

SBS Holdings, Inc.

2384

Tokyo Stock Exchange Prime Market

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<https://www.fisco.co.jp>

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Summary

Started preparing for potential M&A deals; results to resume growth trajectory in FY12/24 onward

SBS Holdings, Inc. <2384> (hereinafter, “the Company”) is a major 3PL (comprehensive logistics services) company which is continuing to grow thanks to its unique business model through active M&A and development and liquidation of logistics facilities. The Company has carried out large-scale M&A and converted companies into subsidiaries, such as Ricoh Logistics System Co., Ltd. (now SBS Ricoh Logistics System Co., Ltd.) in 2018 and Toshiba Logistics Co., Ltd. (now SBS Toshiba Logistics Co., Ltd.) in 2020. Between FY12/17 and FY12/23, the scope of its sales grew by roughly 2.8 times.

1. Outline of results for FY12/23

In the FY12/23 consolidated results, the Company recorded lower sales and profits, with net sales down 5.2% year-on-year (YoY) to ¥431,911mn, and operating income declining 9.7% to ¥19,719mn. The main contributing factor was the mainstay Logistics business, which posted a 5.7% fall in net sales and 25.4% drop in operating income due to a decline in marine freight rates and shipping volume in the overseas logistics business, while costs increased in connection with the opening of new facilities domestically. The negative impact of lower marine freight rates and shipping volume accounted for the bulk of declines in net sales and operating income at ¥29,572mn for net sales and ¥2,006mn for operating income. We note, however, that on a quarterly basis, net sales and operating income of the Logistics business bottomed in 3Q and turned positive in 4Q, and marine freight rates appear to be bottoming out as well.

2. Outlook for FY12/24

For FY12/24 consolidated results, the Company looks for a return to sales and profit growth, forecasting a 4.2% YoY increase in net sales to ¥450,000mn and 6.5% rise in operating income to ¥21,000mn. The Company expects the mainstay Logistics business to recover, forecasting YoY increases of 3.9% in net sales and 13.5% in operating income. Despite a lingering negative effect on marine freight rates and shipping volume in the overseas logistics business, the Company plans to absorb this through new customer acquisition and deepening transactions with existing customers, and adjustment of domestic logistics charges. The Company plans to increase the operating floor area of its logistics facilities by around 25% from 3,200,000 m² at the end of FY12/23 to 4,013,000 m² at the end of FY12/24 as a result of new large distribution centers opening in FY12/24. They include the Noda Seto Distribution Center with an operating floor area of 142,000 m², which opened in February 2024, and the Yokohama Fukuura Distribution Center (tentative name), with an operating floor area of 60,000 m² (scheduled to open in August 2024). These new facilities will enable the Company to capture demand from new and existing customers. Although new regulations that limit overtime hours for truck drivers take effect in April 2024, the Company thinks this will have no impact on its earnings, because it has been preparing well in advance.

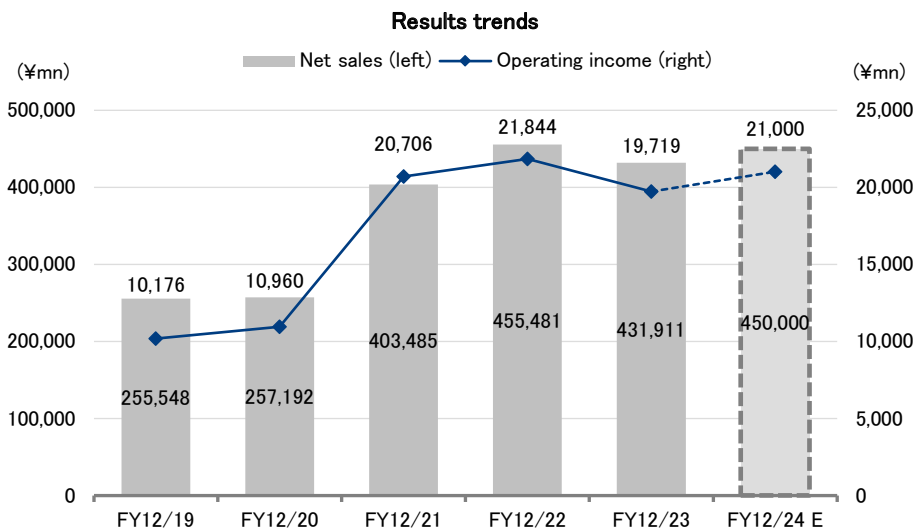
Summary

3. Growth strategy

As for the results targets of SBS Next Stage 2025, the Company's medium-term management plan announced in February 2023, the Company is aiming for net sales of ¥500.0bn, operating income of ¥27.5bn, and an operating margin of 5.5% in FY12/25. Regarding priority measures, it plans to draw on the strengths of Group companies to further strengthen inter-Company logistics centering on 3PL, accelerate EC logistics, where market growth is expected, and expand its international logistics business. In 3PL, the Company seeks to increase its domestic market share by aggressively introducing and utilizing "LT×IT" to become more competitive, as well as services for the overseas facilities of existing customers (for which it sees potential demand) in the longer term. Regarding logistics facilities, the Company has secured enough land to increase its operating floor area from 3,207,000 m² at the end of FY12/23 by 1.25 times (including planned facilities) to 4,000,000 m². Its strategy is to make use of liquidation schemes to open these facilities in stages. Under the Company's M&A strategy, preparations for the next major M&A deal are already underway. We at FISCO think that while the FY12/25 targets set a high hurdle, the Company is likely to return to a growth trajectory in FY12/24 onward by implementing priority measures. Its shareholder return policy calls for raising its dividend payout ratio to around 30% in the longer term while considering the need for capital and earnings performance. The Company plans to increase its dividend for the seventh year in a row in FY12/24, by ¥5.0 per share to ¥70.0 per share, which corresponds to a dividend payout ratio of 26.5%.

Key Points

- Continuing to grow thanks to its unique business model consisting of 3PL and liquidation of in-house developed logistics facilities and M&A strategy
- Sales and profit decline in FY12/23 due to a downturn in overseas logistics
- Logistics business forecast to recover in FY12/24, due in part to the opening of large logistics facilities
- Aiming for strong growth while focusing on 3PL, EC logistics, and international logistics and developing logistics facilities



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

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■ Company overview

Continuing to grow thanks to its unique business model consisting of 3PL and liquidation of in-house developed logistics facilities and M&A strategy

1. History

The Company was founded in 1987 by current Representative Director Masahiko Kamata as a unique company providing a “same-day delivery” transport system, which did not exist at the time, in the Tokyo metropolitan area. In 2003, it registered over-the-counter shares with the Japan Securities Dealers Association, and after strengthening its fiscal foundation, became more active about its M&A strategy and expanded the contents of its business. Starting with the acquisition of Snow Brand Logistics Co., Ltd. (now SBS Flec Co., Ltd.) in 2004, it successively turned major logistics companies into Group companies, including Tokyu Logistic Co., Ltd. (now SBS Logicom Co., Ltd.) in 2005, and Zentsu Co., Ltd. (now SBS Zentsu Co., Ltd.) in 2006, Ricoh Logistics System Co., Ltd. (now SBS Ricoh Logistics System Co., Ltd.) in 2018 and Toshiba Logistics Co., Ltd. (now SBS Toshiba Logistics Co., Ltd.) in 2020. These acquisitions have become a driving force for expanding the scale of the business.

While expanding the Logistics business, in 2004, it initiated the development of logistics facilities to strengthen the 3PL business*. It actively promotes its own business model, whereby it recovers investment funds quickly through a liquidation scheme, which it then invests in the development of new logistics facilities. As well, the Company successively turned major logistics companies into Group companies, rapidly increasing the operating floor area of logistics facilities from around 1,752,000 m² at the end of 2020 to 3,207,000 m² at the end of 2023, or roughly by 1.8 times in three years. The Company plans to continue pursuing these growth strategies to achieve further business expansion.

* The Company defines 3PL business as a project in which it is contracted directly by the shipper and undertakes a series of (multiple) tasks in a lump sum over a period of three years or more.

Company overview

History

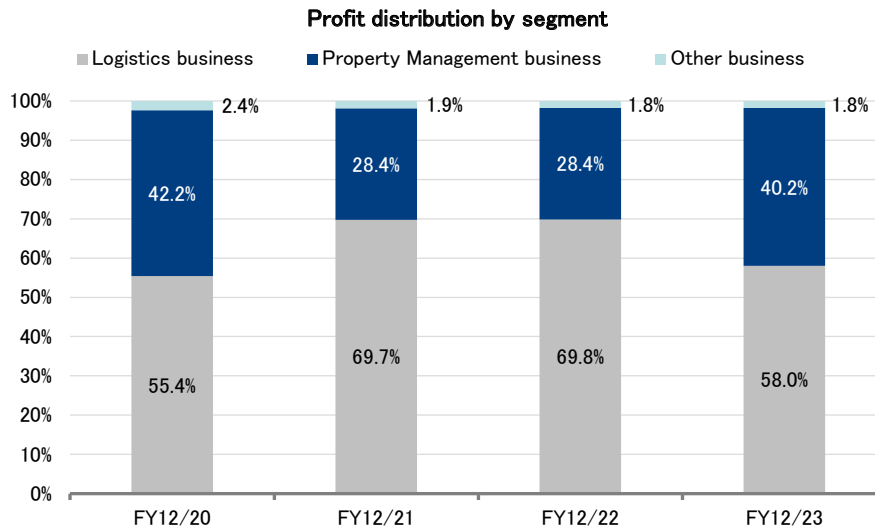
Date	
Dec. 1987	Established Kanto Sokuhai Co., Ltd. (now SBS Holdings), began same-day deliver operations in the Tokyo metropolitan area
Apr. 1994	Started a mailing service business
Mar. 1998	Established a marketing business (Marketing Partner, Inc.)
Dec. 2003	Registered over-the-counter shares with the Japan Securities Dealers Association (listed on the Tokyo Stock Exchange Second Section in 2012, and the First Section in 2013)
May 2004	Acquired Snow Brand Logistics Co., Ltd. (now SBS Flec) through M&A, entered into food logistics
Sept. 2004	Established a real estate securitization business (Amax Co., Ltd.)
Jun. 2005	Acquired Tokyu Logistic Co., Ltd. (now SBS Logicom) through M&A
Jan. 2006	Acquired Zentsu Co., Ltd. (now SBS Zentsu) through M&A, strengthened food logistics for co-ops
Apr. 2010	Acquired Victor Logistics Co., Ltd. through M&A
Jul. 2010	Acquired AC System Corporation (now SBS Global Network) through M&A
Apr. 2011	Acquired Nippon Record Center Co., Ltd. through M&A
Oct. 2011	Acquired Atlas Logistics Private Limited, an international logistics company in India
May 2012	Established a company for regional business control in Singapore
Jul. 2014	Acquired Transpole Logistics Pvt Ltd., an international logistics company in India, through M&A (sold in Mar. 2016)
Jan. 2015	Completed construction of Nagatsuda Logistics Center, consolidated and merged six regional subsidiaries of SBS Flec, established SBS Flec Net Co., Ltd.
Jul. 2015	Merged SBS Sokuhai Co., Ltd. and SBS Support Logi Co., Ltd. to establish SBS Sokuhai Support Co., Ltd.
Aug. 2015	Established SBS Logistics Singapore Pte. Ltd., a company for Asian business control in Singapore
Aug. 2018	Acquired Ricoh Logistics System Co., Ltd. (now SBS Ricoh Logistics System) through M&A
Jun. 2019	With Keiyo Driving School Co., Ltd. as a surviving company, merged with and absorbed Anesaki Driving School Co., Ltd. to form SBS Driving School Co., Ltd.
Nov. 2020	Acquired Toshiba Logistics Co., Ltd. (now SBS Toshiba Logistics) through M&A
Dec. 2021	Acquired Furukawa Logistics Corp. (now SBS Furukawa Logistics), a logistics subsidiary of Furukawa Electric Co., Ltd., through M&A
Feb. 2022	Transferred and consolidated head office functions to Nishi-Shinjuku, Shinjuku-ku
Mar. 2022	Transferred and consolidated Group head office functions to Nishi-Shinjuku
Apr. 2022	Transitioned to the Tokyo Stock Exchange Prime Market in conjunction with the TSE's market recategorization
Dec. 2022	Established LT Lab, an advanced LT testing facility
Jan. 2023	Launched "EC Logistics Omakase-kun," a platform to provide fulfillment services for EC business

Source: Prepared by FISCO from the Company's website, securities report, and Company releases

2. Business description

The Company has three business segments: Logistics business, Property Management business, and Other business. The Logistics business is the mainstay, accounting for over 90% of net sales and the majority of operating income. The Property Management business may potentially experience significant profit fluctuations depending on the timing and scale of liquidation of owned logistics facilities, but operating income has historically trended between ¥6.0–7.0bn. An overview by business segment follows.

Company overview



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

(1) Logistics business

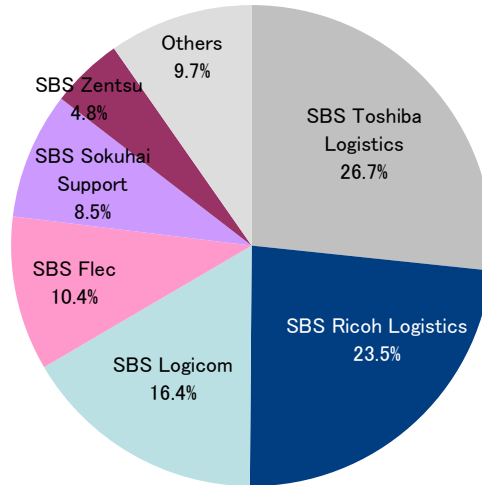
The Logistics business provides integrated logistics services primarily in the area of inter-Company logistics. These include 3PL, whereby the Company is contracted directly by the shipper to undertake logistics operations; food logistics in three temperature ranges (frozen, refrigerated, and room temperature) and general logistics, same-day delivery services of small parcels, and the international logistics business, which are provided by Group companies. Looking at the breakdown (Companywide) of net sales in FY12/23 by company, two companies accounted for around 50% of net sales in the segment: SBS Toshiba Logistics, which accounted for 26.7% share, and SBS Ricoh Logistics System, which handles logistics and 3PL for RICOH <7752> products and tanomail (office supplies mail-order sales) for OTSUKA CORPORATION <4768>, accounted for 23.5%. These were followed by SBS Logicom which handles EC logistics and high mix low volume 3PL, such as retail, at 16.4%; SBS Flec, which mainly focuses on food logistics and low-temperature logistics, at 10.4%; SBS Sokuhai Support Co., Ltd., which provides same-day delivery between individuals and companies, and for individuals, at 8.5%; and SBS Zentsu Co., Ltd., which conducts individual deliveries (consumer co-op) and agricultural produce logistics, at 4.8%, followed by SBS Furukawa Logistics, which became a subsidiary at the end of 2021, among others. In terms of operating areas, SBS Toshiba Logistics, SBS Ricoh Logistics, SBS Flec, and SBS Furukawa Logistics operate nationwide, SBS Sokuhai Support operates in the Tokyo metropolitan area, and other Group companies operate in major urban centers around Kanto, Kansai, and Chubu. The main Group companies engaged in international logistics are SBS Toshiba Logistics, SBS Ricoh Logistics, and SBS Furukawa Logistics.

Under the growth strategy of the medium-term management plan, which started in FY12/23, the Company intends to strengthen the three businesses of 3PL, EC logistics and international logistics. Looking at the sales shares of these three businesses, in FY12/23, 3PL accounted for 55%* of sales while EC logistics accounted for 16% and international logistics accounted for 14%.

* 3PL's sales share is by contract type, so in some cases it includes EC logistics and international logistics.

Company overview

Breakdown of net sales by company (FY12/23)



* Breakdown data for SBS Flec, SBS Sokuhai Support, SBS Zentsu, and others estimated from information obtained at Company interview
 Source: Prepared by FISCO from the Company's financial results briefing materials

(2) Property Management business

The Property Management business consists of a development business and a leasing business. The development business develops logistics facilities and liquidizes them for the generation of revenue to expand its 3PL business. In the leasing business, the Group receives rent revenue from office buildings and condominiums, and other properties that it owns, as well as from logistics facilities that do not house the Group's own operations and from which the Group receives rent only.

The Company's property liquidation business model is characterized by low-risk and high earnings. In developing new logistics facilities, it utilizes its special license as a logistics company and is able to reduce development costs through planning by its expert asset management team to realize competitively priced rent. Therefore, even if freight volume decreases due to factors such as economic downturns, demand is expected to shift from the relatively high priced warehouses of other companies nearby, so the Company will be able to continue operating without a loss in capacity utilization. Furthermore, the Company operates on a principle of finalizing around 50% of the tenants before starting construction, which is another factor reducing development costs as it allows the Company to envisage the customer and build for them. The Company's 3PL locations operate with a capacity utilization of almost 100%, increasing their value as commercial property before selling them. Moreover, the Company continues to use the facilities under sale-and-lease back arrangements, ensuring the purchaser can secure stable profitability, thereby establishing a win-win relationship.

(3) Other business

In Other business, the Temporary Staffing business, which is centered on dispatch of light duty workers warehouses, accounts for over 50% of net sales. This is followed by the Marketing business (operation of pet food mail order website, e-commerce support services, etc.), which accounts for just over 20%, with the remainder made up of Solar Power Generation business, Environmental business (collection and intermediate processing of general and industrial waste), and the Insurance business, among others. In regard to Solar Power Generation business, the Company has installed solar panels on the roofs of its own logistics centers and offices, and has a generating capacity of approximately 13 MW as of the end of FY12/23.

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Results trends

Sales and profit declined in FY12/23 due to weak performance of overseas logistics

1. Outline of results for FY12/23

In the FY12/23 consolidated results, the Company posted sales and profit declines. Net sales fell 5.2% YoY to ¥431,911mn, operating income was down 9.7% to ¥19,719mn, ordinary income declined 7.7% to ¥19,747mn, and net income attributable to owners of parent fell 14.3% to ¥10,056mn. The mainstay Logistics business posted steep declines in net sales (¥24,610mn) and operating income (¥3,922mn), because overseas shipping volume contracted sharply amid a global economic downturn caused by worldwide inflation and monetary tightening in Europe and North America, lower marine freight rates, and an increase in startup costs for new domestic facilities. The rate of decline was greater for net income attributable to owners of parent than for ordinary income because of rebounding from the sale of noncurrent assets in FY12/22 and booking an impairment loss of ¥1,355mn as an extraordinary loss.

The initial Company forecast called for sales and profit growth, with flat YoY sales and profit of the Logistics business and growth of the Property Management business. Results fell short of forecast due to weaker-than-expected performance of the Logistics business.

FY12/23 consolidated results

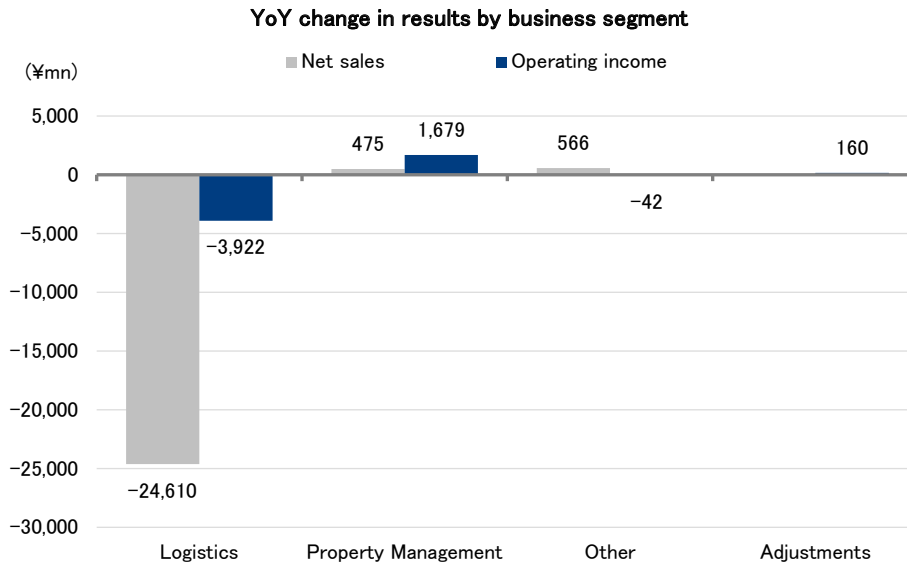
(¥mn)

	FY12/22		FY12/23		FY12/23			
	Results	Vs. sales	Initial forecast	Revised forecast*	Results	Vs. sales	YoY	Vs. initial forecast
Net sales	455,481	-	457,000	430,000	431,911	-	-5.2%	-5.5%
Cost of sales	404,945	88.9%	-	-	381,770	88.4%	-5.7%	-
Selling, general and administrative expenses	28,692	6.3%	-	-	30,422	7.0%	6.0%	-
Operating income	21,844	4.8%	22,800	19,000	19,719	4.6%	-9.7%	-13.5%
Ordinary income	21,404	4.7%	22,300	19,000	19,747	4.6%	-7.7%	-11.4%
Extraordinary gain or loss	334	-	-	-	-1,250	-	-	-
Net income attributable to owners of parent	11,732	2.6%	12,000	10,500	10,056	2.3%	-14.3%	-16.2%

*Revised forecast announced in November 2023

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

Results trends



Logistics business saw lower sales and profit, but Property Management posted higher sales and profit on sale of logistics facilities

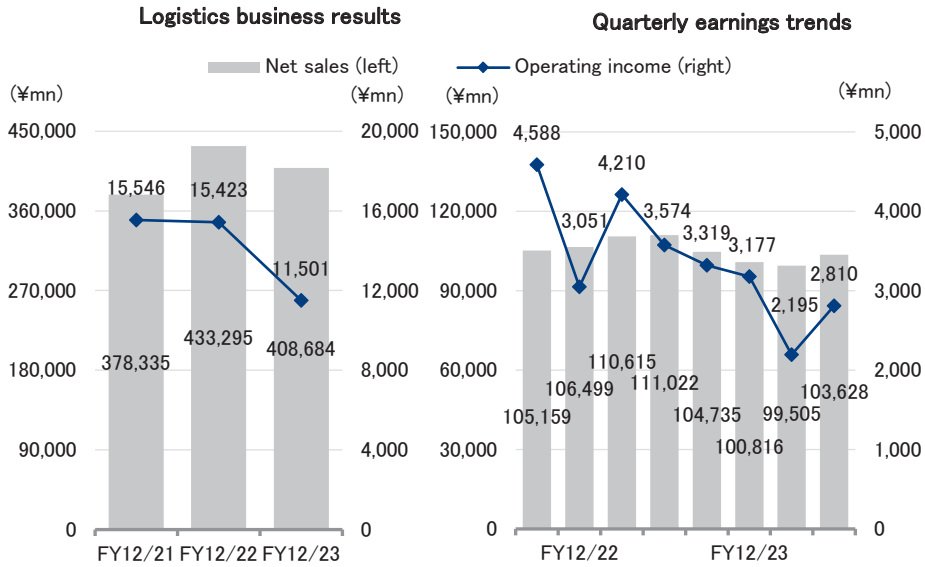
2. Trends by business segment

(1) Logistics business

Net sales in the Logistics business decreased 5.7% YoY to ¥408,684mn, while operating income was down 25.4% to ¥11,501mn. Looking at the factors behind the change in net sales, sales were boosted by ¥1,314mn from an increase in domestic logistics volume and acquisition of new customers, by ¥1,510mn from adjusting domestic logistics rates, and by ¥2,138mn from the yen's depreciation on foreign exchange markets. However, in the overseas logistics business, lower marine freight rates and shipping volume had a negative impact of ¥29,572mn on sales. Overseas logistics sales fell 35% YoY to ¥56.2bn, because marine freight rates for containers, which increased by more than five times between the beginning of 2020 through 1H 2022, fell sharply amid a worldwide economic slowdown, as well as a slump in shipping volume mainly of semiconductors, home appliances and office equipment. As an example of marine container freight rates, the freight rate for a 40ft container* on the Yokohama-Los Angeles route averaged at US\$2,839 in FY12/23, down 72% YoY, dropping to US\$2,230 in December 2023, which is the same level as in 1H 2020. The initial Company forecast was for around ¥20.0bn in overseas logistics sales decline, but results fell short due to declines in freight rates and shipping volume. Sales of the 3PL business (a focus business for the Company) fell 2% YoY to ¥223.4bn and sales of the EC logistics business rose 3% to ¥67.2bn.

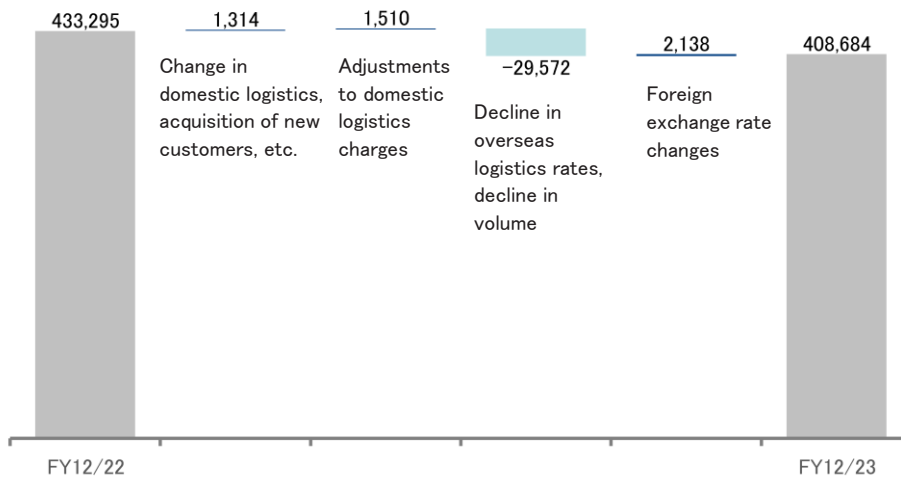
* Based on data published by Japan Maritime Center

Results trends



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

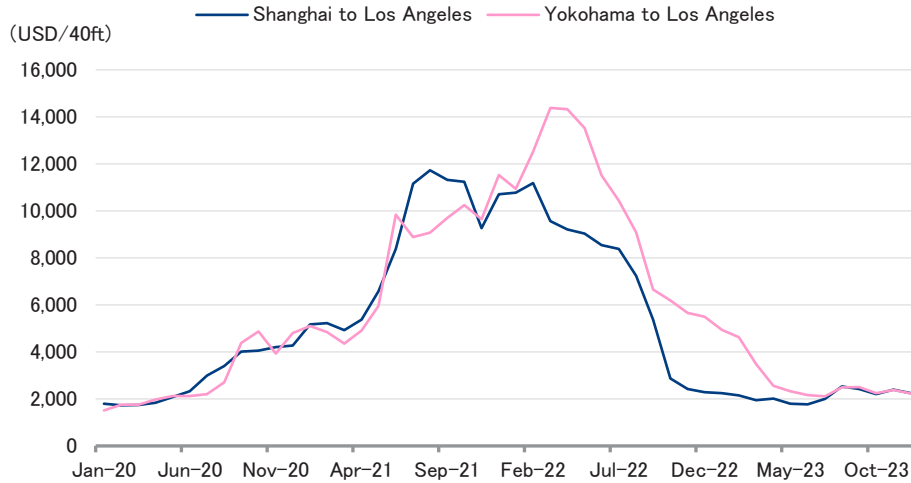
Factors for YoY change in Logistics business net sales



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

Results trends

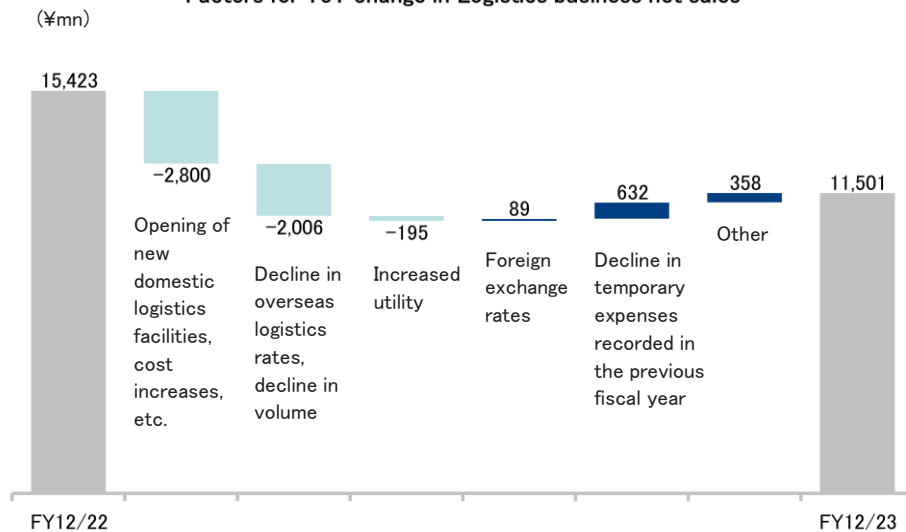
Trends in marine container freight rates



Source: Prepared by FISCO from information provided by the Japan Maritime Center

Looking at the factors behind the change in operating income, temporary expenses stated last year (head office relocation and uniform update costs) dropped off, which increased profit by ¥632mn. Other increases were ¥89mn from foreign exchange rate changes and ¥358mn from other cost reductions. However, negative factors for profit were cost increases associated with launching new domestic logistics facilities totaling ¥2,800mn, declines in overseas freight rates and volume of ¥2,006mn, and increased utility charges amounting to ¥195mn. Regarding new domestic logistics facilities, the Tohoku Low-Temperature DC (Miyagi Prefecture, SBS Flec) opened in February 2023, the Maruoka Sales Office (Fukui Prefecture, SBS Logistics) in March 2023, Ichinomiya Distribution Center (Aichi Prefecture, SBS Ricoh Logistics) and Osaka Suminoe Distribution Center (Osaka Prefecture, SBS Toshiba Logistics) in April 2023, and Kashiwazaki Warehouse (Niigata Prefecture, SBS Toshiba Logistics) in October 2023. The YoY increase in new facilities meant additional startup costs including personnel and advertising expenses.

Factors for YoY change in Logistics business net sales



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

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Results trends

Looking at results trends by major Group company, SBS Toshiba Logistics posted lower sales and profit. This was mainly attributable to a decline in marine freight rates and lower shipping volume of semiconductors and home appliances, with net sales declining 10.9% YoY to ¥115,140mn and operating income down 43.3% to ¥4,347mn. Regarding PMI* progress since joining the Group in November 2020, relocation of head office functions and integration of information system-related operations have been completed, with strengthening of teams specializing in acquiring new customers to expand the business and investment in upgrading existing logistics facilities around the country and building new ones to be implemented going forward.

| * Integration process to maximize synergy effects after M&A. Includes replacement of mission critical systems, etc. |

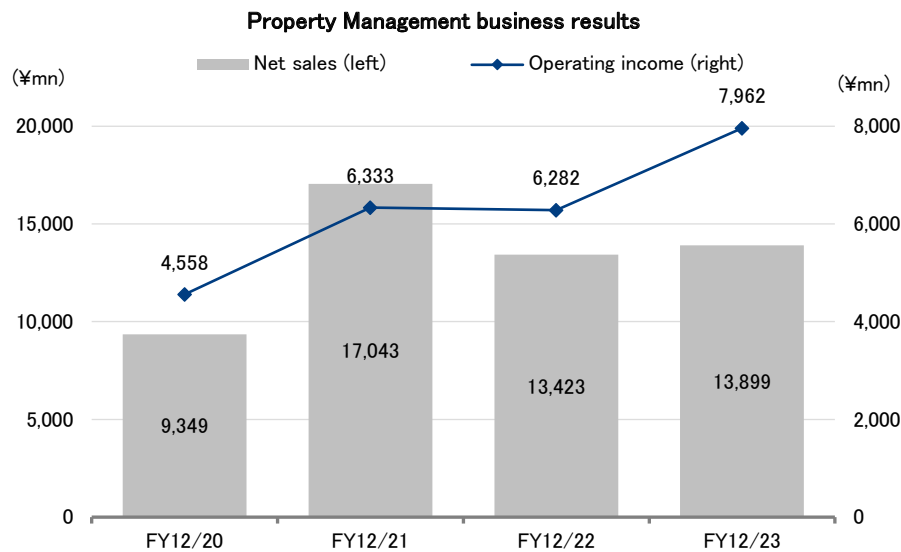
SBS Ricoh Logistics also posted lower sales and profit, with sales down 8.9% YoY to ¥101,311mn and operating income down 14.6% to ¥3,496mn due to the impact of lower marine freight rates and shipping volume. Domestic logistics performed well, however, due to acquiring new customers and doing more business with existing customers, thanks in part to full operation of the new Ichinomiya Distribution Center (operating floor area: 58,000 m²). The distribution center has installed and operates 176 Automatic Guided Vehicles (AGVs), the largest number in the Group, contributing to labor saving.

SBS Logicom recorded a 3.2% YoY increase in sales to ¥71,017mn due to steady progress with new customer acquisition, but operating income fell 3.0% to ¥5,347mn on lower rent revenue. SBS Flec posted sales and profit growth, with strong performance of its food logistics business and rebounding from the earnings deterioration in FY12/22 resulting from total destruction by fire of the 18,000 m² Ami No. 2 Distribution Center in Ibaraki Prefecture. The adjacent 10,000 m² Ami Distribution Center is also still closed and preparing to resume operation. SBS Sokuhai Support recorded sales growth thanks to not only serving major EC providers, its main customers, but also developing new customers, although profit fell slightly due to cost increases. SBS Zentsu posted modest sales and profit growth on strong performance of logistics for co-ops.

(2) Property Management business

The Property Management business recorded a 3.5% YoY increase in net sales to ¥13,899mn and 26.7% rise in operating income to ¥7,962mn. In the development business, two properties in Kanagawa Prefecture (the Yokohama-Kanazawa Distribution Center and Higashi-Ogishima Warehouse) were liquidated, and total sales gains of ¥6.9bn were recorded in operating income. As a result, net sales increased by ¥232mn and operating income by ¥1,538mn in the development business. In the rental business, sales increased by ¥243mn and operating income by ¥141mn due to high occupancy rates of rental facilities.

Results trends



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

(3) Other business

Net sales in Other business increased 6.5% YoY to ¥9,328mn, while operating income decreased 10.7% to ¥359mn. Although sales increased in the Temporary Staffing business, Marketing business, and Environmental business, profit decreased due to an increase in costs in the Temporary Staffing and Marketing businesses.

Positive free cash flow three years in a row; financial condition continues to improve

3. Financial condition and management indicators

In the Company's financial condition as of the end of FY12/23, total assets were up ¥4,419mn from the previous fiscal year-end to ¥301,137mn. Looking at the main factors behind the change, in current assets, there were respective decreases in cash and deposits by ¥3,005mn and accounts receivable-trade and contract assets by ¥3,741mn, and inventories increased by ¥6,849mn. In noncurrent assets, property, plant and equipment decreased by ¥153mn and intangible assets including goodwill and customer-related assets decreased by ¥1,390mn, while investments and other assets increased by ¥1,611mn.

Total liabilities decreased by ¥6,001mn to ¥198,724mn. Income taxes payable increased by ¥3,590mn, while notes and accounts payable – trade decreased by ¥7,597mn and interest-bearing debt decreased by ¥2,501mn. Total net assets increased by ¥10,420mn to ¥102,592mn. Retained earnings increased by ¥7,633mn due to recording net income attributable to owners of parent and other factors, accumulated other comprehensive income rose by ¥1,564mn, and non-controlling shareholders' equity increased by ¥1,222mn.

Results trends

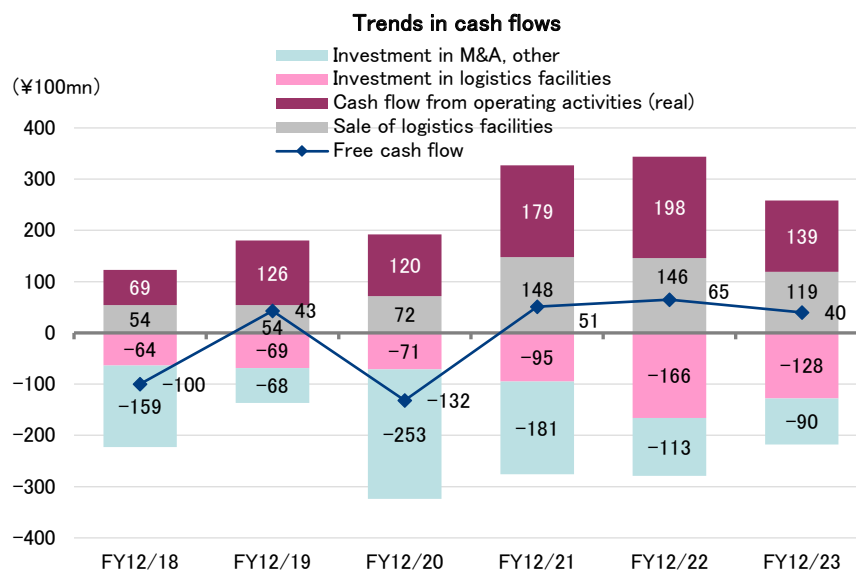
Looking at management indicators, the shareholders' equity ratio, a measure of stability, increased from 23.7% at the previous fiscal year-end to 26.4%, and the net D/E ratio decreased from 1.01 times to 0.90 times, so the Company's financial condition continues to improve. Free cash flow was positive for the third consecutive year, because there have been no major investment projects since FY12/21 and the Company has improved capital efficiency using property liquidation schemes, helping to improve its financial condition. Regarding M&A, the Company has started searching for potential deals. The Company plans to increase the equity ratio to 30% in FY12/25, although this will depend on M&A activity.

Consolidated balance sheet and management indicators

	End-FY12/20	End-FY12/21	End-FY12/22	End-FY12/23	Change
(¥mn)					
Current assets	104,530	121,541	146,023	150,375	4,352
(Cash and deposits)	27,543	23,800	32,673	29,668	-3,005
(Inventories)	13,236	22,425	31,207	38,056	6,849
Noncurrent assets	150,020	155,655	150,874	150,942	68
Total assets	254,550	277,197	296,898	301,317	4,419
Total liabilities	186,404	196,489	204,726	198,724	-6,001
(Interest-bearing liabilities)	100,829	98,656	104,094	101,593	-2,501
Total net assets	68,146	80,707	92,172	102,592	10,420
(Stability)					
Shareholders' equity ratio	19.9%	21.9%	23.7%	26.4%	2.7pt
Net Debt Equity Ratio (times)	1.44	1.23	1.01	0.90	-0.11

Note: Interest-bearing liabilities include lease liabilities. Net Debt Equity Ratio = Net interest-bearing liabilities (interest-bearing liabilities - cash and deposits) ÷ shareholders' equity

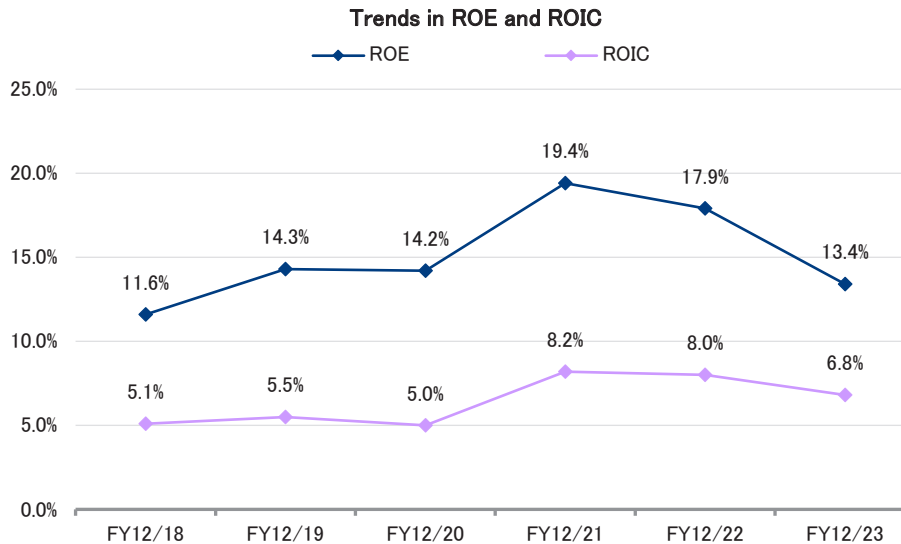
Source: Prepared by FISCO from the Company's financial results



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

Looking at capital performance, ROE (return on equity) was 13.4% and ROIC (return on invested capital) was 6.8%, both lower than year-ago levels. However, ROE maintained a large equity spread over cost of shareholder capital (6.6–6.8%) and ROIC continues to trend above WACC (weighted average cost of capital) of 3.5–4.0%, and thus the Company's capital performance can be judged to be strong.

Results trends



* In FY12/20, ROIC is 5.4% adjusted for the one-time factor of consolidation of SBS Toshiba Logistics' balance sheet.
 Source: Prepared by FISCO from the Company's financial results briefing materials

Return to sales and profit growth forecast for FY12/24 on recovery of the Logistics business, boosted by opening of large logistics facilities

4. Outlook for FY12/24

In the FY12/24 consolidated results forecast, the Company looks for increases of 4.2% YoY in net sales to ¥450,000mn, 6.5% in operating income to ¥21,000mn, 3.8% in ordinary income to ¥20,500mn, and 4.4% in net income attributable to owners of parent to ¥10,500mn. The Company expects the profit decline to continue through 1H FY12/24, because marine container freight rates are still trending at a low level and shipping volume of home appliances and semiconductors is likely to remain weak. However, it aims for a turn to sales and profit growth in 2H onward by acquiring new customers and deepening transactions with existing customers as well as working on adjustments to logistics charges in the domestic logistics business. The forex assumption is ¥139/USD.

Outlook for FY12/24

	FY12/23		FY12/24			
	Results	YoY	1H forecast	YoY	Full-year forecast	YoY
Net sales	431,911	-5.2%	226,000	1.5%	450,000	4.2%
Operating income	19,719	-9.7%	11,500	-19.3%	21,000	6.5%
Ordinary income	19,747	-7.7%	11,200	-21.9%	20,500	3.8%
Net income attributable to owners of parent	10,056	-14.3%	6,400	-21.8%	10,500	4.4%
Net income per share (¥)	253.20		161.14		264.37	

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

Results trends

Company forecast by business segment calls for sales and profit growth in Logistics and Other businesses, and flat operating income in the Property Management business.

Outlook by business segment

	FY12/22	FY12/23	FY12/24 E	YoY
	(¥mn)			
Net sales	455,481	431,911	450,000	4.2%
Logistics business	433,295	408,684	424,800	3.9%
Property Management business	13,423	13,899	15,190	9.3%
Other business	8,762	9,328	10,010	7.3%
Operating income	21,844	19,719	21,000	6.5%
Logistics business	15,423	11,501	13,050	13.5%
Property Management business	6,282	7,962	7,970	0.1%
Other business	402	359	400	11.2%
Adjustments	-264	-104	-420	-
Operating income margin	4.8%	4.6%	4.7%	0.1pt
Logistics business	3.6%	2.8%	3.1%	0.3pt
Property Management business	46.8%	57.3%	52.5%	-4.8pt
Other business	4.6%	3.8%	4.0%	0.1pt

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

(1) Logistics business

Net sales in the Logistics business are forecast to increase 3.9% YoY to ¥424,800mn and operating income to increase 13.5% to ¥13,050mn. This assumes a slight YoY fall in the average marine container freight rate in FY12/24 and a decrease in shipping volume of home appliances and semiconductors. The Company expects to absorb the decline in overseas logistics by acquiring new customers and deepening transactions with existing customers (including the opening of new logistics facilities), as well as working on adjustments to logistics charges in the domestic logistics business. It estimates the positive impact on profit of logistics charge adjustments to be around ¥2.0bn.

Regarding new logistics facilities, the Company opened the Group's largest 142,000 m² Noda Seto Distribution Center in Chiba Prefecture in February 2024. A four-story building with one floor each dedicated to EC logistics and SBS Ricoh Logistics, the other two floors are allocated to deepening transactions with existing customers of SBS Logicom. Progress has been faster than expected, with around 50% of the floor area dedicated to EC logistics, slightly under 50% of the floor area dedicated to SBS Ricoh Logistics and 70% of the SBS Logicom floor area contracted with shippers. The Company is aiming for operations at a level close to 100% by the end of 2024.

The Company will also open new facilities for SBS Flec—the 8,600 m² Ichinomiya Distribution Center in Aichi Prefecture in February 2024 and the 14,000 m² Atsugi Distribution Center (tentative name) in Kanagawa Prefecture in September 2024, which are both rented, as well as the 60,000 m² Yokohama Fukuura Distribution Center (tentative name) for SBS Ricoh Logistics in Kanagawa Prefecture in August 2024. SBS Toshiba Logistics also plans to increase floor space on a small scale at multiple facilities. In total, the Group's operating floor area is due to increase by around 8% from 3,200,000 m² at the end of FY12/23 to 3,362,000 m², contributing to domestic sales expansion.

Results trends

Regarding the outlook for each Group company, sales and profit growth is forecast for the three main companies – increases of 2% YoY in net sales and 5% in operating income are forecast for SBS Toshiba Logistics, 6% in net sales and 24% in operating income for SBS Ricoh Logistics, and 4% in net sales and 4% in operating income for SBS Logicom. A sharp improvement in profit margin is expected at SBS Ricoh Logistics because of productivity improvements at the Ichinomiya Distribution Center in Aichi Prefecture (operating floor area: 58,000 m²), which incurred large startup costs when it began operation in FY12/23, and steady progress in attracting new customers outside the Ricoh Group.

Outlook by Group company

		(¥bn)		
		FY12/23	FY12/24 E	YoY
SBS Toshiba Logistics	Net sales	115.1	117.8	2%
	Operating income	4.3	4.5	5%
SBS Ricoh Logistics	Net sales	101.3	107.8	6%
	Operating income	3.4	4.2	24%
SBS Logicom	Net sales	73.4*	76.0	4%
	Operating income	5.7*	5.9	4%

* Includes results for Toyo Warehouse and Transportation Co., Ltd., which merged with the Company in October 2023
 Source: Prepared by FISCO from the Company's financial results briefing materials

(2) Property Management business

Net sales in the Property Management business are forecast to increase 9.3% YoY to ¥15,190mn and operating income to increase 0.1% to ¥7,970mn. The Company has announced that it will liquidate the Shinsugita Distribution Center (Kanagawa Prefecture) in the first quarter of FY12/24 and plans to record a sales gain of around ¥6.0bn. It also plans to sell smaller logistics facilities in 2H and forecasts sales and profit growth of the development business. A small sales and profit decline is forecast for the rental business due to progress with liquidation.

(3) Other business

In Other business, net sales are forecast to increase 7.3% YoY to ¥10,050mn and operating income to rise 11.2% to ¥400mn. The Company looks for sales and profit growth in the Solar Power Generation business and Marketing business.

Medium-term management plan

The Company has been advocating mega-ventures growing with “LT×IT.” It has formulated a three-year medium-term management plan, SBS Next Stage 2025, starting from FY12/23, under which it seeks to solidify its position as the industry leader, meet the logistics needs of all its customers, and become a company that coexists with and is trusted by society. The Company's management vision consists of three points: 1. Contribute to the creation of value for customers through the provision of services; 2. Emphasize ESG as social infrastructure and contribute to all stakeholders; and 3. Continuously return profit to shareholders in line with business performance. Its policy is to aim for further improvements to corporate value and sustainable growth.

Attainment of FY12/25 numerical targets depends on M&A deals going forward

1. Management indices

As management indices, for FY12/25, which will be the final year of the plan, the Company's targets are net sales of ¥500.0bn, operating income of ¥27.5bn, and an operating margin of 5.5%. We at FISCO think the Company is likely to adjust its targets at some point, because FY12/23 results fell short of its initial forecast due to the sharp earnings decline of the overseas logistics business, which represents a backward step from achieving its target. That being said, the Company may embark on a large-scale M&A deal amid an increasingly tough operating environment for the logistics industry as restrictions on truck drivers' overtime hours take effect in April 2024 ("2024 problem"), which could change its earnings outlook. We think that a growing number of logistics subsidiaries of major manufacturers will become M&A targets as Group management calls for more streamlining. Having completed PMI of SBS Toshiba Logistics, which became a subsidiary in 2020, the Company is now likely to be preparing for the next large M&A deal. Its next move will be closely watched.

Management indices

	FY12/23		FY12/24 (planned)	FY12/25 (planned)	CAGR (FY12/23–FY12/25)
	(initial forecast)	Results			
Net sales	457.0	431.9	450.0	500.0	7.6%
Logistics business	433.5	408.6	424.8	468.1	7.0%
Property Management business	14.3	13.8	15.1	21.9	25.5%
Other business	9.2	9.3	10.0	10.0	3.5%
Operating income	22.8	19.7	21.0	27.5	18.1%
Logistics business	15.5	11.5	13.0	19.0	28.5%
Property Management business	7.5	7.9	7.9	8.0	0.2%
Other business	0.3	0.3	0.4	0.5	18.0%
(Operating income margin)	5.0%	4.6%	4.7%	5.5%	
Shareholders' equity ratio	25.5%	26.4%	-	30.0%	

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

By business segment, the Logistics business fell short of target, but the Property Management business and Other business are mostly on track. In the Logistics business, how well the overseas logistics business recovers (sales decline forecast to continue in FY12/24) and how fast focus businesses such as EC logistics and 3PL grow hold the key to sales expansion. The Company also targets a segment operating margin improvement from 2.8% in FY12/23 to 4.1% in FY12/25. It mainly expects profitability improvement at SBS Ricoh Logistics and SBS Toshiba Logistics, whose PMI effects will materialize. We think this segment operating margin target is achievable, considering that it was 4.1% in FY12/21. The Company will actively deploy "LT×IT" as a differentiation strategy, but the immediate future is positioned as the stage for upfront investment while going through a trial-and-error process. The results of this deployment are expected to emerge in FY12/25 at the earliest. The Property Management business is expected to record stable earnings by a planned liquidation program of logistics facilities.

Medium-term management plan

Additionally, over the three-year-period, the Company is planning total investment of ¥98.0bn (including M&A), an increase of 1.8 times from the investment amount in the past three years (¥55.0bn). Breaking this down, the investment plans include ordinary investments of ¥16.0bn (¥13.0bn in three years through FY12/22) and strategic investments of ¥82.0bn (¥42.0bn). Strategic investments include investments in the development of logistics facilities and the LT×IT field. In the first year, investment totaled ¥21.8bn, of which ¥12.8bn was in the development of logistics facilities and ¥9.0bn in other investments. The Company is also continuing to promote its M&A strategy, looking to achieve net sales of ¥700.0bn in FY12/30 as a result of these aggressive investments. Investments are to be funded by own capital and borrowings, as well as early liquidation of logistics facilities.

Focusing on 3PL, EC logistics, and international logistics, seeking strong growth while continuing to develop logistics facilities

2. Priority measures and progress

(1) Enhance the overall strength of the Group (group platform strategy and unique strategies of each company)

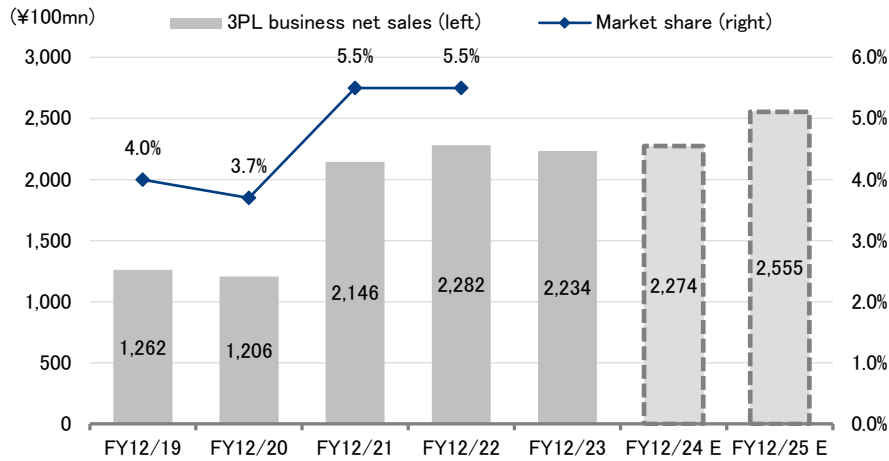
a) 3PL business

The domestic 3PL market was worth approximately ¥4.1tn in FY2022, of which the Company's share was 5.5%, representing a significant presence in the industry. The CAGR of the 3PL industry in FY2010–2022 was 8.4%, and its share of the overall logistics industry continues to increase. We expect its annual growth rate to remain at around 10% in the next few years, because companies must contend with ongoing increases in personnel and fuel expenses as well as comply with restrictions on working hours (so-called “2024 problem”). This is because shippers will benefit from using 3PL not only in terms of cost savings, but also increasingly from utilizing specialist logistics companies' expertise and sophisticated systems. In this context, we at FISCO think that for the Group, with its abundant track record in 3PL and dedicated LT×IT team of around 270, the next few years will be a good opportunity to attract new customers as well as deepen transactions with existing customers.

The Company's 3PL business net sales stalled in FY12/23, declining 2.1% YoY to ¥223.4bn, but the Company targets a 2% YoY increase in sales to ¥227.4bn in FY12/24 and a 12% YoY increase to ¥255.5bn in FY12/25 by strengthening Group companies' sales structures and expanding business with new and existing customers as a result of new logistics facilities (Noda Seto Distribution Center Building A, Yokohama Fukuura Distribution Center, etc.). As for strengthening the organizational structure of Group companies, the Group will centralize its sales structures by business, increase its sales force by hiring mid-career employees and redeploying existing employees, strengthen follow-up of existing shippers, and promote the sharing of sales information within the Group.

Medium-term management plan

Trends in 3PL business sales



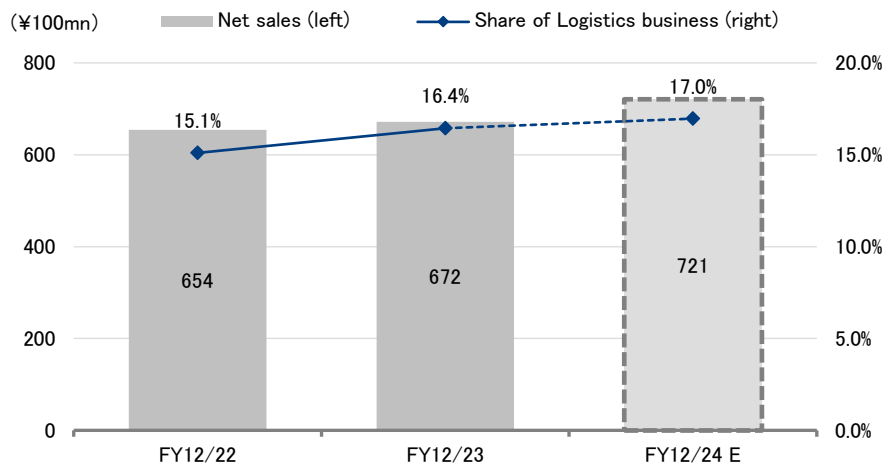
Source: Prepared by FISCO from the Company's financial results briefing materials

b) E-commerce logistics

The B2C e-commerce merchandise market in Japan is projected to grow from ¥13.9tn* in 2022 to ¥20tn in 2030 (4.6% growth per annum). By aggressively capturing this market, the Group is targeting an increase of ¥100.0bn in e-commerce logistics-related net sales from FY12/22 to FY12/30 (the "EC1000" project). EC logistics business sales were flat in FY12/23, increasing 3% YoY to ¥67.2bn, but the Company forecasts a 7% rise to ¥72.1bn in FY12/24 as well as expansion of its share of the logistics business from 16.4% to 17.0%.

* Source: Ministry of Economy, Trade and Industry "FY2022 E-Commerce Market Survey to analyze the current state of the Japanese e-commerce (EC) market"

Trends in EC logistics business net sales



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

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Medium-term management plan

In obtaining new customers, the Company is taking a three-point approach involving technology, infrastructure, and marketing, from start-up companies to large-scale EC companies including the B-to-B domain. In technology, the Company will provide low-cost, robust logistics services through high-level designs using next-generation robots, in line with the development and collaboration policy categorized and defined by industry and scale using IT. In infrastructure, the Company aims to develop strategic logistics centers that consolidate the e-commerce field and build last-mile networks including its own Group companies and collaborating partners. In marketing, the Company will provide platforms optimized by industry and a menu of logistics processes to meet the needs of a wide range of customers.

Regarding the target customers for EC logistics, the Company's strategy is to acquire customers with small and medium-sized EC providers as the target for the time being and then strengthen operational know-how and competitiveness to acquire large-scale EC providers. As a platform for acquiring small and medium-sized providers, the Company launched "EC Logistics Omakase-kun," which provides fulfillment services for EC business, in January 2023. As a result, it has acquired several dozen customers (not only smaller EC providers, but also medium-sized providers). The Company launched a strategic cross-Group organization of around 30 people to expand the EC logistics business, selecting a number of next-generation leaders from each Group company as well as publicly recruiting operational staff, both young people and those with experience. It is beginning to see the effects of sharing information between Group companies and building a structure to undertake contracted EC logistics.

The Company started up a dedicated facility for "EC Logistics Omakase-kun" on one floor (33,000 m²) of Noda Seto Distribution Center Building A, the Group's largest logistics facility to date, which opened in February 2024. In fall 2024, the Company plans to operate AGVs and tall robots in earnest. By bringing together its LT×IT technological capability and the Group's operational know-how, Noda Seto Distribution Center Building A will become a highly competitive logistics facility that can offer a menu of services with high productivity and flexibility. Using this facility as a model, the Company plans to roll out dedicated EC logistics services nationwide. It will initially begin operation using 17,000 m² of the 33,000 m² floor space, aiming for full operation by the end of 2024.

EC1000 Project promotion flow

	Up to FY12/22	FY12/23	FY12/24	FY12/25–FY12/30
Dedicated EC logistics branch	0 m ² Located alongside some of the bases	17,000 m ² • Establishment of dedicated EC logistics zones within sites (10 sites, mainly in the Tokyo metropolitan area, with a total floor area of 17,000 m ²).	More than 33,000 m ² • Operation of the e-commerce logistics strategy base Noda Seto Distribution Center	More than 660,000 m ² • Nationwide expansion of dedicated bases (over 33,000 m ²) • Establishment of centers for diversification, consolidation and collaboration (33,000 m ² or less) as appropriate
LT×IT	• Specialist LT and IT departments set up across the Group • Over 200 staff in place	• Full-scale operation of LT Lab (LT planning and collection of operation data for dedicated e-commerce sites) • Launch of common IT infrastructure for e-commerce	• Accelerate introduction of selected equipment through demonstration tests to new centers and existing sites • Collaboration/expansion of functions of e-commerce shared IT base	• Efforts for further efficiency • Industry-specific IT base for e-commerce + Collaboration of added value/expansion of functions
Service	• Individual responses to customer needs	• Platform "EC Logistics Omakase-kun" (e-commerce construction support + distribution processing + last mile service)	• Ability to propose solutions to SCM/ management issues (cross-border, forwarding, store x centralization of e-commerce inventory, etc.)	
Customer base	• 3PL-derived e-commerce for major B-to-B customers • Last mile entrustment	• Small & mid-sized e-commerce companies (multi-tenant)	• +Mid-sized e-commerce companies (Some automation x quality requirements) • +Large e-commerce companies (Reduce opportunity losses, optimize inventory, and minimize logistics costs)	

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

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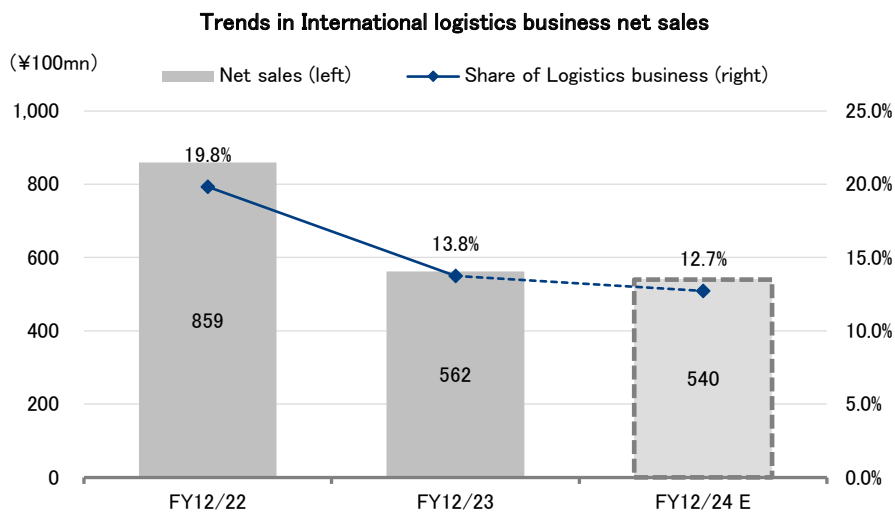
Medium-term management plan

c) International logistics

Regarding International logistics, SBS Toshiba Logistics, SBS Ricoh Logistics, and SBS Furukawa Logistics began joint purchasing of containers and other items in forwarding operations as of spring 2023 and are reducing costs by leveraging scale merits. The Company planned to integrate the overseas facilities of SBS Furukawa Logistics with SBS Ricoh Logistics sites before the end of 2023 and consolidate its overseas business into a two-company format with SBS Toshiba Logistics and SBS Ricoh Logistics. However, progress has been slower than expected, with integration of overseas facilities expected to be completed by the end of 2024. The Company is also focusing on acquiring orders for overseas logistics projects mainly for domestic customers, including cross-selling by each facility through collaborative sales activities.

For initiatives in FY12/24 and beyond, the Company established its International Logistics Strategy (ILS) project, which aims to attract new customers through collaborative sales, which entails mutual use of resources of the above three Group companies, which have overseas subsidiaries. In addition, the Company plans to strengthen local logistics and restructure its global SCM. Specifically, the Company is planning to take its domestic growth strategies including M&A, logistics facility development, and internal 3PL operations overseas. The high cost of overseas logistics remains a challenge for its domestic customers. 3PL prices in Europe and North America are particularly high. The Company thus sees scope for running a 3PL business overseas.

International logistics business sales fell sharply in FY12/23, down 35% YoY to ¥56.2bn, and further declines in marine freight rates and shipping volume are forecast for FY12/24. The Company thus forecasts a 3% YoY sales decline to ¥54.0bn in FY12/24, but expects shipping volume to recover in 2H. We at FISCO think that a turn to sales growth is possible, depending on the rate of recovery.



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

Medium-term management plan

(2) Develop and expand logistics business infrastructure

The Company will strengthen the infrastructure supporting the logistics business, such as 3PL, e-commerce logistics, and last-mile services (logistics facilities, distribution networks, human resources). With regard to the operational area of logistics facilities, the total at the end of FY12/23 was 3,200,000 m². The Company has secured sites totaling 4,013,000 m² (including sites currently planned), which offer scope to increase the operating floor area by 1.25 times once all facilities are operational. Assuming sales growth is proportional to the increase in operating floor area, net sales of the Logistics business could increase by 1.25 times to ¥510.0bn, which makes the FY12/25 Company forecast of ¥468.1bn simply another milestone. Regarding expansion of its distribution networks, the Company plans to extend its domestic EC logistics network nationwide, restructure its nationwide B-to-B delivery network for frozen and chilled products, including the opening of SBS Flec's Ichinomiya Distribution Center and Atsugi Distribution Center (tentative name) in 2024, and strengthen trunk line networks and last-mile delivery networks. To strengthen its human resources, the Company plans to strengthen hiring, reskill employees, and enable an exchange of personnel within the Group.

Operating floor area of Group logistics facilities

Name	Location	Operating (consolidated) time	Operating floor areas (tsubo)*	Type	Operating company
Operational area by the end of Dec. 2023			968,200		
Noda Seto Distribution Center Building A	Chiba	Feb. 2024	43,800	In-house development	SBS Asset Management
Ichinomiya Distribution Center	Aichi	Feb. 2024	2,600	Rent	SBS Flec
Atsugi Distribution Center (tentative name)	Kanagawa	Sep. 2024	4,300	Lease of entire building	SBS Flec
(small-scale increase to floor area)	Saitama, Okayama	During FY2024	6,100	Rent	SBS Toshiba Logistics
Mie Warehouse	Mie	Apr. 2024	600	In-house development	SBS Toshiba Logistics
Yokohama Fukuura Distribution Center (tentative name)	Kanagawa	Aug. 2024	18,000	Lease of entire building	SBS Ricoh Logistics System
Land in Thailand	Thailand	Planned	8,000	In-house development	SBS Toshiba Logistics
Tomisato Development Plan	Chiba	Construction scheduled to begin in Aug. 2024	30,000	In-house development	SBS Asset Management
Noda Seto Distribution Center Building B	Chiba	Planned	39,500	In-house development	SBS Asset Management
Tokorozawa (land A)	Saitama	Planned	7,000	In-house development	SBS Logicom
Tokorozawa (land B)	Saitama	Planned	4,000	In-house development	SBS Sokuhai Support
Yokoshibahikari-cho Land	Chiba	Planned	60,000	In-house development	SBS Logicom
Kasumigaura City Land	Ibaraki	Planned	20,000	In-house development	SBS Logicom
Land in Yashio	Saitama	Planned	2,400	In-house development	L-MAX
Planned floor area expansion from Jan. 2024 onward			246,300		
Total operating area (existing + planned)			1,214,500		

* 1 tsubo = approx. 3.3 m²

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

(3) LT × IT = Logistics DX

The Company aims to achieve industry-leading labor saving and increase profitability by promoting "LT × IT." In December 2022, the Company established the LT Lab, a cutting-edge LT testing facility, and is running motion tests and gathering data of next-generation robots sourced in Japan and overseas. It is at the stage of on-site operation of next-generation robots expected to be effective at various facilities to gather data.

Medium-term management plan

At present, the Company has deployed 12 types of LT devices at 12 logistics facilities (227 AGVs, 48 sorting robots, 36 conveyor robots, and one packing robot). Among them, at Ichinomiya Distribution Center, 176 AGVs are in operation, the largest number in the Group, which are contributing to labor saving. The Company is eager to introduce more LT devices, with the goal of raising productivity to a level equivalent to warehouse workers. We think the effect of introducing these devices on profitability will emerge in or after FY12/25.

(4) Strengthen the foundations of sustainability management

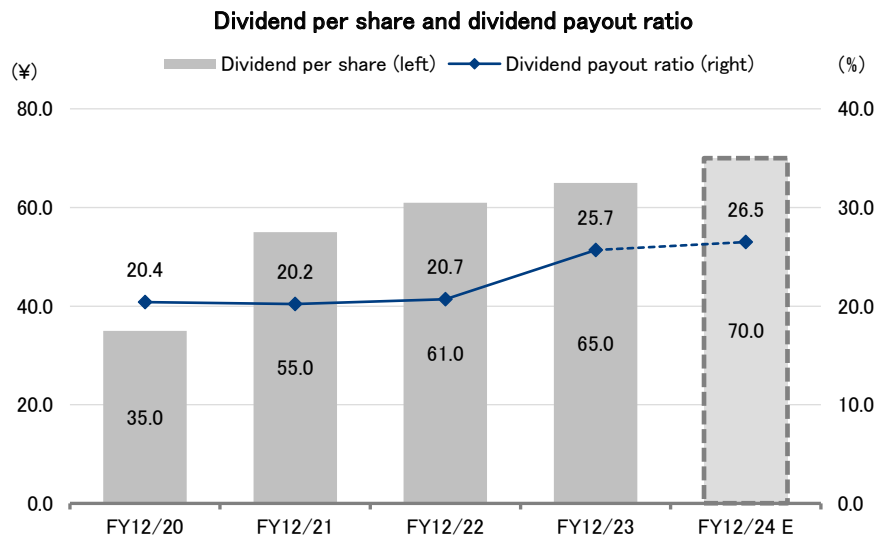
The Company aims to realize a balance between a sustainable society and corporate value by strengthening governance to support sustainability and tackling priority issues (materiality) in the three areas of safety, environment, and human resources. Within materiality, in the area of safety, the Company is working to realize the provision of safe and secure logistics services targeting zero major accidents by promoting operational safety management and implementing a safety education curriculum. In the area of environment, it aims to reduce emissions of greenhouse gases by taking steps to introduce EVs and improving fuel efficiency, as well as developing logistics facilities with increased efficiency using "LT×IT." Regarding EVs, the Company has introduced 19 electric commercial vans through FY12/23 for pilot operation, and plans to introduce around 100 vans in FY12/24.

In the area of human resources, the Company selects employees of multiple Group companies for training and assignment to strategic organizations, sharing the strengths of each company across the Group to strengthen the Group's overall capabilities. Amid concerns about the truck driver shortage in the logistics industry, the Company is considering hiring drivers with no experience, helping them to obtain their license at driving schools run by a Group company and providing training to build up its pool of drivers.

Shareholder return policy

Aiming to maintain continuous dividends and increase the level of dividends in line with operating results

The Company's basic policy for shareholder returns is to maintain continuous dividends and increase the level of dividends in line with operating results. In FY12/23, the dividend increased for the sixth consecutive period by ¥4.0 YoY to ¥65.0 per share (dividend payout ratio of 25.7%) despite a profit decline. The Company forecasts an increase of ¥5.0 in the per-share dividend to ¥70.0 (dividend payout ratio of 26.5%) in FY12/24. In future, the Company intends to increase the dividend payout ratio to around 30%.



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



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