concept of Creating Shared Value (CSV) management as the foundation, the Company aligned its Medium-term Plan with SDGs and set 2030 as a target date. Its "next-generation circular economy" looks beyond 2030, assuming not only reducing environmental impact by using resources more efficiently, but also a circular economy and society that continues to create new value through the cyclical use of resources.

"Solution Company" assumes the implementation of the "Capital Solution" principle stated in the Company's name and corporate philosophy. The Company aims to innovate solutions in vendor finance, ICT services, and financial products in Japan and overseas, and work on the expansion of not only conventional business segments but also peripheral realms, and venturing to create new business opportunities and "circular economy-oriented" services. The word "company" here means a business organization and a group of colleagues (partners) that shares the same values.

The Company envisions the following three services in addition to the adoption of environment-friendly products and cyclical use of resources through sophisticated 3Rs (reduce, reuse, recycle) that it has implemented in the Leasing Business so far. They are: 1) services that lead to cyclical use of products, such as sharing; 2) those that lead to a virtuous cycle for local economies and societies; and 3) those that lead to a virtuous cycle for corporate growth. The Company aims to deliver these services, which will lead to a virtuous cycle of environment and growth, to realize its vision of a next-generation circular economy. It redefined as material issues (important issues) in making this happen the content of business activities and the management foundation that supports them, which it formulated 10 years ago, in view of a recent shift in its approach to sustainability. For business activities, its material issues are decarbonization, promotion of a circular economy, the establishment of social and ICT infrastructure, and creation of new services and businesses to solve social issues. For the management foundation, material issues are investment in human capital and pursuit of corporate governance that supports improved corporate value.

Material issues (important issues) to achieve the Group Vision 2030

	Previous material issues
Business activity	Expanding the revenue base • Strengthen the partnership with NEC • Reinforce our base for funding • Expand our customer base • Expand our global business • Create new businesses
Business capability	Strengthening business capability • Improve employee satisfaction
Business capability	Strengthening business capability • Improve operational quality • Ensure compliance

	Material issues	Group's initiatives
Business activity	Promotion of decarbonized society and circular economy	• Response to climate change • Reinforcement and creation of services for a circular economy
Business activity	Promotion of establishment of social and ICT infrastructure	• Establishment of social and ICT infrastructure
Business activity	Creation of new services and businesses to resolve social issues	• Revitalization of local communities and economies • Response to aging society
Management foundation	Investment in human capital	• Improvements to engagement • Ensuring diversity of HR Realizing health management • HR and organization development to achieve sustainable growth • Workstyle reforms utilizing technology
Management foundation	Pursuit of corporate governance that supports improved corporate value	• Respect for human rights • Improved effectiveness of corporate governance • Thorough compliance • Enhancement of risk management

Source: Reference materials for presentation on Group Vision 2030 and Medium-term Plan 2025

To realize its Group Vision, the Company has defined three steps to create, develop, and establish revenue in its own circular services. In the first stage (Medium-term Plan 2025 (FY3/24–FY3/26)), it aims to create cyclical services. In the third fiscal year, FY3/26, it set financial targets of net income of ¥10bn, ROA of 0.9%, and ROE of 8%. As a non-financial target, the Company aims for a 20% reduction in CO_2 emissions versus its FY3/26 forecast as a benchmark of CO_2 emissions reduction to achieve carbon neutrality, establishment of social infrastructure, cyclical use following expansion of ICT business, and responding to climate change.

Management objectives (financial and non-financial)

	Results in FY ended March 2023	Medium-term Plan 2025 Targets: FY ending March 2024 Medium-term Plan	Medium-term Plan 2025 Targets: FY ending March 2026 Medium-term Plan
Net income	¥6.4bn	¥7.5bn	¥10bn
ROA*	0.7%	0.7%	0.9%
ROE	6%	7%	8%

* Consolidated net income / average balance for consolidated operating assets

	Objective	Description	Forecast FY ending March 2023	Target FY ending March 2026
Environmental and social issues	CO2 reductions to achieve carbon neutrality	Scope 1+2: Rate of decline compared to FY22 forecasts	156t-CO_2	20% reduction
	Establishment of social infrastructure	Cumulative contracts over three-year period for government offices and local governments	¥122bn	¥400bn
	Promotion of cyclical use following expansion of ICT business	Total number of disposals of products whose lease has ended over three-year period	200,000 units	700,000 units
	Promotion of response to climate change	Renewable energy power generation capacity (power generators owned)	43.5MW	100MW
	Promotion of activities contributing to society with natural capital in mind	School biotope education Total increase in number of schools over three-year period	3 schools	10 schools
Human capital	Improve employee engagement	Employee engagement score	21%	34%
	Promotion of diversity	Ratio of female managers	5.2%	10%

Source: Reference materials for presentation on Group Vision 2030 and Medium-term Plan 2025

Business strategies of Medium-term Plan 2025 consist of three business strategies and strategy to strengthen the management foundation. The Company seeks to solve the problems remaining after implementing the Medium-term Plan 2020's initiatives of expanding core areas, harvesting new businesses, and strengthening the management foundation to support its business strategy while also creating new value.

Business strategies of Medium-term Plan 2025

Business strategy 1: Expand service business and create new cyclical services
1) Expand services in renewable energy power generation, warehousing, IT asset management, and tourism businesses
2) Create new services for a circular economy
- Create services that lead to cyclical use of products
  Establish subscription service for ICT products and development-type joint service model with vendors
- Encourage revitalization of real estate
- Services that lead to a virtuous cycle for local economies and societies
  Expand PFI and PPP businesses, support building of cyclical model for regional finance, form coalition with DX services for local governments offered by local vendors
- Create services that lead to virtuous cycle for corporate growth, such as services tailored to companies' life cycle and advisory on fund investment and M&A, etc.

Business strategy 2: Accelerate growth through strategic investment in mainstay businesses
1) Expand scale of business through high added value for ICT-related services
- Enhancement of services related to PC-LIM through system tie-ups with customers and vendors and strengthening of planning functions, expansion of rental services, BPO and consulting services

2) Expand and refine fields for financial products in Japan and overseas
- Expand financial product and investment targets, with a focus on investment/loans and advisory services, and increase revenue and profit

Business strategy 3: Strengthen vendor finance and expand customer base
1) Provide capital solutions aligned with vendors and customers
2) Improve profitability and create revenue opportunities by strengthening relationships with vendors
3) Cultivate transactions by developing and offering solutions for customers' issues, strategy to strengthen management foundation

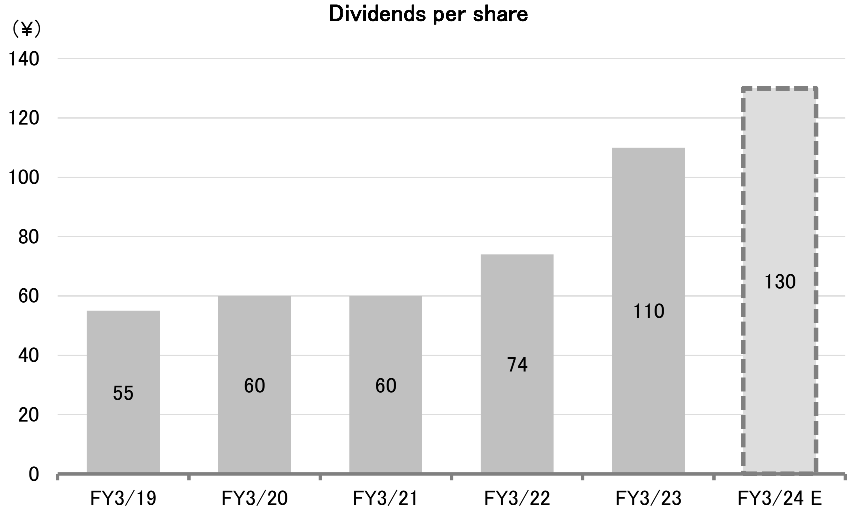
Strategy to strengthen management foundation
1) Strengthen foundation for sales operations based on digitalization of operating processes and use of digital information
2) Launch core system as DX foundation and promote DX activities
3) Create organization, and introduce HR management system aligned with management strategies, and create corporate culture conducive to ongoing challenges and innovation
4) Improve effectiveness of corporate governance
5) Implement measures to achieve carbon neutrality (bring Scope 1+2 on a consolidated basis effectively to zero by FY2040)

Source: Prepared by FISCO based on reference materials for presentation on Group Vision 2030 and Medium-term Plan 2025

Shareholder returns

Dividend per share forecast to increase ¥20 to ¥130 in FY3/24. P/B ratio below TSE requirement of 1.0x; to continue increasing shareholder returns

The Company's dividend policy adheres to sustaining a stable dividend as the core approach and suitably adjusts the dividend based on an assessment of the fair level in consideration of market trends and fluctuations in business results while securing enough retained profits to invest in growth strategy and reinforce its financial standing. In FY3/23, the Company increased dividend per share by ¥36 to ¥110 (including ¥37 interim dividend) to reflect the upward revision of its earnings forecast in January 2023. For FY3/24, the Company plans to increase dividend per share by ¥20 to ¥130. Given that its adjusted P/B ratio is in the 0.5x range, below the TSE requirement of 1.0x, it is likely to continue strengthening its shareholder returns measures. We at FISCO accordingly expect the Company to continue raising dividend per share.



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

The Company also provides online catalog gifts utilizing the Internet as a shareholder benefit program. It gives benefits to shareholders who own at least 100 shares and who are registered on the shareholder register as of March 31 each year. The value differs depending on the number of owned shares and ownership period. Shareholders with more 100 shares and fewer than 500 shares receive an online catalog gift worth roughly ¥2,000 for ownership duration of less than one year and roughly ¥3,000 for duration of one year or longer. Shareholders with at least 500 shares receive an online catalog gift worth roughly ¥10,000 for ownership duration of less than one year and roughly ¥15,000 for duration of one year or longer.

For those who have requested in advance to decline these shareholder benefits, the Company donates an equivalent amount. In FY3/23, it donated to the National Federation of UNESCO Associations in Japan's Great East Japan Earthquake Children's Aid Fund for the UNESCO Scholarship for School Attendance.

Shareholder benefit program

Number of shares owned	At least one unit (100 shares) to fewer than five units (500 shares)	
Period of ownership	Less than one year	One year or more*1
Online catalog gift	Roughly ¥2,000	Roughly ¥3,000
Number of shares owned	At least five units (500 shares)	
Period of ownership	Less than one year	One year or more*2
Online catalog gift	Roughly ¥10,000	Roughly ¥15,000

*1 Shareholders consecutively recorded as owning at least 100 shares under the same shareholder number in the shareholder register on March 31 each year and in the shareholder register at the end of the previous fiscal year as well as the end of the interim period of the fiscal year under review.
*2 Shareholders consecutively recorded as owning at least 500 shares under the same shareholder number in the shareholder register on March 31 each year and in the shareholder register at the end of the previous fiscal year as well as the end of the interim period of the fiscal year under review.
Source: Prepared by FISCO from the Company's website

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