COMPANY RESEARCH AND ANALYSIS REPORT

APPLE INTERNATIONAL CO., LTD.

2788

Tokyo Stock Exchange Second Section

2-Jul.-2018

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Index

Summary

Overseas, is deploying the Japanese style that succeeded in Thailand, and domestically, is responding to new markets

Currently, APPLE INTERNATIONAL CO., LTD. <2788> (hereafter, "Apple International," also "the Company") has two main business pillars: a business for the export of used vehicles, and a business for the franchise chain headquarters for dealers of the purchase and sale of used vehicles within Japan.

1. In FY12/17, resumed dividends after a gap of eight fiscal periods, despite major declines in sales and profits

In the FY12/17 results, net sales decreased 7.9% YoY to ¥13,634mn, operating income declined 33.5% to ¥325mn, ordinary income fell 35.2% to ¥335mn, and profit attributable to owners of parent declined 47.5% to ¥204mn. In the business to buy and sell used cars, which is being deployed by Apple Auto Network Co., Ltd. (formerly Japan Automobile Distribution Network Co., Ltd.) as the franchise chain headquarters, competition intensified, which put downward pressure on profits. But net sales still grew significantly, up 23.1% to ¥7,071mn. On the other hand, in the business for the export of used vehicles, net sales declined 27.6% to ¥6,562mn due to the slump in sales to Singapore, and the composition of sales switched to being focused on the business to buy and sell used cars. Sales for Thailand, which had slumped due to three negative factors in the previous fiscal period, recovered, but in other Southeast Asian countries, consumers held back on purchases prior to the model changes of expensive vehicles. However, the Company has completed its establishment of a financial foundation and resumed dividends after a gap of eight fiscal periods, paying a dividend of ¥5.

2. In FY12/18, a gain on foreign currency is expected from the liquidation procedure for the Hong Kong subsidiary

The forecasts for FY12/18 are for net sales to increase 21.9% YoY to ¥16,620mn, operating income to rise 77.5% to ¥577mn, ordinary income to increase by 3.9 times to ¥1,293mn, and profit attributable to owners of parent to grow by 5.7 times to ¥1,160mn. The reason why ordinary income will increase to a greater extent than operating income is that in non-operating income, a temporary item of gain on foreign currency of ¥650mn in relation to the liquidation procedure of the Hong Kong subsidiary, is expected. In Singapore, it is thought that the market will contract from the middle of the year due to the regulations on the total number of vehicles owned, and the Company is aiming for large-scale orders through the establishment of a repair and maintenance subsidiary specializing in hybrid vehicles (HV) and electric vehicles (EV). Within Japan, it intends to increase opportunities to earn profits at franchises by expanding the business domain from the previous buying and selling of vehicles to car rental and leasing, increasing the appeal of the franchise chain headquarters. On entering this fiscal period, the number of franchise dealerships had increased by three.

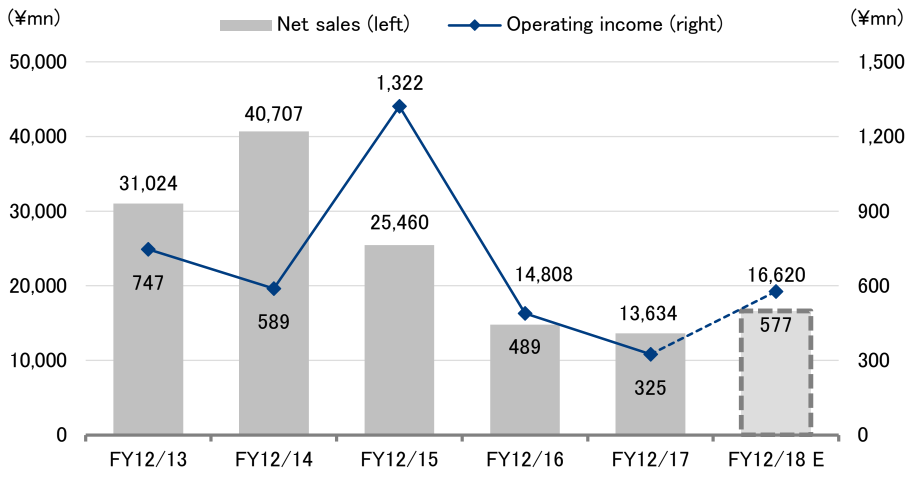
3. Business strategy in the overseas and domestic markets

The Company's Group manages the largest auto auction sites in Thailand based on Japanese-style vehicle assessments. At the same time as expanding this business in Thailand, it intends to adopt this highly reliable and objective Japanese style of assessment and to export Thai-manufactured used cars to ASEAN countries. Therefore, it has established a subsidiary in Thailand and is collaborating with Isuzu Motors <7202>, which became a shareholder through a third-party allocation of shares, to advance the export of light, commercial used vehicles. Within Japan, in addition to rental and lease cars, it is considering collaborations in the flea market in order to respond to medium- to long-term market changes.

Key Points

- Despite declines in sales and profits in FY12/17, resumed dividends after a gap of eight fiscal periods
- Sales and profits are forecast to increase substantially in FY12/18, including due to a temporary factor
- Intends to develop its business that utilizes its network domestically and overseas

Net sales and operating income



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

Company and business profile

Progressing collaborations with Group companies and with external companies

1. Company profile

Apple International, as a pioneer in the export of used vehicles, launched a business to export used vehicles to Southeast Asian countries in 1996. Since then, the Company has played an important part in the automobile distribution market, not only in the buying and selling of used cars, but also establishing auto auction businesses. Overseas, the Company has continually developed new businesses based on the trust it has earned and the expanding network of human connections it has established. The main business of the Company itself in the Company Group is the export of used vehicles from Japan, while a subsidiary serves as the franchise chain headquarters in the used vehicle purchase and sale business within Japan, and a Group company also directly manages franchise dealers.

2. History

The Company was founded in Yokkaichi City, Mie Prefecture, in January 1996 for the purchase and sale of used vehicles within Japan. Subsequently, in order to respond to the needs of overseas importers following the boom in motorization in Southeast Asian countries, in December of the same year it launched a business to export used vehicles to Thailand and Hong Kong. Currently, the Company itself operates the used vehicles export business from Japan, mainly for Thailand, Malaysia, Singapore, and Indonesia.

The Company is expanding the scale and range of its operations through M&A. In November, 2001, the Company acquired shares of Car Consultant Maple Co., Ltd., which buys and sells cars, and in May 2004, it acquired shares of franchise chain headquarters Apple Auto Network Co., Ltd. Both of these companies are now consolidated subsidiaries.

The Company listed on the Tokyo Stock Exchange (TSE) Mothers market in December 2003, and then in May 2015, transferred to the TSE Second Section.

In November 2016, the Company established a dual-headquarters structure, setting up a second headquarters in Tokyo's Chuo Ward.

In May 2017, the Company entered-into a capital and business alliance with Isuzu Motors. It conducted a capital increase through a third-party allocation by newly issuing 1.38 million new shares (9.97% of the total shares issued) to Isuzu Motors. Both domestically and overseas, the two companies will collaborate for the purchase, distribution, and exports of the used commercial vehicles manufactured by Isuzu Motors. Overseas, it has established a subsidiary to export light, commercial used vehicles from Thailand and to promote exports of Isuzu vehicles manufactured in Thailand.

History

Month and year	Major event
January 1996	Founded Apple International Co., Ltd. and started purchasing used vehicles
December 1996	Launched exports to Thailand and Singapore
July 1997	Launched exports to Hong Kong
September 1998	Launched exports to Malaysia, and then sequentially started exporting to Indonesia and other Southeast Asia countries
November 2001	Acquired shares in Car Consultant Maple Co., Ltd. and converted the company into a subsidiary
December 2003	Founded A.I.HOLDINGS (HONG KONG) LIMITED (A.I.H) in Hong Kong
December 2003	Listed on the TSE Mothers market
May 2004	Acquired shares in franchise chain headquarters Apple Auto Network Co., Ltd. and converted the company into a subsidiary
August 2004	A.I.H established a subsidiary and started dealer operations in China
August 2008	Launch of an auto auction business in Thailand from a joint-venture company (equity-method affiliate)
December 2013	The subsidiary Apple Auto Network Co., Ltd. launched a life-insurance sales business
May 2014	Sold a Chinese subsidiary BMW dealer
January 2015	Changed PRIME ON CORPORATION LIMITED and four other companies from consolidated subsidiaries to equity-method affiliates
May 2015	Transferred from TSE Mothers market to TSE Second Section
January 2016	Transferred all shares held in consolidated subsidiary IM JIHAN Corporation
February 2016	Transferred all shares held in PRIME ON CORPORATION LIMITED
November 2016	Established dual-headquarters structure by setting up a Tokyo Headquarters in Chuo Ward, Tokyo
April 2017	Opened the first Apple Rental Car store in Naha City, Okinawa Prefecture
May 2017	Resolved to liquidate A.I. HOLDINGS (HONG KONG) LIMITED, and the liquidation is scheduled to be completed by the end of November
May 2017	Entered-into a capital and business alliance with Isuzu Motors through a capital increase by a third-party allocation of shares
August 2017	Establish a subsidiary in Singapore (60% investment ratio) to repair and maintain HV and EV
September 2017	Launched a new car lease business at Apple directly managed stores with inexpensive lease fees
October 2017	Established a subsidiary in Thailand (49% investment ratio) in order to strengthen exports of used LCV

Source: Prepared by FISCO from Company materials

3. Description of business

Currently, its businesses are consolidated into the two business pillars of the export of used vehicles, which is conducted by the Company itself, and the franchise chain headquarters business of buying and selling vehicles, which is conducted by a consolidated subsidiary. Net sales by business in FY12/17 were ¥6,562mn from the business to export used vehicles and ¥7,071mn from the business to buy and sell used vehicles. The Company's Group consists of the Company itself, two consolidated subsidiaries, and one equity-method affiliate. The equity-method joint-venture company manages the used vehicles auction sites.

Affiliated companies

Name	Location	Capital/amount invested	Ownership ratio		Main business activities	Comments
Apple Auto Network Co., Ltd.	Yokkaichi City, Mie Prefecture	¥347mn	74.3%	Consolidated	Used vehicle purchasing and overall management of franchise chain network	Transactions with parent
Car Consultant Maple Co., Ltd.	Nakakoma District, Yamanashi Prefecture	¥10mn	100.0%	Consolidated	Used vehicle purchasing and sales	Transactions with parent
Apple Auto Auction (Thailand) Co. Ltd.	Kingdom of Thailand	¥287mn	34.4%	Equity-method	Management of auto auction sites	Dual directorship
APPLE HEV INTERNATIONAL Pte. Ltd	Singapore	500,000 SGD	60.0%	Non-consolidated	HV and EV repairs and maintenance business	Transactions with parent

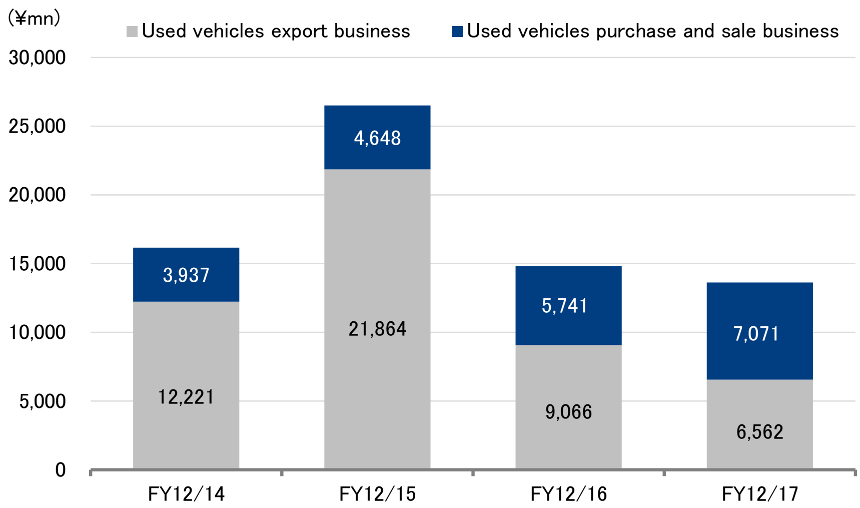
Source: Prepared by FISCO from Company materials

In Thailand, subsidiary and joint venture with MBK Public Company Limited, Apple Auto Auction (Thailand) Co. Ltd. manages auto auction sites. Owing to foreign ownership restrictions at the time of establishment, Company's ownership is only 34.4% and the company is therefore an equity-method affiliate. The management of auction sites is a business involving the collection of exhibition fees, successful bid fees, and contract completion fees, so it is a business model in which high profits can be stably obtained if a certain level of auction volume is maintained. This subsidiary has the second highest market share in terms of dealing volumes of the auction market in Thailand. We note, however, that motorcycle sales are not included in the company's sales volume figures, although they are included in the sales volume figures of the company with the top market share.

(1) The business for the export of used vehicles

In this business, results fluctuate greatly as sales are affected by various factors, including the economic conditions at the export destinations, tax reforms and exhaust-emissions regulations, exchange-rate fluctuations, and the timing of vehicle model changes. In Thailand, which is the main sales destination, in FY12/15 there occurred a rush in demand in anticipation of the increase in vehicle tax in January 2016, and then a decline in the following fiscal year as a reaction to this. In October 2016, the King of Thailand Bhumibol Adulyadej, who was deeply loved by the Thai people and who had ruled for 70 years, passed away, and subsequently consumers refrained from purchases from the mood of self-restraint that had swept the country. In FY12/17, sales continued to decline because consumers held back from purchases in advance of the model changes of new vehicles.

Net sales by business



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

(2) Vehicle purchasing company category

In the 2017 Oricon Japan customer satisfaction rankings, Apple was awarded first place for the fourth consecutive year in the "Vehicle purchasing companies" category. At the end of December 2016, there were 236 member dealers (including 12 directly managed dealers) in its "Apple" franchise chain of dealers. Apple Auto Network member dealers are provided with information to help them determine appropriate price at the time of purchase including used vehicles' successful bid price information at auctions in Japan and inventory information. Through sales promotions activities utilizing the Apple brand, Apple Auto Network provides its member dealers with integrated management and in return collects royalties from them. In addition, the Company is also focusing on its property and casualty insurance counter, online insurance, and car rental businesses, all offering speedy contract completion.

In the business to buy and sell used cars, Apple Auto Network, which is the headquarters deploying the chain, is steadily generating profits. At directly managed dealerships, the increase in net sales per dealership is being maintained. However, price competition is intensifying, which is placing downward pressure on profits.

Trend in Apple Auto Network's results

(¥mn)

	FY12/15	FY12/16	FY12/17
Net sales	4,512	5,337	6,102
Ordinary income	288	253	234
Net profit	178	166	160
Net assets	1,050	1,184	1,310
Total assets	1,787	1,811	1,983

Used vehicles purchase and sale business

	FY12/14	FY12/15	FY12/16	FY12/17
No. of FC dealers	225	238	238	236
No. of assessments	147,800	159,700	154,487	157,516
No. of vehicles purchased	72,800	77,200	73,665	74,228
No. of vehicles sold	75,400	81,400	78,879	80,434
Of which, no. of vehicles sold at auction	66,200	71,400	68,945	69,868
Of which, no. of retail-sales vehicles	9,200	10,000	9,934	10,566

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

Completed the business structural reforms and resumed dividend payments

4. Business trends

(1) Return of the founder, restructuring of Group companies

President Yoshinobu Kubo, founder of the Company and the largest shareholder went on sick leave from 2007 and withdrew from the frontline of the Group's management. But his health recovered and in 2013 he returned to the management frontline as the Chairman and President. After his return, concerns emerged regarding the rapid expansion of operations in Asia, particularly in China, undertaken during his absence. Thereafter, he and management worked to restructure the Group. The objective of this Group restructuring was to eliminate risk factors and restore financial stability. The number of consolidated subsidiaries in FY12/09 was 28 companies and at the most, there were also 11 equity-method affiliates. This was reduced to two consolidated subsidiaries and one equity-method affiliate. The Hong Kong subsidiary and its three subsidiaries are currently inactive and undergoing liquidation procedures.

(2) Withdrawal from China business

By withdrawing from the unprofitable. China business, currency risk, market risk, and country risk relating to China have been eliminated. The Company has also improved its financial stability by ending the debt guarantee it provided to a subsidiary. The Company sold its new vehicle dealer business subsidiary in China and withdrew from the market. In FY12/09, net sales from the China business reached ¥27,194mn, which accounted for more than 60% of total sales, but since FY12/15, sales from the China has no longer been included in consolidated net sales.

Following the global financial crisis triggered by Lehman Brothers' bankruptcy in September 2008, Asian businesses suffered a significant decline in sales and recorded an enormous extraordinary loss (¥3,522mn) in FY12/09. The main reasons were an impairment loss on the goodwill of an overseas subsidiary of ¥905mn and the provision of allowance for doubtful accounts for Malaysia receivables of ¥1,101mn. In FY12/14, compared to consolidated operating income of ¥589mn, the Company recorded interest paid for non-operating expenses of ¥762mn and the provision of allowance for doubtful accounts for the Chinese subsidiary and Malaysia receivables of ¥771mn, resulting in an ordinary loss. The extraordinary loss in the same period (¥834mn) included a loss on sales of shares of subsidiary (¥310mn), and provision for loss on business of the Chinese subsidiary (¥434mn). After the Company completed the painful process of rebuilding its financial base, extraordinary losses fell to ¥2mn in FY12/15.

Consolidated results

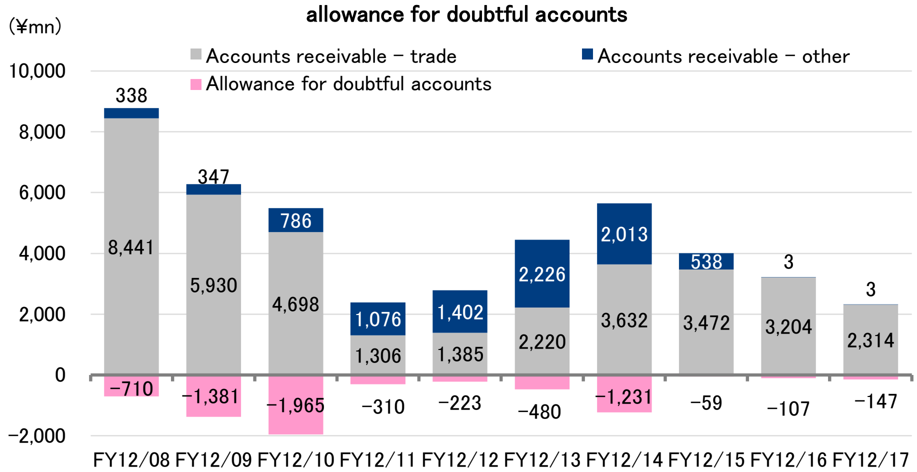
(¥mn)

	FY12/07	FY12/08	FY12/09	FY12/10	FY12/11	FY12/12	FY12/13	FY12/14	FY12/15	FY12/16	FY12/17
Net sales	55,881	43,356	43,112	34,376	27,300	24,099	31,024	40,707	25,460	14,808	13,634
Operating income	1,217	407	-52	498	110	-169	747	589	1,322	489	325
Interest paid	359	261	278	201	285	326	633	762	67	30	26
Ordinary income	876	-50	-46	184	-173	-563	19	-759	1,339	517	335
Extraordinary loss	133	507	3,522	1,199	141	64	64	834	2	9	0
Profit attributable to owners of parent	334	-288	-3,715	-1,604	-708	-295	50	-1,030	1,273	388	204

Source: Prepared by FISCO from Company materials

Accounts receivable at end-FY12/08 were ¥8,441mn, but by end-FY12/11, this had declined to ¥1,306mn. At end-FY12/11, long-term operating loans receivable were ¥2,379mn, long-term retained receivables were ¥1,051mn, and the allowance for doubtful accounts was ¥3,019mn, but by end-FY12/17, these had fallen to ¥672mn, ¥299mn, and ¥1,075mn, respectively. Total assets also declined from ¥29,938mn in FY12/07 to ¥8,230mn in FY12/17.

Trends in accounts receivable – trade, accounts receivable – other and allowance for doubtful accounts



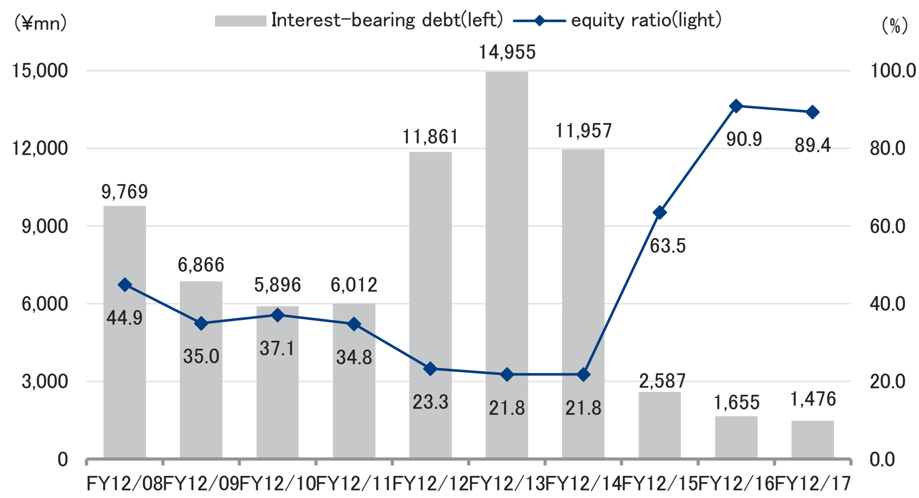
Source: Prepared by FISCO from Company materials

(3) Significant improvement in financial position

The Company posted net losses for five consecutive years (FY12/08-FY12/12) and interest-bearing debt rose to ¥14,955mn in FY12/13. Of the Company's ¥11,735mn in short-term borrowing as of end-FY12/14, China-related borrowing accounted for ¥10,513mn, and in terms of financing, this business had become a factor hampering the development of other businesses. As China-related borrowing was eliminated by end-FY12/15, interest-bearing debt declined greatly, from ¥11,957mn of end-FY12/14 to ¥2,587mn. In FY12/16, interest-bearing debt was reduced and moreover, short-term borrowing was repaid and replaced with long-term borrowing.

Looking at ratios related to financial stability, the current ratio, which indicates a company's ability to pay its short-term debts, rose from 115.4% in end-FY12/13 to 573.2% in end-FY12/17, well above 200%, the level considered ideal. Over the same period of time, the equity ratio, which indicates a company's ability to pay its long-term debts, rose from 21.8% to 89.4%, above the ideal level of 70%.

Interest-bearing debt and equity ratio



Source: Prepared by FISCO from Company materials

(4) Finalizing business restructuring measures and strengthening of financial base in order to resume dividends

In FY12/16, consolidated retained earnings had improved from negative ¥292mn at the end of FY12/15 to positive ¥1,209mn, erasing accumulated losses. However, parent retained earnings remained in deficit, which was an obstacle to the resumption of dividends. Therefore, the Company decided to reduce capital reserves by ¥694mn and appropriate this amount to write off negative retained earnings as the final step in its restructuring program. As a result, the Company resumed dividends in FY12/17 for the first time in eight fiscal years.

Results trends

Even though sales and profits declined in FY12/17, resumed dividend payments after a gap of eight fiscal periods

1. Overview of FY12/17 results

● The FY12/17 results – slump in the business for the export of used vehicles

In FY12/17, the Company left unchanged its initial forecasts up to Q3, despite some elements causing uncertainty for profits, but it had to downwardly revise the results forecasts immediately prior to announcing the results. Net sales declined 7.9% YoY to ¥13,634mn, operating income fell 33.5% to ¥325mn, ordinary income decreased 35.2% to ¥335mn, and profit attributable to owners of parent declined 47.5% to ¥204mn. Compared to the initial forecasts, both net sales and operating income were greatly below their forecasts, by 19.9% and 52.5% respectively. However, unlike prior to conducting the structural reforms, the Company recorded a profit for both ordinary income and profit attributable to owners of parent for the third consecutive fiscal period, and it resumed dividend payments after a gap of eight fiscal periods.

In net sales by business, there was a clear distinction between the two businesses. In the business for the export of used vehicles, sales declined significantly, by ¥2,504mn YoY to ¥6,562mn (down 27.6%). But in the business to buy and sell used cars, they increased by ¥1,330mn to ¥7,071mn (up 23.1%).

FY12/17 results

(¥mn)

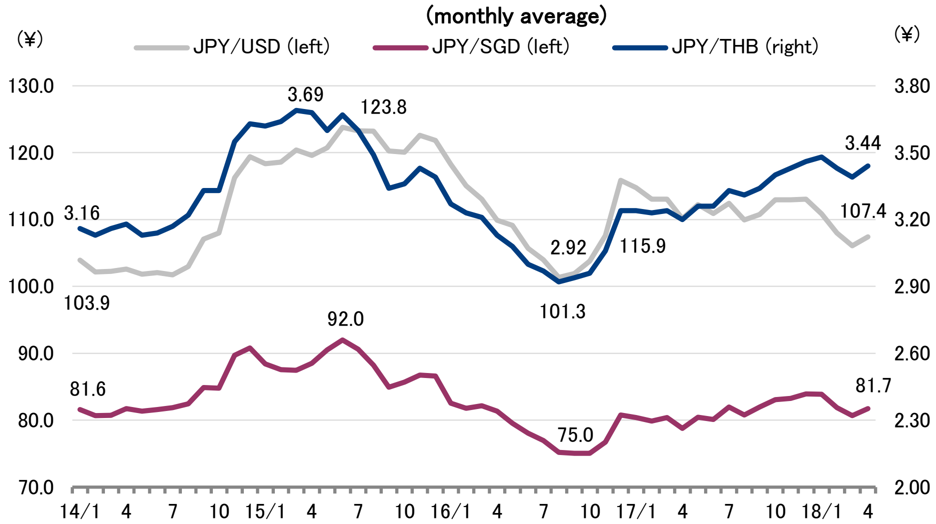
	FY12/16		FY12/17			YoY		Vs. initial forecast
	Results	% of sales	Initial forecast	Results	% of sales	Amount	Growth rate	
Net sales	14,808	-	17,014	13,634	-	-1,173	-7.9%	-19.9%
Used vehicles export business	9,066	61.2%	-	6,562	48.1%	-2,504	-27.6%	-
Used vehicles purchase and sale business	5,741	38.8%	-	7,071	51.9%	1,330	23.1%	-
Gross profit	2,059	13.9%	-	1,866	13.7%	-193	-9.4%	-
SG&A expenses	1,570	10.6%	-	1,540	11.3%	-29	-1.9%	-
Operating income	489	3.3%	685	325	2.4%	-163	-33.5%	-52.5%
Ordinary income	517	3.5%	728	335	2.5%	-181	-35.2%	-53.9%
Profit attributable to owners of parent	388	2.6%	576	204	1.5%	-184	-47.5%	-64.6%

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

a) The business for the export of used vehicles

In the Thai market in FY3/16, three negative factors (the revision to the vehicle import tax, the strong yen from the middle of the year through the summer, and the passing of the King of Thailand), overlapped, and net sales declined 57.1% YoY. These factors had ended by FY12/17 and a recovery was expected. Although sales to Thailand did pick-up, sales declined greatly to the Singapore market, which in the previous fiscal year had partially compensated for the slump in sales to the Thai market. In the 2H, consumers held back from purchases due to exchange-rate fluctuations and in advance of the announcement of the model changes to Toyota's Alphard and Vellfire vehicles, which are very popular in Southeast Asia.

Exchange rates vs. yen for U.S. dollar, Singapore dollar, and Thai baht
(monthly average)



Source: Prepared by FISCO from various data

b) Used vehicles purchase and sale business

At the end of the fiscal period, the number of dealerships had decreased by 2 YoY to 236 dealerships, while the plan had been for a net increase of 2 dealerships. There were 12 newly opened dealerships, but this was exceeded by the 15 dealerships that were closed. In the directly managed dealerships, net sales increased 2.9% YoY. Although the number of franchise dealerships declined, the number of vehicle assessments increased 1.9% to 157,516 assessments, while the number of vehicles purchased rose slightly, by 0.7% to 74,228 vehicles. The number of vehicles sold increased 1.9% to 80,434 vehicles. Within this number, the number of vehicles sold at auction grew 1.3% to 69,868 vehicles, but the growth in the number of retail sales was higher, rising 6.3% to 10,566 vehicles. However, in the market for dealerships specializing in purchases, competition intensified, including with Gulliver (IDOM<7599>) and BIGMOTOR Co., Ltd. So profitability was reduced, as the purchase prices were higher than previously.

2. The financial condition and cash flow statement

(1) Balance sheet

At the end of FY12/17, total assets were up ¥637mn on the end of the previous fiscal year to ¥8,230mn. The main increase and decrease items were that in current assets, cash and deposits increased ¥959mn, accounts receivable decreased ¥890mn, and goods and products rose ¥431mn. The indicators of financial stability are at extremely high levels, as the current ratio is 573.2% and the equity ratio is 89.4%.

Balance sheet

(¥mn)

	FY12/13	FY12/14	FY12/15	FY12/16	FY12/17	Change
Cash and deposits	12,464	9,397	2,533	2,429	3,389	959
Accounts receivable – trade	2,220	3,632	3,472	3,204	2,314	-890
Merchandise	3,808	3,583	732	868	1,299	431
Accounts receivable – other	2,226	2,013	538	3	3	0
Allowance for doubtful accounts	-480	-1,231	-59	-107	-147	-39
Current assets	21,221	18,853	7,856	6,905	7,463	557
Property, plant and equipment	844	753	215	237	274	36
Intangible assets	26	29	42	40	28	-12
Investments and other assets	2,017	1,026	990	409	464	54
Non-current assets	2,889	1,809	1,248	687	766	79
Total assets	24,110	20,662	9,104	7,593	8,230	637
Notes and accounts payable - trade	1,216	768	203	50	74	23
Short-term loans payable	14,761	11,852	2,438	576	487	-88
Current liabilities	18,397	16,629	4,872	1,118	1,302	183
Long-term loans payable	194	105	149	1,079	989	-90
Non-current liabilities	268	209	282	1,254	1,161	-93
Total liabilities	18,666	16,838	5,154	2,373	2,463	89
(Interest-bearing debt)	14,955	11,957	2,587	1,655	1,476	-178
Net assets	5,445	3,824	3,950	5,219	5,766	547
Total liabilities and net assets	24,110	20,662	9,104	7,593	8,230	637
Ratios of stability						
Current ratio	115.4%	113.4%	161.2%	617.2%	573.2%	
Equity ratio	21.8%	21.8%	63.5%	90.9%	89.4%	

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

In FY12/18 Q1, current assets increased ¥1,328mn on the end of the previous fiscal year. The main increase and decrease items were that cash and deposits fell ¥425mn, accounts receivable increased ¥867mn, and goods rose ¥533mn. In the business for the export of used vehicles, demand for model-change vehicles was expected to grow and accounts receivable increased. The Company has accumulated inventory, which will lead to an increase in sales from 1H onwards. Borrowing rose in response to the business expansion, and interest bearing debt increased ¥1,067mn on the end of the previous fiscal period. But despite this, the D/E ratio remained at the low level of 0.35 times.

(2) Cash flow

At the end of FY12/17, the balance of cash and cash equivalents was up ¥997mn on the end of the previous fiscal year to ¥3,365mn. Also, cash flow from operating activities during the period was ¥841mn.This was because although net income before income taxes declined to ¥337mn, there were contributions of ¥890mn from the decrease in trade receivables and other factors. Cash flow used in investing activities was ¥68mn due to the fact that revenue of ¥263mn, which was recorded in the previous fiscal year on the sale of the shares of an affiliate, was not recorded in this fiscal year. Cash flow from financing activities was ¥224mn, as the decrease in short-term borrowing of ¥225mn was offset by the revenue from long-term borrowing of ¥400mn.

Cash flow statement

(¥mn)

	FY12/15	FY12/16	FY12/17	Change
Cash flow from operating activities	-418	8	841	833
Cash flow from investing activities	-73	356	-68	-424
Cash flow from financing activities	1,137	-181	224	406
Cash and cash equivalents at end of period	2,178	2,367	3,365	997

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

Outlook

Sales and profits are forecast to increase greatly in FY12/18, including due to a temporary factor

1. FY12/18 earnings forecast

The forecasts for FY12/18 are for net sales to increase 21.9% YoY to ¥16,620mn, operating income to grow 77.5% to ¥577mn, ordinary income to climb by 3.9 times to ¥1,293mn, and profit attributable to owners of parent to increase by 5.7 times to ¥1,160mn. The net sales forecast takes into account the increase in demand that is expected in the business for the export of used vehicles due to the model changes of expensive vehicles. The reason why ordinary income is forecast to greatly exceed operating income is that in non-operating income, a gain on foreign currency of 45mn HKD (around ¥650mn: based on the exchange rate at the end of December 2017 of ¥14.46 to 1 HKD) is forecast on the realization of a foreign currency conversion adjustment that will occur following the completion of the liquidation procedure of the Hong Kong subsidiary.

FY12/18 earnings forecast

(¥mn)

	FY12/17		FY12/18		YoY	
	Results	% of sales	Forecast	% of sales	Amount	Growth rate
Net sales	13,634	-	16,620	-	2,985	21.9%
Operating income	325	2.4%	577	3.5%	251	77.5%
Ordinary income	335	2.5%	1,293	7.8%	957	285.8%
Profit attributable to owners of parent	204	1.5%	1,160	7.0%	955	468.2%

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

2. 1Q FY12/18 results

For 1Q FY12/18, the Company posted consolidated net sales of ¥4,058mn, up 8.9% YoY, operating income of ¥72mn, up 32.7%, ordinary income of ¥80mn, up 28.7%, and profit attributable to owners of parent of ¥55mn, up 25.1%.

1Q FY12/18 results

(¥mn)

	1Q FY12/17		1Q FY12/18		YoY	
	Amount	% of sales	Amount	% of sales	Amount	Change
Net sales	3,727	-	4,058	-	330	8.9%
Gross profit	468	12.6%	526	13.0%	58	12.6%
SG&A expenses	360	9.7%	454	11.2%	93	26.0%
Operating income	107	2.9%	72	1.8%	-35	-32.7%
Ordinary income	113	3.0%	80	2.0%	-32	-28.7%
Profit attributable to owners of parent	74	2.0%	55	1.4%	-18	-25.1%

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

Despite the slow start in Q1, the Company has been taking steps to expand results from Q2 onwards. Since February 2018, the Singapore government has been restricting the total number of owned vehicles, and it is expected that the market will begin to contract from the middle of 2018. The area of this country is only about the same size as Tokyo's 23 wards or Lake Biwa, and roads already account for 12% of national land. To own a private car, individuals must purchase a car ownership certificate (COE), and when the price of this is added to the relatively high prices of vehicles, it is said that the cost of owning a car in Singapore is the highest in the world.

There are approximately 956,000 registered vehicles, of which 552,000 are private passenger cars, 51,000 are rental cars, 27,000 are taxis, and 143,000 are motorcycles and scooters. In order to keep down the increase in the number of vehicles, the Singapore government stipulated that the increase rate would be 1.5% in 2009, 1% in 2012, and 0.25% from 2015 onwards. Due to the restriction on the total number of vehicles implemented in February 2018, in the future, in the event of owning a new car, there will inevitably appear people who will give up the right to do so. This country does not produce vehicles and imports are limited to new vehicles. However, if the vehicle is within one year of registration, it is treated as a new vehicle and may be exported. The COE expires after 10 years, so if the vehicle is in its 10th year, it will be scrapped or exported overseas as a used car.

Taxi companies purchase new vehicles as replacements after the 10th year from the acquisition of the COE. For environmental conservation, demand for HV and EV is increasing, and they are being adopted as taxis. In Singapore and other Asian countries, for many years there tended to be an aversion to HV and EV due to concerns about their repairs and maintenance. Vehicles manufactured in China are cheaper, but Japanese vehicles are also an option as taxis when assuming that they will be used for 10 years, due to their quality and reliability.

In August 2017, the Company established a subsidiary in Singapore specializing in the repair and maintenance of HV and EV. By establishing a local, specialist maintenance company, it is planning to provide a maintenance guarantee service for the vehicles it exports to Singapore, and to leverage the synergies with the Company's export sales business. Taxi companies are the main target customers. In the case of a major company, demand on the scale of 5,00 to 1,000 vehicles a year can be expected. The Company set-up bidding meetings with major taxi companies in Q2, and if it succeeds in obtaining orders, it will be able to avoid the slump that occurred in Q1.

In May 2017, the Company resolved to liquidate its consolidated subsidiary A.I. HOLDINGS (HONG KONG) LIMITED, and it plans to complete the liquidation during FY12/18. In relation to this, the initial forecasts incorporate a gain on foreign currency of ¥650mn in non-operating income from the realization of a currency conversion adjustment. As this gain could have been recorded in the 2H of the previous fiscal year, it was difficult to recover the slump in sales in the Singapore market in the 1H, but even so, the full fiscal year forecasts have been left unchanged.

Medium-to-long-term growth strategy

Intends to develop its business that utilizes its network domestically and overseas

1. Overseas business

E-commerce, which based on the Internet and is characterized by “Overcoming distance,” “Overcoming time,” and “An unlimited quantity of information,” is steadily expanding. It is possible to overcome distance and inspect Japanese auto auctions from overseas. The TV auctions, which involve buying and selling based on the vehicles’ images and data, must ensure the accuracy of the vehicle information and the objectivity of the assessments of them. The Japanese-style vehicle assessment system has been widely adopted for a long time, so it has reached a level where prices can be easily estimated from the vehicle data and images.

(1) Auto auction business in Thailand

If the Japanese-style vehicle assessment system is also operated overseas, it will lead to the development of the auto auctions and the expansion of the business for the export of used vehicles. The Company is already deploying its auction business in Thailand, but it plans to expand the size of the main auction sites by 2 times and also to double the local auction sites that are set up at 12 locations along the main national highways.

(2) Export of used vehicles manufactured in Thailand

In November 2017, the Company established a subsidiary, APPLE INTERNATIONAL (THAILAND) Co., Ltd., to export used light commercial vehicles (LCV) manufactured in Thailand. Thailand is a global production base for LCV. In the ranking of vehicle production in 2017 in the major right-hand drive countries, Japan was overwhelming the highest with 9,694,000 vehicles, followed by India with 4,783,000 vehicles, and then Thailand in third place with 1,989,000 vehicles. In particular, when limited to LCV, Thailand produced 1,148,000 vehicles, which is the largest number, exceeding the 818,000 vehicles that were produced in Japan. Toyota Motor <7203> has ended sales within Japan of its top-selling Hilux pickup truck, which is its strategic vehicle for emerging countries, but in 2017 it re-launched imports of Thai-manufactured vehicles for the first time in 13 years. Thailand is extremely important for right-hand-drive commercial vehicles.

No. of vehicles produced by vehicle type in the main right-hand-drive countries (2017)

	No. of vehicles produced (1,000)				%			
	Passenger vehicles	Commercial vehicles	Of which, LCV	Total	Passenger vehicles	Commercial vehicles	Of which, LCV	Total
Major right-hand drive countries								
Japan	8,348	1,346	818	9,694	86.1	13.9	8.4	100.0
India	3,953	830	504	4,783	82.6	17.4	10.5	100.0
Thailand	818	1,170	1,148	1,989	41.2	58.8	57.7	100.0
United Kingdom	1,671	78	60	1,749	95.5	4.5	3.4	100.0
Indonesia	982	234	145	1,217	80.7	19.3	11.9	100.0
South Africa	321	269	242	590	54.5	45.5	41.0	100.0
Malaysia	425	35	34	460	92.3	7.7	7.4	100.0
Subtotal	16,519	3,963	2,952	20,481	80.7	19.3	14.4	100.0
The world	73,457	23,846	19,388	97,303	75.5	24.5	19.9	100.0

Source: Prepared by FISCO from OICA (the Organisation Internationale des Constructeurs d’Automobiles) statistics
Note: LCV (Light commercial vehicle)

In terms of the number of vehicles registered and sold by right hand drive country in 2017, Japan was top with 5,239,000 vehicles, then India with 4,018,000 vehicles, the United Kingdom with 2,955,000 vehicles, Australia with 1,189,000 vehicles, Indonesia with 1,061,000 vehicles, and Malaysia with 591,000 vehicles. The Company intends to activate exports of Thai-manufactured used vehicles to ASEAN countries by spreading the use of Japanese-style vehicle assessments and expanding its auto auctions in Thailand.

No. of vehicles registered and sold in the main right-hand-drive countries (2017)

	No. of vehicles registered and sold (1,000)			%		
	Passenger vehicles	Commercial vehicles	Total	Passenger vehicles	Commercial vehicles	Total
Asia Pacific						
Japan	4,391	848	5,239	83.8	16.2	100.0
Indonesia	825	236	1,061	77.8	22.2	100.0
Singapore	94	16	111	85.2	14.8	100.0
Thailand	402	472	874	46.0	54.0	100.0
Malaysia	520	71	591	87.9	12.1	100.0
India	3,228	790	4,018	80.3	19.7	100.0
Australia	915	273	1,189	77.0	23.0	100.0
New Zealand	108	51	160	67.8	32.2	100.0
Africa						
South Africa	370	186	556	66.5	33.5	100.0
Europe						
United Kingdom	2,539	416	2,955	85.9	14.1	100.0
The world	70,849	25,955	96,804	73.2	26.8	100.0

Source: Prepared by FISCO from OICA (the Organisation Internationale des Constructeurs d'Automobiles) statistics

The ASEAN Free Trade Area (AFTA) was advanced in December 2015 to become the ASEAN Economic Community (AEC), and from 2016, tariffs between the member countries were eliminated. The member countries are Thailand, Singapore, Malaysia, Indonesia, the Philippines, Brunei, Vietnam, Myanmar, Laos, and Cambodia. It made exports easier to the right-hand-drive countries, including Malaysia, Indonesia, and Brunei.

(3) The capital and business alliance with Isuzu Motors

In May 2017, the Company entered-into a capital and business alliance with Isuzu Motors. With Isuzu Motors as the third party, it conducted a capital increase through a third-party allocation to issue 1.38 million new shares (corresponding to 9.97% of the total number of shares issues, issue price per share, ¥291).

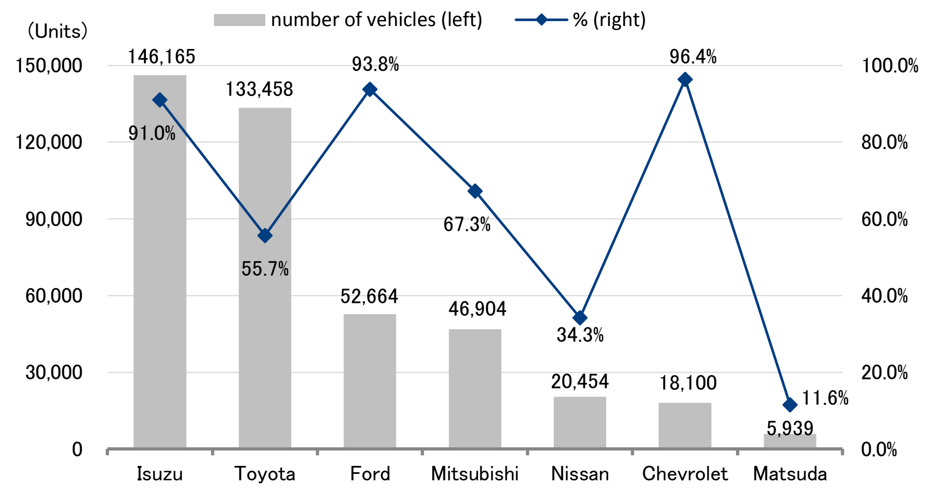
Through the capital and business alliance with Isuzu Motors, the Company will accelerate the exports of Thai-manufactured used vehicles to ASEAN countries. For auto manufacturers, if the export of used vehicles expands, used vehicles within Thailand will become in shorter supply and prices in the used vehicles market will stabilize. They will be able to set higher trade-in prices, which will promote sales of new vehicles. For the Company, it will be able to stably secure merchandise.

Thailand is a right-hand drive country and its market is dominated by Japanese manufacturers. In the percentages of vehicle sales by manufacturer and brand in 2017, the top was Toyota Motor with 27.5%, followed by Isuzu Motors with 18.4%, and third was Honda Motor <7267> with 14.7%. Below them were Mitsubishi Motors <7211> with 8.0%, Nissan Motor <7201> with 6.9%, Ford (USA; Ford Motor Company <F>) with 6.4%, Mazda Motor <7261> with 5.9%, Suzuki <7269> with 2.9%, Chevrolet (USA; General Motors Company <GM>) with 2.2%, Mercedes-Benz with 1.6%, and others, with 5.6%. This meant that Japanese manufacturers accounted for 84.3% of the total.

In Thailand in 2017, the number of vehicles sold increased 13.4% YoY to 871,000 vehicles, of which 346,000 were passenger vehicles and 525,000 were commercial vehicles. The one-ton pickup truck, which is a light commercial vehicle, accounted for 424,000 vehicles, or 48.7%, of the total.

In 2017, Isuzu sold 146,000 one-ton pickup trucks in Thailand. As it does not sell passenger vehicles, this vehicle's share of Isuzu's total number of vehicles sold is extremely high, at 91.0%. The dependence of Toyota, which has the top share in passenger vehicles, on the one-ton pickup truck is 55.7%.

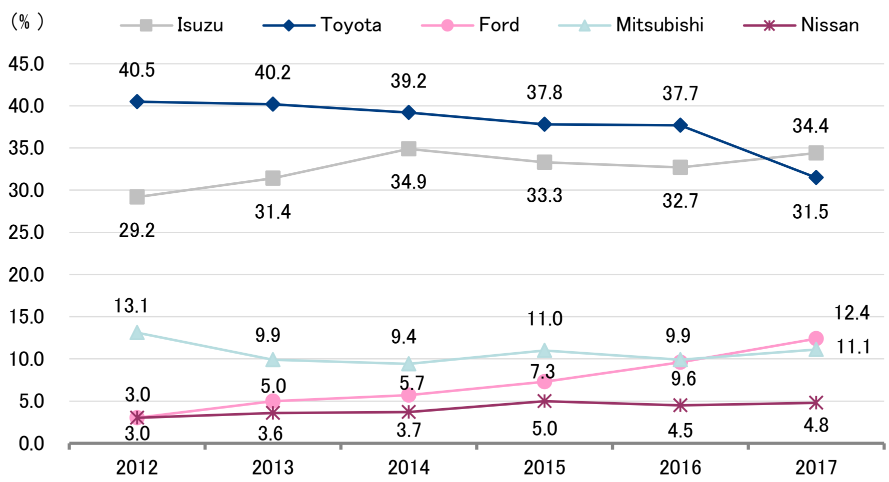
One–ton pickup truck sales by manufacturer and its composition



Source: Prepared by FISCO from Thai Industries data

In 2017, Isuzu leaped above Toyota in Thailand for the number of sales of one-ton pickup trucks. Isuzu's share is 34.4% and Toyota's is 31.5%, so they are the two major forces in this market. Third-placed Ford has been continuously increasing its share, which grew to double digits, of 12.4%, in 2017. Ford's reliance on the one-ton pickup truck is high, at 93.8%.

Trend in the share of sales of one-ton pickup trucks by manufacturer in Thailand



Source: Prepared by FISCO from Thai Industries data

(4) Business deployment to ASEAN countries

Based on Japanese-style vehicle assessments, the Company conducts a business of buying and selling used vehicles, a business for the export of used vehicles, and the management of auction sites. Going forward, it will horizontally deploy the model that was successful in Thailand to its neighboring countries. In countries in which an auto auctions business utilizing IT systems have not yet been established, through the early entry into such countries, the Company is aiming to establish its own assessment standards as the industry de-facto standards, and to spread the management of auto auctions based on its IT systems.

Currently, it is progressing the establishment of an auto auction business-related subsidiary in Malaysia, with the goal of establishing it within the year. In Thailand, more than 80% of vehicles to be auctioned are from financial institutions, so it is partnering with the Thanachart Bank Group in this country. In Malaysia, it is looking to form partnerships with local companies that already have auto auction sites. This method enables it to omit the time that would be required to purchase the land on which to establish the auction site locally and to build the new facilities, and it therefore allows it to launch a business in a short period of time. It also enables the Company to specialize in its strengths, such as the standardization of assessments, and in the management of IT systems. Needs are high for a bidding function via the Internet that allows customers to bid without having to physically go to the auction site. The Company can utilize its facilities in Thailand for the IT system, and therefore it anticipates being able to stably generate earnings, including auction fees and system-usage fees, from little capital and at low risk. After the business deployment in Malaysia, it is likely to consider entering-into other right-hand drive countries, such as India and Indonesia. The Company is also anticipating further development in Malaysia, which has realized its first political power transition in May 2018, 61 years after the country's independence.

2. Domestic businesses

Looking at the auto distribution business in Japan, in addition to the declining and aging population, the price of vehicles is rising owing to more demanding environmental and safety standards and volume growth in the Japanese new car and used car markets is therefore not likely. In the absence of growth in the auto market, many companies have adopted growth strategies involving expanding into ancillary business domains occupied by rivals. For example, companies in the used vehicle purchase business have moved into retail and used car sellers have launched foreign-made new car dealerships and dealerships specializing in auto purchasing.

(1) Entry-into peripheral businesses

The Company is taking steps to respond to the changes to its business environment that are expected to occur in the future, such as the intensification of competition with existing business operators and the appearance of new services utilizing the Internet. Rather than simply pursuing the expansion of volume, the Company is developing schemes for its franchise business, including for rental car and car lease businesses, and it is aiming to diversify its revenue sources by leveraging synergies with the Company Group's existing functions. On entering FY12/17, in April it opened the first Apple Rental Car store in Naha City, Okinawa Prefecture, and then in September, it launched the Apple Lease business in directly managed stores at inexpensive lease rates.

a) Expanding into rental car business

Among the younger generation of Japanese people, consumption trends are shifting from a focus on products and physical objects to a focus on services and experiences and from possession (exclusive ownership) to sharing (communal use). In the cloud computing era, the focus has shifted from resource ownership to use of resources. In the US music industry, fixed-rate music distribution services now outsell music CDs and file download sales. In the auto market, the movement away from cars by younger people has evolved into a change in focus from car ownership to car usage.

The Company Group is promoting the packaging of its rental car business in order to respond to the development of the sharing economy. In this business also, it plans to develop a franchise chain under the Apple brand. New cars are normally used for rental cars, but the Company will also utilize used cars. It has already investigated a rental car business that utilizes used cars in Thailand. In Okinawa, where the number of visitors to Japan is increasing due to the effects of inbound demand, in April 2017 it opened Apple Rental Car Naha as the first member store in the franchise. The second store is planned for Sapporo City, Hokkaido, where inbound-demand effects are also expected. However, as demand declines dramatically in the winter when it snows, it will need to responsively adjust the vehicles it holds according to the season.

b) Entering-into the car lease business

In April 2017, the Company launched a car lease business for individuals utilizing the used vehicles that it owns. Further, in September, it added new vehicles to the menu. The business has been launched from 10 directly managed stores in Chiba City and Fujisawa City, Kanagawa Prefecture, in addition to in Yokkaichi City, Mie Prefecture, which is the location of the Company's head office, and in Suzuka City and Ise City. It plans to expand the franchise network to approximately 200 stores nationwide, while it is aiming to lease 2,000 vehicles by the start of the year, and 10,000 vehicles nationwide by five years after that.

The point of differentiation for the Company's new vehicle leases is that it selects models that are popular in overseas markets, particularly in Southeast Asia, and therefore it is able to keep down the lease fees on the assumption that the vehicle will be purchased at a high price after the lease contract has ended. There are cases in which it can charge lease fees 30% cheaper than usual fees. In terms of the vehicles it will lease, there are around 10 models, including Toyota Motor's luxury minivan Alphard, Vellfire, the compact minivan Sienta, Nissan's Serena, and Honda's Vezel. In the case of a five-year lease, the monthly lease fee is ¥38,000 for the Vellfire and ¥25,000 for the Sienta. The Company is negotiating with lease companies to see whether the fitted-for-exportation option can be reflected in the residual value. The lease fee includes automobile tax, acquisition tax, weight tax, mandatory vehicle liability insurance, vehicle inspection expenses, and various other expenses. The additional financial burden on the user is a five-year optional insurance. For the Company, the handling fee for the optional insurance is included in income.

(2) Increasing franchise dealerships

In the business to buy and sell used vehicles, in FY12/15 the number of Apple dealerships, including the Group's directly managed dealerships, increased by 13. In FY12/16, the initial plan was an increase of 13 dealerships, but in the end the number did not change YoY, and there was a net decline in FY12/17. Currently, the Company is targeting 260 dealerships in FY12/19. On entering FY12/18, it opened 3 new dealerships for a total of 239. Enexfleet Co., Ltd, which operates a nationwide chain of approximately 200 CS (Car-life Stations), opened the Apple Gifu Hashima Inter dealership (Gifu Prefecture) in March and the Apple Ageo dealership (Saitama Prefecture) in April. Specialty purchase dealerships will be set-up at gas stations. The Company can be highly evaluated for not limiting itself to the buying and selling of used vehicles and expanding its business domain.

(3) Business alliance with Isuzu Motors

Isuzu Umax Corporation., which is a wholly owned subsidiary of Isuzu Motors, conducts a business to buy and sell used trucks, a membership-system truck specialist auction business, and a used trucks sales brokerage business over the Internet. It manages Isuzu motor auction sites at three locations; the Makuhari site in Chiba Prefecture, the Kobe site in Hyogo Prefecture, and the Kyushu site in Fukuoka Prefecture. The Company Group's franchise chain handles many passenger vehicles but has little experience in handling trucks, so the collaboration will be progressed centered on commercial vehicles.

3. Collaborations with Internet operators

The Company's business has been B-to-C, but the possibility cannot be ruled out that C-to-C, of the buying and selling of used cars between individuals, will spread. To prepare for such a situation, it is collaborating with the GMO Group to engage in flea-market transactions. The Company's role will be for a commissions business, including the vehicles' inspections and assessments, the procedure accompanying a name change, and the transportation of vehicles. If the prefecture the vehicle's owner resides in changes, the license plate must also be changed.

Shareholder return policy

Resumed dividends after a gap of eight fiscal periods

The Company has offset the negative retained earnings on a stand-alone basis and put in place the financial foundations to resume dividends, so in FY12/17, it resuming dividends after a gap of eight fiscal periods, paying a dividend per share of ¥5. The dividend payout ratio was 32.5%. For FY12/18, it plans a dividend per share unchanged from the previous fiscal year, of ¥5. Profit attributable to owners of parent is forecast to increase by 5.7 times YoY, so the forecast dividend payout ratio will decline to 6.0%. Compared to the forecast operating income of ¥577mn, in non-operating income, a temporary gain exceeding that amount, of ¥650mn, is expected as a gain on foreign currency.

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