COMPANY RESEARCH AND ANALYSIS REPORT

APPLE INTERNATIONAL CO., LTD.

2788

Tokyo Stock Exchange Second Section

24-Apr.-2019

FISCO Ltd. Analyst

Ken Segawa

FISCO

FISCO Ltd.

http://www.fisco.co.jp

Index

Summary

Developing a new growth strategy to respond to changes in the business environment

Currently, APPLE INTERNATIONAL CO., LTD. <2788> (hereafter, "Apple International," also "the Company") has two main business pillars: Used vehicles export business, and the franchise chain headquarters for the used vehicles purchase and sale business within Japan. It is developing a new growth strategy in Japan and overseas in anticipation of changes in the business environment.

1. Acquired exclusive sales rights in Japan to a China-made EV

In March 2019, the Company acquired exclusive sales rights in Japan from Nanjing Jiayuan Special Electric Vehicles Manufacture Co., Ltd. (hereafter, JIAYUAN EV), a Chinese manufacturer of electric vehicles (EV). The Company was highly evaluated for its expertise, such as on the Japanese legal system, and its knowledge about vehicles and won the rights over general trading companies. It will first sell e-Apple, which is a single-seater minicar. In accordance with Japan's Road Traffic Act, it will be registered as a motorized two-wheeled vehicle. It will be introduced at the Apple dealership owners' meeting in April 2019, and the plan is to display it in dealerships based on feedback from the meeting. The second stage of sales for new EV vehicles will be EV trucks, which correspond to light trucks in Japan's laws. The two-seater EV truck will have the same maximum load capacity as a light truck, of 350 kg. The Spanish police have already introduced several thousand of them as patrol vehicles.

2. The FY12/18 results and the FY12/19 forecasts

In FY12/18, net sales increased 36.5% year-on-year (YoY) to ¥18,610mn, operating income rose 51.7% to ¥493mn, and ordinary income grew 209.8% to ¥1,038mn. As a result of the completion of the liquidation procedure of a consolidated subsidiary in Hong Kong and the conversion of foreign currency-denominated bonds, a foreign exchange gain of ¥728mn was recorded in non-operating income. The forecasts for FY12/19 are for net sales to decrease 6.5% to ¥17,406mn, operating income to decline 30.5% to ¥342mn, and ordinary income to fall 60.6% to ¥409mn. In Thailand, which is the main destination for the used vehicles export business, following the general elections in late March, the coronation and other national events for the new king will continue until early May, and in these two months, sales activities will slow down. In Japan also, there will be 10 consecutive days of holiday to mark the accession of the new emperor, and the forecasts for this fiscal period take into consideration the effects of these factors.

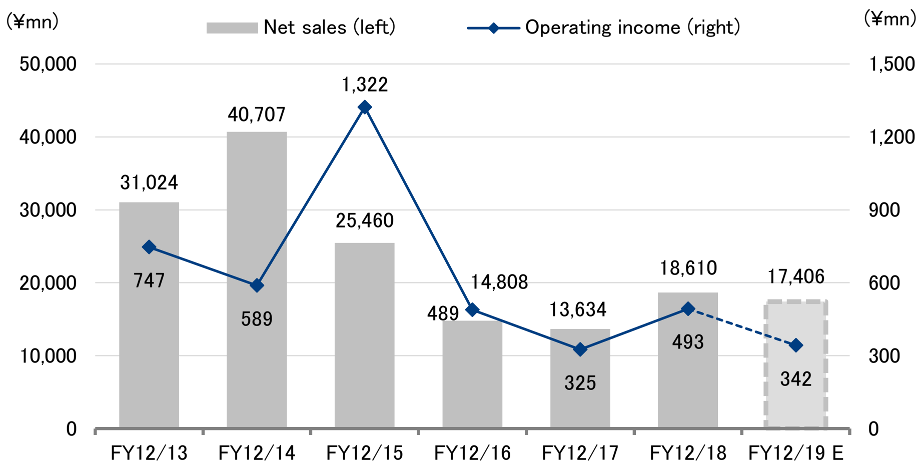
3. Developing auto auction business, used light commercial vehicles export business, and used vehicles purchase and sale business in Thailand

The subsidiary that was established in June 2018 in order to export used, light commercial vehicles (LCV) manufactured in Thailand, also expanded its business area to the used vehicles purchase and sale business. It has already opened 5 Apple dealerships, and it will also increase the number of directly managed dealerships to 10 during the current fiscal year. After that, the same as in Japan, it will recruit dealerships as the franchise chain headquarters, and it is ultimately aiming to build a network of 100 dealerships. In the buying and selling business, it is benefiting from having the first-mover advantage, because there are no rival companies. Moreover, synergies are expected with the auto auction business, which the Company has been conducting in Thailand since 2008.

Key Points

- Awarded first place for the fifth consecutive year in a survey on customer satisfaction in the "Vehicle purchasing companies" category
- Acquired exclusive sales rights in Japan for a China-made EV
- Developing Apple dealerships in Thailand, aiming for a network of 100 dealerships

Net sales and operating income



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

Company and business profile

Has two business pillars; the used vehicles export business and the used vehicles purchase and sale business

1. Company profile

Apple International, as a pioneer in the export of used vehicles, launched used vehicles export business to Southeast Asian countries in 1996. Since then, the Company has played an important part in the automobile distribution market, not only in the used vehicles purchase and sale business, 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 vehicles 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. The subsidiary also expanded its business scope into the used vehicles purchase and sale business,

3. Description of business

Currently, its businesses are consolidated into the two business pillars of the used vehicles export business, 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 FY12/18 were ¥10,813mn from the used vehicles export business and ¥7,797mn from the used vehicles purchase and sale business. 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
Apple Auto Network Co., Ltd.	Yokkaichi City, Mie Prefecture	¥347mn	74.3%	Consolidated	Used vehicle purchasing and overall management of franchise chain network
Car Consultant Maple Co., Ltd.	Nakakoma District, Yamanashi Prefecture	¥10mn	100.0%	Consolidated	Used vehicle purchasing and sales
Apple Auto Auction (Thailand) Co. Ltd.	Kingdom of Thailand	¥287mn	34.4%	Equity-method	Management of auto auction sites
APPLE INTERNATIONAL (THAILAND) Co., Ltd.	Kingdom of Thailand	2,000,000THB	49.0%	Non-consolidated	Exports of used pickup trucks
APPLE HEV INTERNATIONAL Pte. Ltd	Singapore	500,000 SGD	60.0%	Non-consolidated	HV and EV repairs and maintenance business

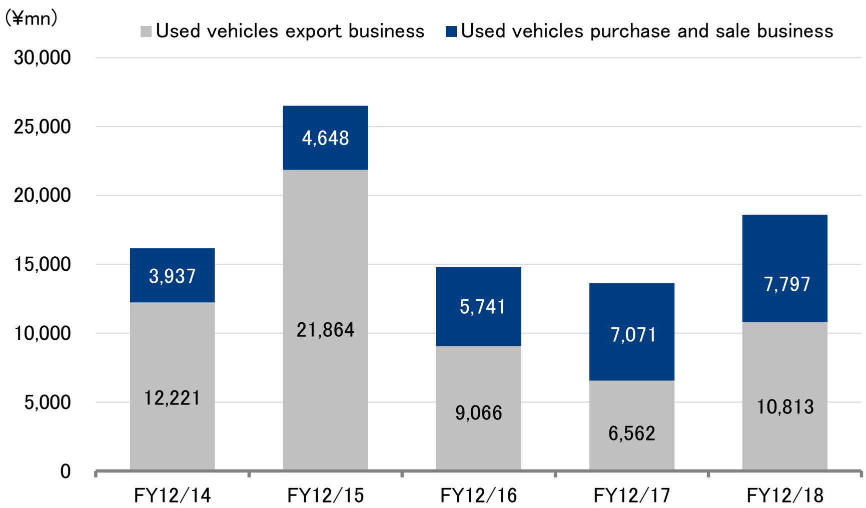
Source: Prepared by FISCO from Company materials

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) Used vehicles export business

In this business, performance results fluctuate greatly as sales are affected by various factors, including the economic conditions at the export destinations, revisions to the tax system and exhaust-emission 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 purchasing high-cost products from the mood of self-restraint that had swept the country. In FY12/17, sales continued to decline as consumers held back from purchases before the changes to new vehicle models. However, in FY12/18, demand in Thailand for a luxury recreational vehicle (RV) increased and sales were more than was initially forecast, so in the used vehicles export business, net sales increased greatly, up 64.8% YoY. In FY12/19, general elections were held in Thailand in late March, while the new king's coronation ceremony and other national events celebrating will continue at the beginning of May and. Therefore, it seems likely that sales activity will be sluggish during this period and sales will once again decline.

Net sales by business



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

Awarded first place for the fifth consecutive year in the “Vehicle purchasing companies” category

(2) Used vehicles purchase and sale business

In the 2018 Oricon Japan customer satisfaction rankings, Apple was awarded first place for the fifth consecutive year in the “Vehicle purchasing companies” category. At the end of December 2018, there were 239 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 used vehicles purchase and sale business, Apple Auto Network, the headquarters for developing the franchise chain, is generating stable earnings.

Apple Auto Network’s main profit-loss information, etc.

(¥mn)

	FY12/14	FY12/15	FY12/16	FY12/17	FY12/18
Net sales	3,854	4,512	5,337	6,102	7,041
Ordinary income	185	288	253	234	185
Net profit	101	178	166	160	127
Net assets	-	1,050	1,184	1,310	1,397
Total assets	-	1,787	1,811	1,983	2,032
Net sales per directly managed dealership	229	233	245	252	228

(units: dealerships, assessments, vehicles)

	FY12/14	FY12/15	FY12/16	FY12/17	FY12/18
No. of FC dealers	225	238	238	236	239
No. of assessments	147,800	159,700	154,487	157,516	161,271
No. of vehicles purchased	72,800	77,200	73,665	74,228	76,297
No. of vehicles sold (a+b)	75,400	81,400	78,879	80,434	83,209
Of which, no. of vehicles sold at auction	66,200	71,400	68,945	69,868	72,869
Of which, no. of retail-sales vehicles	9,200	10,000	9,934	10,566	10,340

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.

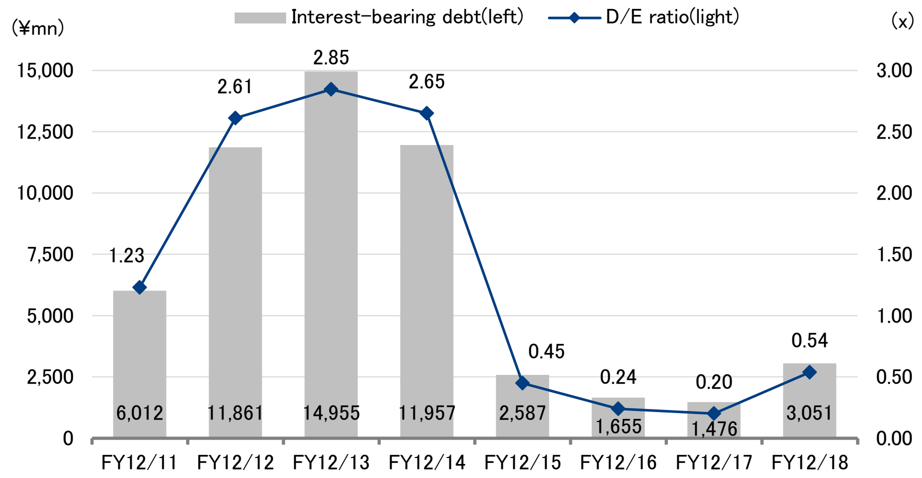
(2) Withdrawal from China business

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.

(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.

Interest-bearing debt and D/E 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

Sales increased 36.5% and profit increased 51.7% YoY in FY12/18

1. Overview of FY12/18 results

(1) FY12/18 results

In FY12/18, net sales increased 36.5% YoY to ¥18,610mn, operating income rose 51.7% to ¥493mn, ordinary income grew 209.8% to ¥1,038mn, and profit attributable to owners of parent increased 380.5% ¥981mn. Compared to the initial forecasts, net sales were 12.0% above forecast, but operating income, ordinary income, and profit attributable to owners of parent were below forecast by 14.5%,19.6%, and 15.4% respectively. Share of profit of entities accounted for using equity method relating to the Thai auto auction business increased 44.9% to ¥87mn. The reason why ordinary income increased greatly compared to the increase in operating income was the recording of foreign exchange gain of ¥728mn in non-operating income. On the completion of the local liquidation procedure for the consolidation subsidiary A.I. HOLDINGS (HONG KONG) LIMITED, foreign currency-denominated bonds were converted. On the other hand, based on the situation of the accumulation of receivables in overseas trading partners, the Company made a conservative judgment about the possibility of their recovery. As a result, in 4Q it additionally recorded an allowance for doubtful accounts of ¥202mn, and for the full fiscal year, provision of allowance for doubtful accounts of ¥206mn was recorded in non-operating expenses.

Consolidated FY12/18 results

(¥mn)

	FY12/17		FY12/18			YoY		vs. forecast
	Results	% of sales	Forecast	Results	% of sales	Change	% change	
Net sales	13,634	-	16,620	18,610	-	4,976	36.5%	12.0%
Used vehicles export business	6,562	48.1%	-	10,813	58.1%	4,251	64.8%	-
Used vehicles purchase and sale business	7,071	51.9%	-	7,797	41.9%	726	10.3%	-
Gross profit	1,866	13.7%	-	2,340	12.6%	474	25.4%	-
SG&A expenses	1,540	11.3%	-	1,847	9.9%	306	19.9%	-
Operating income	325	2.4%	577	493	2.6%	168	51.7%	-14.5%
Ordinary income	335	2.5%	1,293	1,038	5.6%	703	209.8%	-19.6%
Profit attributable to owners of parent	204	1.5%	1,160	981	5.3%	776	380.5%	-15.4%

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

By business, net sales increased greatly in the used vehicles export business, rising 64.8% YoY to ¥10,813mn. This was because demand in Thailand increased for the model-change vehicles and a luxury RV, so the number of vehicles sold exceeded the initial forecast.

In the used vehicles purchase and sale business, net sales increased 10.3% YoY to ¥7,797mn. The number of dealerships at the end of the period had increased by 3 on the end of the previous fiscal year to 239. The number of vehicle assessments grew 2.4% to 161,271, while the number of vehicles purchased rose 2.8% to 76,297. The number of vehicles sold increased 3.5% to 83,209, of which, the number of vehicles sold at auction grew 4.3% to 72,869. In contrast, the number of retail sales declined 2.1% to 10,340. So the main factors keeping down profits were the increase in sales of vehicles sold at auction, which has a low level of profitability, and the decrease in the number of retail sales, which has a high level of profitability. Also, in the market for dealerships specializing in purchases, competition intensified, including with Gulliver (IDOM Inc. <7599>) and BIGMOTOR Co., Ltd., so purchase prices were higher than before and profitability was reduced.

2. The financial condition and cash flow statement

(1) Balance sheet

At the end of FY12/18, total assets were up ¥1,924mn on the end of the previous fiscal year to ¥10,154mn. The main increase and decrease items were as follows. In current assets, cash and deposits decreased ¥1,565mn, accounts receivable increased ¥2,115mn, and merchandise and finished goods rose ¥284mn. In current liabilities, notes and accounts payable decreased ¥12mn, and the increase in accounts receivable was procured by ¥1,535 in short-term loans payable. The indicators of financial stability are 307.6% for current ratio and 56.0% for equity ratio.

Balance sheet

(¥mn)

	FY12/14	FY12/15	FY12/16	FY12/17	FY12/18	Change
Cash and deposits	9,397	2,533	2,429	3,389	1,823	-1,565
Accounts receivable – trade	3,632	3,472	3,204	2,314	4,429	2,115
Merchandise	3,582	731	868	1,299	1,584	284
Accounts receivable – other	2,013	538	3	3	61	57
Other	1,457	638	507	603	907	304
Allowance for doubtful accounts	-1,231	-59	-107	-147	-235	-88
Current assets	18,853	7,856	6,905	7,463	8,570	1,107
Property, plant and equipment	753	215	237	274	878	604
Intangible assets	29	42	40	28	59	31
Investments and other assets	1,026	990	409	464	645	181
Non-current assets	1,809	1,248	687	766	1,583	817
Total assets	20,662	9,104	7,593	8,230	10,154	1,924
Current liabilities	16,629	4,872	1,118	1,302	2,786	1,484
Non-current liabilities	209	282	1,254	1,161	1,314	153
Total liabilities	16,838	5,154	2,373	2,463	4,100	1,637
(Interest-bearing debt)	11,957	2,587	1,655	1,476	3,051	1,574
Net assets	3,824	3,950	5,219	5,766	6,053	286
Total liabilities and net assets	20,662	9,104	7,593	8,230	10,154	1,924
Ratios of stability						
Current ratio	113.4%	161.2%	617.2%	573.2%	307.6%	-
Equity ratio	21.8%	63.5%	90.9%	89.4%	56.0%	-

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

(2) Cash flows

At the end of FY12/18, the balance of cash and cash equivalents was down ¥1,575mn on the end of the previous fiscal year to ¥1,789mn. Net cash used in operating activities was ¥2,382mn, because although profit before income taxes of ¥1,054mn was recorded, the Company posted increase in notes and accounts receivable of ¥2,115mn, foreign exchange gain of ¥723mn, and increase in advance payments of ¥529mn. Net cash used in investing activities was ¥673mn, mainly due to purchase of property, plant and equipment of ¥565mn. Net cash provided by financing activities was ¥1,500mn, primarily due to increase in short-term loans payable of ¥1,450mn.

Cash flow statement

(¥mn)

	FY12/15	FY12/15	FY12/15	FY12/15	Change
Cash flows from operating activities	-418	8	841	-2,382	-3,224
Cash flows from investing activities	-73	356	-68	-673	-605
Cash flows from financing activities	1,137	-181	224	1,500	1,275
Cash and cash equivalents at end of period	2,178	2,367	3,365	1,789	-1,575

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

Outlook

The forecasts are for lower sales and profits in FY12/19 in consideration of the national events

● FY12/19 earnings forecast

The forecasts for FY12/19 are for net sales to decrease 6.5% to ¥17,406mn, operating income to decline 30.5% to ¥342mn, ordinary income to fall 60.6% to ¥409mn, and profit attributable to owners of parent to decrease 66.7% to ¥324mn. The reason for the forecasts of larger declines for ordinary income and profit attributable to owners of parent is the absence of the large foreign exchange gain recorded under non-operating income in FY12/18.

The outlook for the economic environment continues to be unclear, including due to the effects of the intensification of the US-China trade friction, the rapid slow-down of the Chinese economy and the UK leaving the EU. In Thailand, which is the main destination for the used vehicles export business, a general election was held on March 24th, and then after that, the coronation ceremony of the King of Thailand Maha Vajiralongkorn and other national events will be held continuously from May 4th to 6th , and sales activities are expected to slow down during this roughly two-month period. In Japan also, 10 consecutive days of holidays are scheduled to celebrate the ascension to the throne of the new emperor. It will be difficult to arrange overland-freight deliveries before and after this time, so operations are expected to be sluggish for around a two-week period. The results forecasts for this fiscal year were made in consideration of these factors.

FY12/19 earnings forecast

(¥mn)

	FY12/18		FY12/19 E		YoY	
	Results	% of sales	Amount	% of sales	Amount	Growth rate
Net sales	18,610	-	17,406	-	-1,204	-6.5%
Operating income	493	2.6%	342	2.0%	-151	-30.5%
Ordinary income	1,038	5.6%	409	2.3%	-629	-60.6%
Profit attributable to owners of parent	981	5.3%	324	1.9%	-657	-66.7%

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

Medium-to-long-term growth strategy

Restructuring the business model from the paradigm shift brought about by CASE

In Japan, where the trends of the falling birthrate, aging population and declining population are progressing, the contraction of market scale is forecast to continue, and there are concerns that the rapid expansion of the conventional business model will create problems for the future. In the automotive industry, CASE (connected, autonomous driving, sharing, motorization) is causing a paradigm shift for the transition to next-generation vehicles. In November 2017, Akio Toyoda, President & CEO of Toyota Motor Corporation <7203> stated that "The automotive industry has entered an era of profound transformation, the likes of which come only once every 100 years. (Omission). A crucial battle has begun–not one about winning or losing, but one about surviving or dying".*

* Quoted from Toyota Motor Corporation's announcement on November 28, 2017, "Toyota Announces Executive, Organizational and Personnel Changes."

The Company has started to build a new business model in anticipation of the changes that will take place in the industry in 5- or 10-years' time. In the used vehicles purchase and sale business in Japan, it understood that due to the sharing economy, vehicle "ownership" is shifting to "use," so it has entered-into the car sharing, car leasing, and car rental businesses. In car sharing, it is investigating handling EV, as described below. For car leasing, it has established specialist stores, while it has launched the car rental business in Okinawa Prefecture and Oita Prefecture.

1. Acquired exclusive sales rights in Japan for a China-made EV

For EV, which are next-generation vehicles, in March 2019 the Company acquired the exclusive sales rights in Japan to the EV of JIAYUAN EV, a Chinese EV manufacturer. The Company was highly evaluated for its expertise, such as on the Japanese legal system, and its knowledge about vehicles and won the rights over general trading companies.

It will first sell e-Apple, which is single-seater minicar. In accordance with Japan's Road Traffic Act, it will be registered as a motorized two-wheeled vehicle, and therefore it will not require a vehicle inspection, garage certification, weight tax, and acquisition tax. So its car tax and insurance costs are inexpensive, and its fuel consumption (expenses) are also economical. The monthly amount for both taxes and insurance is only around ¥3,600. It can be charged from a home electricity socket (100V) and can be fully charged in around 6 to 8 hours. It can travel around 150 kilometers per charge, or about half that distance if on mountain roads. It is thought that it will be used for short trips, such as for shopping. The vehicle price is expected to be ¥700,000. In China, Alibaba Group Holding Limited <BABA> is using it as a delivery vehicle.

The EV minicar e-Apple, (motorized two-wheeled vehicle)

Source: Company's results briefing materials

Overview of the electric minicar e-Apple

Classification	Electric mini car (four-wheel vehicle with motor) manufactured by JIAYUAN EV of China
Size	Length 2,245mm / Width 1,290mm / Height 1,570mm
Wheelbase	1,500mm
Motor	Rated output 0.59 kw (maximum output 3kw) Rated power DC60V
Battery	Capacity 12V120Ah (5 parts) Charge time, 6 to 8 hours / uses 100V Charging power supply AC100V (home use 100V)

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

The monthly expenses of the electric minicar e-Apple

Details	Monthly expenses
Motorized two-wheeled vehicle tax	¥308 (¥3,700 per year)
Additional voluntary premium	Personal, ¥1,970, personal loss ¥720 (in the case of Sony Assurance)
Liability insurance	¥625 (¥7,500 a year)
Monthly maintenance costs Total	¥3,623

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

e-Apple will be introduced at the Apple dealership owners' meeting in April 2019, and the plan is to display it in dealerships based on feedback from the meeting. As it is a new business, it has not been included in the results forecasts for the current fiscal period. For the time being, the electric minicar will be sold only at dealerships, and it is expected to have a customer-attraction effect. The Company has decided to exhibit it at the Tokyo Motor Show to be held in October 2019.

The second stage of sales of new EV vehicles will be EV trucks, which correspond to light trucks in Japan's laws. The two-seater EV truck will have the same maximum load capacity as a light truck, of 350 kg. It has already cleared the standards for crash tests conducted in Germany. The plan is to acquire approval from the Ministry of Land, Infrastructure, Transport and Tourism, and to release it on the market this year. The Spanish police have already introduced several thousand of them as patrol vehicles.

EV truck (light truck)

Source: Company materials

(1) EV trends

a) Market forecast

According to the International Energy Agency (IEA), global new vehicle sales of both the BEV (battery-powered electric vehicle) and PHV (plug-in hybrid vehicle) in 2017 surpassed 1 million for the first time at 1,148,000, an increase of 54.3% YoY. Of which, BEV increased 63.2% to 750,000, and PHV rose 40.1% to 398,000. The IEA forecasts that the number of vehicles sold in 2030 will be 21.5 million, 18 times the number in 2017 (an annual growth rate of 24%). It also presents a scenario exceeding this forecast, of 38 million vehicles, if the growth rate is accelerated by policy support in various countries. Assuming that the total number of vehicles sold in 2030 is between 110 million and 120 million, the shares of BEV and PHV in the median-value scenario will be slightly less than 20%. The cumulative number of vehicles sold will increase from 3.7 million in 2017 to 130 million in 2030, which is equivalent to approximately 10% of the number of vehicles owned at the current time.

Looking at the number of new BEV and PHV sold by country in 2017, China accounted for 579,000s, which is about half of the total. Second was the United States, at 198,000, followed by Norway with 62,000 and Germany with 54,000. Japan, which had been in first place until 2010, was fifth, with 54,000.

The number of new BEV and PHV sold by country

(1,000 vehicles)

	2012	2013	2014	2015	2016	2017		%	
							YoY	Change	% change
China	9.90	15.34	73.17	27.38	336.00	579.00	50.4%	243.00	72.3%
USA	53.24	96.70	118.78	113.87	159.62	198.35	17.3%	38.73	24.3%
Norway	4.51	8.52	19.77	33.73	44.89	62.26	5.4%	17.37	38.7%
Germany	3.37	6.93	12.74	23.19	24.61	54.56	4.7%	29.95	121.7%
Japan	24.44	28.88	32.29	24.65	24.85	54.10	4.7%	29.25	117.7%
UK	2.69	3.75	14.74	29.34	37.91	47.25	4.1%	9.34	24.6%
France	6.26	9.62	12.64	22.95	29.51	34.78	3.0%	5.27	17.9%
Sweden	0.93	1.55	4.67	8.59	13.42	2.35	1.8%	6.93	51.6%
Canada	2.02	3.12	5.07	6.96	11.58	16.68	1.5%	5.10	44.0%
Korea	0.51	0.06	1.31	3.19	5.26	14.71	1.3%	9.45	179.7%
Other	9.97	27.79	27.52	66.87	56.57	66.66	5.8%	10.09	17.8%
Total (BEV+PHV)	117.84	22.80	322.70	54.72	744.22	1,148.70	100.0%	404.48	54.3%
BEV	57.89	111.32	188.86	321.00	459.91	75.49	65.3%	290.58	63.2%
PHV	59.95	91.48	133.83	219.73	284.31	398.21	34.7%	113.90	40.1%

Source: prepared by FISCO from the Global EV Outlook 2018 (IEA)

Volkswagen (VW), of Germany, a world leading manufacturer in the automotive industry, is accelerating vehicle electrification. In Germany, the government resolved in October 2018 that “the registration of gasoline and diesel vehicles will not be permitted after 2030.” France and the United Kingdom will ban the sale of internal combustion engine (ICE) vehicles by 2040. In its 2018 results, the number of EV sold by VW was only 40,000 vehicles. In March 2019, it upwardly revised its target for sales of EV by 2028 to 22 million vehicles, which is an increase of approximately 50% compared to the previous target. It intends to increase the pace of vehicles sold per year to hundreds of thousands and to accelerate it to 3 million vehicles by around 2025. It has set the target of EV providing 40% of its global sales by 2030. It will increase the number of EV models to more than 50 by 2025 and more than 70 by 2028. Its investment plan up to 2023 sets out that it will increase the amount spent on next-generation vehicles, including EV, by nearly 30% compared to the previous plan, to 19 billion euro (approximately ¥2.4 trillion).

b) Trends in the Chinese market

China, which has become the world’s largest vehicle market, enforced new regulations in January 2019 on auto-manufacturers’ obligations for the minimum number of sales of new energy vehicles (BEV and PHV). It was made obligatory to acquire credits for new energy vehicles with a score of 10% in 2019 and 12% in 2020. Credit of 10% does not mean that new energy vehicles account for 10% of the total number of vehicles sold. EVs that can travel long distances on a single charge can earn more credits than vehicles with poor performance. The regulation targets manufacturers that produce or import more than 30,000 “traditional” vehicles (including hybrid vehicles (HV)) per year, and it is similar to the “cap-and-trade” regulatory approach for carbon emissions that has been introduced around the world. Auto-manufacturers who cannot meet the minimum production requirement will be able to buy credits from other companies in the industry that have met it. Fines will be imposed on manufacturers who cannot clear the regulation, and in the worst-case scenario, they will be forced to shut down their assembly lines. The Chinese leadership estimates that by 2025, the number of annual sales of new energy vehicles will be approximately 20% of the total number, at 7 million vehicles.

The Chinese government will reduce total sales subsidies for EVs by about 30% in 2019. In 2018, the subsidy per EV was reduced by 60% compared to in the previous year to 15,000 yuan (approximately ¥240,000) for light-vehicle models with a travel distance of 150 kilometers. However, the subsidy for medium- to large-sized models with a travel distance of 400 kilometers was increased by 10% to 50,000 yuan. The difference in amount by vehicle model reflects the policy. The subsidy system for EVs, which was introduced in 2010, will be reduced gradually from 2017 and will be eliminated by 2020. The price difference between EVs and conventional vehicles is still large, so the reduction of subsidies is likely to intensify competition among EV manufacturers to reduce costs.

c) The impact of EV

The number of parts per conventional ICE vehicle is about 100,000 parts, of which, 20,000 are engine parts. In contrast, the number of parts per EV is around one tenth of this, at approximately 10,000 parts. Moreover, if limited to the motor, it has less than 50 parts, or around 100 parts if related parts are included. On the other hand, the driving battery is the main reason for its high cost. The transition from ICE vehicles to EV will eliminate the need for existing major auto-manufacturers, some auto-parts companies, and refueling-related facilities. In the short-term, the reduction of production facilities and personnel will damage local economies and cause employment problems. In addition, EVs do not need regular oil changes, so the demand for maintenance will also decrease. As a result, companies that operate using conventional vehicles are concerned that the assets they possess will be negatively capitalized, so they have the psychology of seeking to prolong the transition to EV.

Japan's auto-manufacturers have already established new car sales networks, so there is only room for new entries and the expansion of sales area through M&A of existing dealers. The Company seized the opportunity arising from the transition from ICE vehicles to EV, and acquired exclusive imported EV sales rights in Japan. Manufacturers in China, which has become the world's largest auto-market and which is also rapidly expanding, are quickly responding to customer needs.

2. Domestic businesses

In the 2018 Oricon Japan customer satisfaction rankings, the Company subsidiary's, Apple Auto Network, was awarded first place for the fifth consecutive year in the "Vehicle purchasing companies" category. The Company is aiming to diversify the sources of earnings not merely by pursuing a quantitative expansion, but also through synergies with existing Group functions. There are occurring changes in the consumption styles of young people, of "from objects to experiences" and from "ownership (exclusive) to sharing," and we are seeing a trend of young people not necessarily wanting to own a car and shifting from "ownership" to "use."

The Company expanded into the car rental and car leasing business. In April 2017, the Company opened the first Apple Rental Car store in Naha City, Okinawa Prefecture, and it then opened Apple Rental Car Oita in Oita City, Oita Prefecture. In January 2018, it held the grand opening of the Apple Lease Yokkaichi City Shinsho Store. The Shinsho store in Yokkaichi City, Mie Prefecture, is the flagship store with an area of 4,531m2. It is a sales stores that also provides maintenance services, and it is estimated to have 80 inventory vehicles. Its sales are from both leases and loans, and it is also displaying EV.

3. Growth strategy for South East Asia

(1) Auto auction business in Thailand

Should the Japanese style of vehicle assessments also be adopted overseas, it would lead to the development of auto auctions and the expansion of used-vehicle distribution. The Company has been conducting an auction business in Thailand since 2008, and it has 2 main sites in Bangkok and 14 other sites alongside major regional roads. Since the auction system is cloud-based, if a site and office are secured, the Company is able to launch an auction business in a short period of time not just in Thailand, but also in other South East Asian countries.

(2) Used vehicles purchase and sale business in Thailand

In June 2018, the Company established APPLE INTERNATIONAL (THAILAND) for the purpose of exporting used LCV manufactured in Thailand. In addition to the used vehicles export business, this subsidiary has expanded its business area to the used vehicles purchase and sale business that was previously cultivated in Japan. In November 2018, it opened the very first Apple Dealership in Thailand. It currently has 5 directly managed dealerships, which it plans to increase to 10 during the year, and then after that, to develop the franchise through establishing itself as the franchise chain headquarters. In the purchase and sales business, it is benefiting from having the first-mover advantage, because there are no rival companies. This business will play a role for the stably supply of the vehicles exhibited at auction sites in Thailand, and synergies with Group companies are expected. Auction participants have indicated that they are strongly interested in joining the Apple dealership network.

Apple dealerships in Thailand

Bang Na Dealership

Sinagarindra Dealership

Source: Company's results briefing materials

The EV manufactured by JIAYUAN EV have acquired sales rights for Thailand. The Company is considering sales of new EV at the Apple dealerships being developed in Thailand.

The Free Trade Agreement (FTA) between China and the Association of Southeast Asian Nations (ASEAN) eliminated tariffs on imported finished vehicles from January 2018, and the Thai government warned that EVs would be imported in large quantities. However, the actual number of EV sold has remained at a level of only a few hundred vehicles, and the government has not made any specific announcements, such as on non-tariff barriers. Thailand is aiming to develop EV-related industries domestically, and under the government's EV Action Plan launched in 2016, it intends to increase the number of EV and PHV to 1.2 million by 2035, and to have established a network of at least 690 charging stations. It has also announced a reduction in commodity tax and preferential treatment for EV-related investment, and for manufacturers with annual vehicle production of 100,000 or more, each of HV, PHV, and BEV are eligible for preferential eco-car treatment. The Thai government announced that, as a time-limited measure up until 2025, the commodity tax will be reduced from the previous range of from 10% to 30% to from 5% to 15% for HV and PHV, and from 10% to 2% for BEV.

(3) Export of used vehicles manufactured in Thailand

Thailand is a global production base for LCV. In the ranking of vehicle production in the major right-hand drive countries in 2017, 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 was the largest number, exceeding the 818,000 vehicles that were produced in Japan. Toyota Motor has ended sales within Japan of its Hilux pickup truck, which is its strategic vehicle for emerging countries. But in 2017, it re-launched sales for the first time in 13 years by importing Thai-manufactured vehicles. Thailand is extremely important for right-hand-drive commercial vehicles.

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
			LCV				LCV	
Main right-hand-drive countries								
Japan	8,347	1,342	818	9,690	86.1	13.9	8.4	100.0
India	3,952	830	504	4,782	82.6	17.4	10.5	100.0
Thailand	818	1,170	1,148	1,988	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	1,216	80.7	19.3	11.9	100.0
South Africa	321	268	242	589	54.5	45.5	41.1	100.0
Malaysia	424	35	34	460	92.3	7.7	7.4	100.0
Total	16,518	3,959	2,952	20,478	80.7	19.3	14.4	100.0
World	73,456	23,842	19,388	97,299	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)

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. It made exports easier to the right-hand-drive countries, including Malaysia, Indonesia, and Brunei.

(4) The capital and business alliance with Isuzu Motors

The Company entered into a capital and business alliance with Isuzu Motors in April 2017, and in May of the same year, it conducted a capital increase from a third-party allocation to Isuzu Motors.

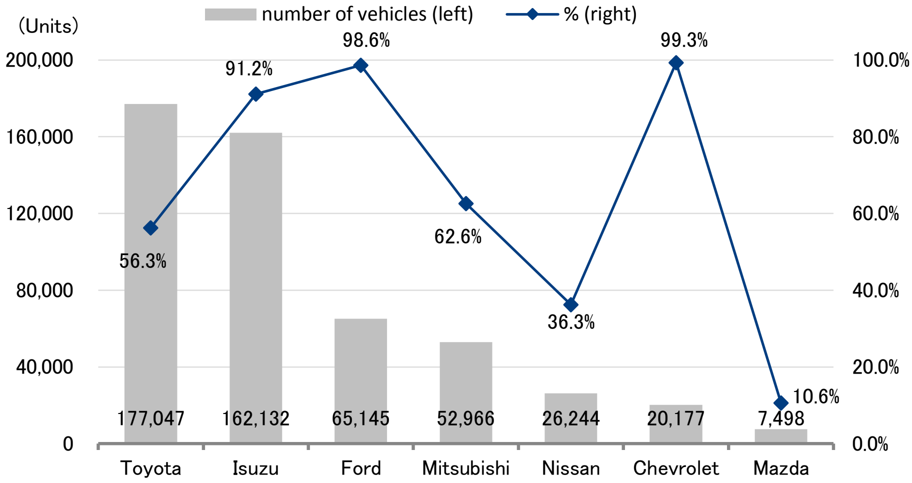
Through the capital and business alliance with Isuzu Motors, the Company will accelerate the exports of Thai-manufactured used vehicles to ASEAN countries. For auto manufacturers, if the export of used vehicles expands, used vehicles within Thailand will become in shorter supply and prices in the used 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 2018, the top was Toyota Motor with 30.2%, followed by Isuzu Motors with 17.1%%, and third was Honda Motor <7267> with 12.3%. Below them were Mitsubishi Motors <7211> with 8.1%, Nissan Motor <7201> with 6.9%, Mazda Motor <7261> with 6.8%, Ford (USA; Ford Motor Company <F>) with 6.3%, Suzuki <7269> with 2.7%, MG Motor with 2.3%, Chevrolet (USA; General Motors Company <GM>) with 1.9%, and others with 5.4%. This meant that Japanese manufacturers accounted for 84.1% of the total.

In 2018, the number of vehicles sold in Thailand increased 19.2% YoY to 1,039,000 vehicles, of which 399,000 (up 15.4%) were passenger vehicles and 642,000 (up 22.2%) were commercial vehicles. The one-ton pickup truck, which is a light commercial vehicle, accounted for 511,000 vehicles (up 20.6%), which accounted for 49.2% of the total.

In 2018, Isuzu Motors sold 162,000 one-ton pickup trucks in Thailand, an increase of 10.9% YoY. As it does not sell passenger vehicles, this vehicle's share of Isuzu Motors' total number of vehicles sold is extremely high, at 91.2%. The dependence of Toyota Motors, which has the top share in passenger vehicles, on the one-ton pickup truck is 56.3%. For the number of one-ton pickup trucks sold, Toyota Motors had the top share with 34.6%, followed by Isuzu Motors with 31.7%, and they are the two major powers in this market.

Number of one-ton pickup truck sold per manufacturer and percentage of total vehicle sales (2018)



Source: Prepared by FISCO from Thai Industries data

(5) Impact of autonomous driving

The transition to autonomous driving will raise vehicle prices. On the other hand, the speed of technological innovation is fast, and there are concerns that it may lead to rapid obsolescence and a sharp drop in used-vehicle prices. Although the fuel efficiency of conventional vehicles has been increased and their safety has been improved, such as from the automatic braking system, there have been no significant changes to their basic performance. If the cost of the autonomous driving system to be installed in the future is from ¥1,000,000 to ¥2,000,000, the vehicle price may rise by 1.5 times to 2 times.

The Autonomous Driving Business Advisory Committee was established in February 2015 as an advisory committee of the Ministry of Economy, Trade and Industry and the Ministry of Land, Infrastructure, Transport and Tourism, and according to a report released in March 2017, autonomous driving levels were divided into 5 levels in accordance with the definitions of SAE International of the United States. SAE level 0 has no autonomous driving, level 1 has driving support, and level 2 has partial autonomous driving, and up to this level, the driver remains responsible for monitoring and responding for safe driving. On progressing to level 3, driving becomes conditionally autonomous, as while the driver responds during fallback, basically the driving is performed by the system. Level 4 is advanced autonomous driving, and at the highest level, level 5, the driving is fully autonomous and the system performs all of the driving tasks, and the user is not expected to respond even during the preliminary-response stage.

Definitions of the autonomous driving levels (in accordance with SAE J3016TMSEP2016)

Level	Overview	Who/what monitors and responds for safe driving
Level 0 No autonomous driving	• The driver performs all of the driving tasks	Driver
Level 1 Driving support	• The system performs subtasks of the driving tasks relating to the control of either the front and rear or the left and right of the vehicle	The driver
Level 2 Partial autonomous driving	• The system performs subtasks of the driving tasks relating to the control of both the front and rear and the left and right of the vehicle	The driver
	The autonomous driving system performs all of the driving tasks	
Level 3 Conditional autonomous driving	• The system performs all of the driving tasks (the area* is limited) • The user is expected to respond appropriately to the system's requests for intervention, etc., during the preliminary-response stage	The system (The driver during fallback)
Level 4 Advanced autonomous driving	• The system performs all of the driving tasks (the area* is limited) • The user is not expected to respond even during the preliminary-response stage	System
Level 5 Fully autonomous driving	• The system performs all of the driving tasks (the area* is not limited) • The user is not expected to respond even during the preliminary-response stage	System

Note: * "area" here is not necessarily limited to a geographical area, but also includes the environment, traffic conditions, speed, time conditions, etc.
Source: prepared by FISCO from materials of the Autonomous Driving Business Advisory Committee

The schedule for autonomous driving by general (private-use) vehicles is to achieve level 2 for acceleration and lane changes by 2020, based on the premises that the driver will monitor safe driving on expressways and can perform driving operations at any time. By 2025, level 3 will be allowed for traffic separation and merging, which will not only reduce the burden on drivers when driving, but also enable some second tasks. The transition to level 4 will be from 2025 onwards. From 2020 on the national highways and the main trunk roads and main roads that serve as the major regional roads, it will be possible to use the level 2 system to recognize white lines and signs, to drive while maintaining the vehicle's line, to recognize and follow surrounding vehicles, and to change lanes. By 2025, it will be possible to recognize traffic lights, and go straight ahead and turn left or right at an intersection. Also, although it will not be possible to raise the safe driving level to 3 and turn left or right, it is assumed that the burden on the driver will be reduced during times of congestion and that it will possible to perform some second tasks. On the other hand, for commercial use, level 4 mobile services and unmanned deliveries are expected to be realized in some regions from 2020 to 2025.

The installation of the AEBS (Advanced Emergency Brake System) in new vehicles will be made obligatory in 40 countries around the world from the beginning of 2020. Autonomous driving is a developing technology and it has not been made obligatory, so its use will not spread immediately. However, going forward, the transition to autonomous driving is an irreversible change, so the Company will advance the transformation of its business model. If the autonomous driving system developed for Japan does not function overseas, the value of exported used cars will decline, and it will be difficult to maintain price competitiveness. In the used vehicles export business, the factors causing results to fluctuate include the economic conditions at the export-destination country, exchange rates, and changes in policy, such as on tariffs. Therefore, as its medium- to long-term and diverse growth strategy, the Company will develop the auto auction business, the network of dealerships for the used vehicles purchase and sale business in Thailand and operate the franchise chain headquarters, and the used vehicles export business of Thai-made LCV, including from Isuzu Motors, while mitigating risk. In this way, it intends to leverage the Group's strengths and achieve growth in growth areas where it can demonstrate its competitive advantages. It also plans to develop the success case studies in Thailand in neighboring countries.

Shareholder return policy

Will keep the dividend per share at ¥5

In FY12/17, the Company paid a dividend per share of ¥5, the first payment in eight fiscal periods, for a consolidated dividend payout ratio of 32.5%. For FY12/18, it kept the dividend per share at ¥5, but due to a temporary factor, of foreign exchange gain related to the liquidation of an overseas subsidiary, the payout ratio decreased to 7.1%. In FY12/19 also, it plans to maintain a dividend of ¥5 for a forecast dividend payout ratio of 21.3%.

Disclaimer

FISCO Ltd. (the terms “FISCO”, “we”, mean FISCO Ltd.) has legal agreements with the Tokyo Stock Exchange, the Osaka Exchange,and Nikkei Inc. as to the usage of stock price and index information. The trademark and value of the “JASDAQ INDEX” are the intellectual properties of the Tokyo Stock Exchange, and therefore all rights to them belong to the Tokyo Stock Exchange.

This report is based on information that we believe to be reliable, but we do not confirm or guarantee its accuracy, timeliness,or completeness, or the value of the securities issued by companies cited in this report. Regardless of purpose,investors should decide how to use this report and take full responsibility for such use. We shall not be liable for any result of its use. We provide this report solely for the purpose of information, not to induce investment or any other action.

This report was prepared at the request of its subject company using information provided by the company in interviews, but the entire content of the report, including suppositions and conclusions, is the result of our analysis. The content of this report is based on information that was current at the time the report was produced, but this information and the content of this report are subject to change without prior notice.

The final selection of investments and determination of appropriate prices for investment transactions are decisions for the recipients of this report.

FISCO Ltd.