COMPANY RESEARCH AND ANALYSIS REPORT

# Fuyo General Lease Co., Ltd.

## 8424

Tokyo Stock Exchange First Section

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# Index

# Summary

## Total revenues and profits increased in FY3/19, reaching all-time highs
## Results are being driven by the accumulation of high-quality assets and the growth of non-asset earnings
## Working to strengthen the BPO business as a new domain

### 1. Company profile

Fuyo General Lease Co., Ltd. <8424> (hereinafter, the Company) is a comprehensive leasing company established in 1969 by six Fuyo Group companies, including The Fuji Bank Limited (currently Mizuho Financial Group, Inc., <8411>) and Marubeni Corporation <8002>. Its strengths are information and office equipment and real estate leasing. The Company ranks sixth in the industry at ¥1,187.2bn in annual newly executed contract volume and ¥2,262.8bn in operating assets (FY3/19 result). It has steadily accumulated operating assets and expanded income results by leveraging advanced solution capabilities for customer challenges, including asset management, cost control, and know-how from expertise.

### 2. Medium-term management plan

The Company is promoting its five-year medium-term management plan Frontier Expansion 2021, which lasts through FY3/22. With a slogan of “Going where no one has gone before,” it aims to be a corporate group with sustainable growth, despite major changes in the environment for domestic leasing business, through expansion of the business portfolio’s “frontier” by pursuing new business areas and business models. Its goals for the final year are ¥2,500.0bn in operating assets (4.1% average annual growth), 2.0% ROA* (return on assets) (+0.4ppt), and ¥50bn in ordinary profit (9.8% average annual growth). While the ordinary profit goal presents a tough hurdle, the Company hopes to reach this level through the combined impact of expanded operating assets and improved ROA.

### 3. Summary of FY3/19 results

In the FY3/19 results, both revenues and profits increased, with total revenues rising 4.7% year-on-year (YoY) to ¥618.1bn, operating profit growing 9.3% to ¥35.7bn, and ordinary profit climbing 11.3% to ¥39.2bn. Moreover, both revenues and profits were new record highs. In addition to the accumulation of operating assets in strategic fields, such as real estate and aircraft, and the expansion of non-asset earnings, the results growth was driven by the effects of the consolidation of INVOICE INC. (six months of results). For the newly executed contract volume also, the factoring business, centered on Accretive Co., Ltd., grew significantly, and in addition results steadily expanded from the new implementation of aircraft and the start of operations at the new solar power plants. ROA improved to 1.77% (1.67% in the previous fiscal period). In terms of strategy, starting with the strengthening of the BPO business (a new domain) through the consolidation of INVOICE, which provides integrated billing services, the Company was able to achieve major results toward business expansion in the future, including newly establishing the Healthcare Advisory Office (now the Healthcare Advisory Department) (medical / social welfare) and participating in a large-scale, plant factory business (energy / environment).

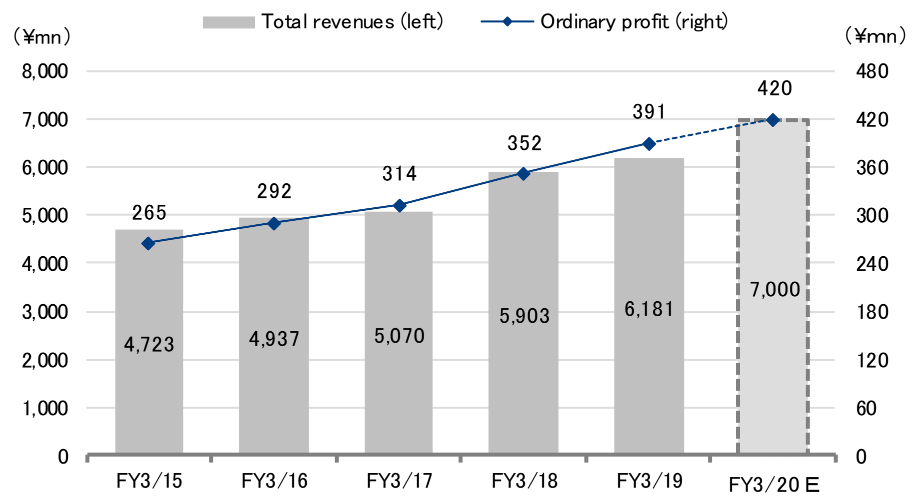
### 4. FY3/19 results outlook

For the results in FY3/20, which is the third year (the mid-point) of the medium-term management plan, the Company is forecasting that revenues and profits will continue to increase, with total revenues to rise 13.2% YoY to ¥700bn, operating profit to grow 10.5% to ¥39.5bn, and ordinary profit to climb 7.2% to ¥42bn. Ordinary profit will be at a level toward the upper limit of the interim target range (¥38bn to ¥42bn). It also plans to increase the dividend ¥12 YoY for an annual dividend of ¥200 per share. We will continue to focus on the progress the Company makes in each strategic area and on the path toward improving ROA.

### Key Points

- Total revenues and profits increased in FY3/19, once again reaching all-time highs
- Results are being driven by the accumulation of high-quality assets and the growth of non-asset earnings
- In the strategy area, achieved major results toward business expansion in the future, including strengthening the BPO business (a new domain)
- For FY3/20, the Company is forecasting increases in revenues and profits (and a higher dividend)

Trends in total revenues and ordinary profit




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

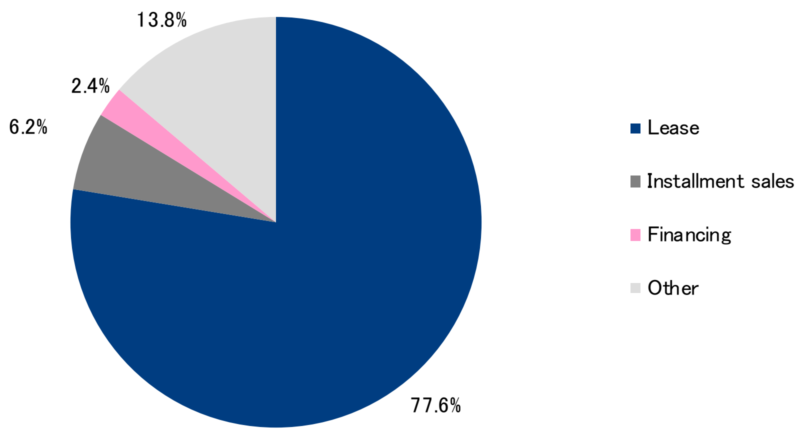
# Company profile

## Comprehensive leasing company with strengths in real estate, aircraft, and other areas, working to strengthen the BPO business as a new domain

### 1. Business overview

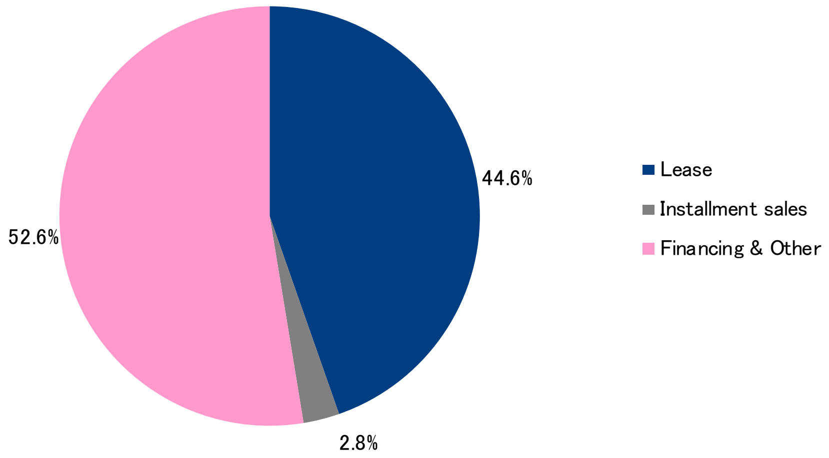
The Company has three business segments - lease and installment sales, financing, and other – and also provides disclosure of lease and installment sales separately. Mainstay lease business accounts for 77.6% of total revenues, 44.6% of newly executed contract volume, and 69.2% of operating assets (as of FY3/19). The BPO business, which it is focusing on as a new domain (the details are given below), is currently included in Other.

Revenue composition by segment (FY3/19)



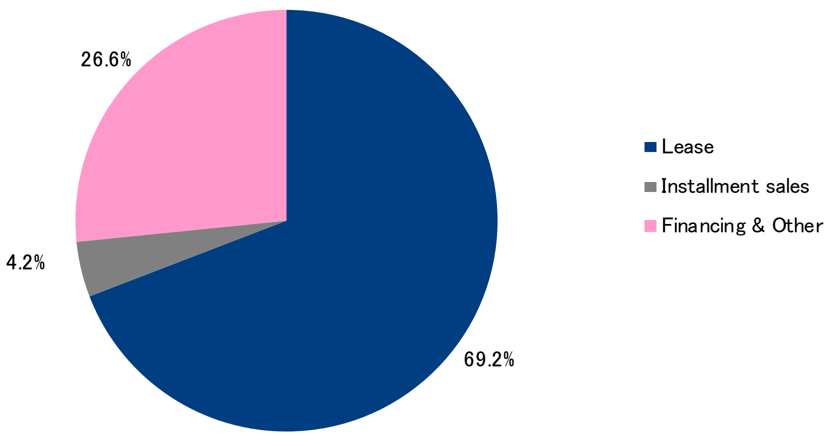

Source: Prepared by FISCO from the Company's results briefing materials

Ratio of newly executed contract volume by segment (FY3/19)




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

Ratio of operating assets by segment (FY3/19)




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

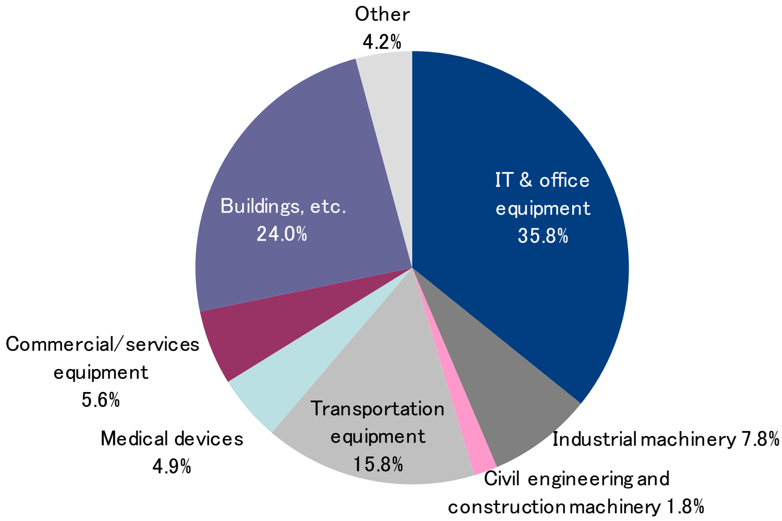
Below, we review the Company's business segments.

**(1) Lease and installment sales**

This segment handles leases of information and communications equipment, office equipment, industrial machine tools, and other equipment and installment sales of commercial facilities, production facilities, hospital facilities, and other facilities. In lease business, the leasing company purchases and leases machinery, equipment, or other facilities selected by customers for a certain leasing fee over a relatively long period. In other words, leases constitute a funding method (financial transaction) that focuses on facility deployment. Benefits to customers, versus outright purchase (and ownership) of facilities, include efficient utilization of capital, reduction of administrative burden, avoidance of risk from outdated facilities, and cost control. Leasing companies, meanwhile, confront less collection risk than ordinary loan transactions because they possess ownership rights to the leased equipment. The Company conducts installment sales for equipment that does not qualify as leasing for tax purposes and cases in which the customer wants direct ownership.

When categorizing the volume of newly executed lease contract volume by type of equipment, buildings, etc. (real estate leases) and transportation equipment have been experiencing substantial growth in the past few years. Key drivers in real estate leases are commercial properties (such as large shopping centers), an area of expertise, and business hotels, which have been growing recently thanks to rising inbound demand*. The Company leverages its experience of over 30 years and an extensive network in this business given the need for expertise and knowhow with tough legal hurdles and complex rights relationships. Furthermore, aircraft leases are driving growth in transportation equipment and the Company holds advantages in this area as well with its lengthy track record and robust know-how.

Newly executed lease contract volume by type of equipment ( FY3/19)




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

### (2) Financing

This segment covers capital investment funding and other business loans, real estate financing, and securities-related management tasks. Its operating assets include corporate operating loans (such as syndicate loans) and retail funding through consolidated subsidiary Sharp Finance Corporation (SFC). The Company added factoring business* handled by Accretive, which became a consolidated subsidiary in January 2017.

* This business mainly handles FPS (early payment service for accounts receivable) for small businesses and FPS Medical (early payment service for medical and care fee credits) for medical institutions. It has a high turnover rate with execution and recovery in a short period, which the Company lacked up to now, and has been contributing substantially to the expansion of newly executed contract volume and improvement of gross margin on assets.

### (3) Other

This segment includes megasolar operations (renewable energy business) handled directly by the Company, silent partnership originations for aircraft leases and other businesses, and the life insurance agency business. Also, in October 2018, the Company made integrated billing service*1 provider INVOICE a consolidated subsidiary. Going forward, the Company will make full-fledged efforts to strengthen the BPO business*2 centered on INVOICE.

*1 A service that handles making burdensome monthly payments to telecom carriers and other utilities on behalf of customers.
*2 Business Process Outsourcing: A service that contributes to operational improvements and increased efficiency by handling some of client companies' business processes

## 2. History

The Company was established in 1969 with six companies from the Fuyo Group as shareholders led by Fuji Bank (now, Mizuho Bank, Ltd.) and Marubeni-Iida Co., Ltd. (now, Marubeni).

It steadily broadened business scope thereafter and created a local entity in the US in 1988. It established a local entity in Ireland (Dublin), a major center for aircraft leases, in 1999. The Company was relatively early in its entry to aircraft business, which has recently attracted attention from many companies, and accumulated a track record and know-how with leveraged leases (aircraft leases with investor subscriptions) and other formats.

The Company has also teamed up with other companies to establish joint ventures, such as Yokogawa Rental & Lease Corporation (holds a large share in measuring instruments) with Yokogawa Electric Corporation <6841> in 1987 and Nihon Credit Lease Co., Ltd. (holds a large share in medical equipment and welfare equipment) with NICHIIGAKKAN CO., LTD. <9792> in 1999.

Major turning points were listing shares on the First Section of the Tokyo Stock Exchange in December 2004 and acquisition of SFC as a consolidated subsidiary (buying a 65% stake) in April 2008. SFC controls a strong share in the retail (vendor lease) area that is highly profitable and contributed substantially to broadening business scope and increasing scale.

In June 2014, the Company acquired ALM 2010 Limited (it changed the name to Fuyo Aviation Capital Europe Limited), a UK-based aircraft-related services companies, as a consolidated subsidiary (buying all shares) and thereby strengthened its ability to expand aircraft business.

In January 2017, it acquired Accretive, a subsidiary of Don Quijote Holdings Co., Ltd. (Pan Pacific International Holdings Corporation <7532>) that operates a factoring business (purchase of accounts receivable) mainly for small businesses, as a consolidated subsidiary via a tender offer*. It hopes to realize synergies from cross-selling with Group companies in addition to strengthening initiatives in new domains and collaborating with overseas sites. In October 2018, the Company made INVOICE, an integrated billing service provider, a consolidated subsidiary (acquired 60% of voting rights) in an effort to strengthen the BPO business.

* Conducted a second tender offer during the period from September 25 to November 6, 2018 (for the purpose of making Accretive private). The percentage of voting rights held after the purchase was 69.15%.

# Financial results

## Profit before interest expenses, an indicator of true business performance, is increasing due to the accumulation of operating assets and growth in non-asset earnings

### 1. Key points for assessing results

The Company's sales consist of lease fee revenue (roughly 80% of overall sales), revenue from installment sales, and interest income on financing. Since revenues fundamentally fluctuate with operating assets, the Company needs to increase newly executed contract volume and accumulate more operating assets in order to expand revenues. However, it should be noted that accounting of mainstay lease fee revenue reflects the purchase transaction and includes the price of the leased item. We hence think profit excluding the acquisition cost of leased equipment from revenues (hereinafter, profit before interest expenses) is the suitable indicator for assessing income growth as business. This value corresponds to the operating assets multiplied by gross margin on assets. Movement in both of these amounts has an impact. Moreover, there is a need to take note of movements in the Other segment as the Company has recently worked to increase in non-asset earnings.

To ascertain profitability of the Company's main business, meanwhile, we think the most rational approach is monitoring ordinary profit that deducts interest expenses (funding costs), personnel and equipment expenses, credit-related costs (including reversals)*, and other items from profit before interest expenses.

* This is the net value of provision of allowance for doubtful accounts (SG&A expenses) and reversal of allowance for doubtful accounts (non-operating income).

### 2. Past results trends

Looking at past results, revenues steadily trended upward thanks to the accumulation of operating assets. While profit before interest expenses temporarily slipped in FY3/13 to FY3/14, it restored an upward trend from FY3/15. The setback in profit before interest expenses mainly occurred due to a fall in advanced profit effect in accordance with changes to the lease accounting standard in 2008 and the decline in gross margin on assets accompanying reduction of lease fee rates due to tougher competition. The Company pursued income recovery through accumulation of operating assets and improvement in gross margin on assets. We think expansion of real estate leases and aircraft leases with relatively large yields contributed to improvement in gross margin on assets.

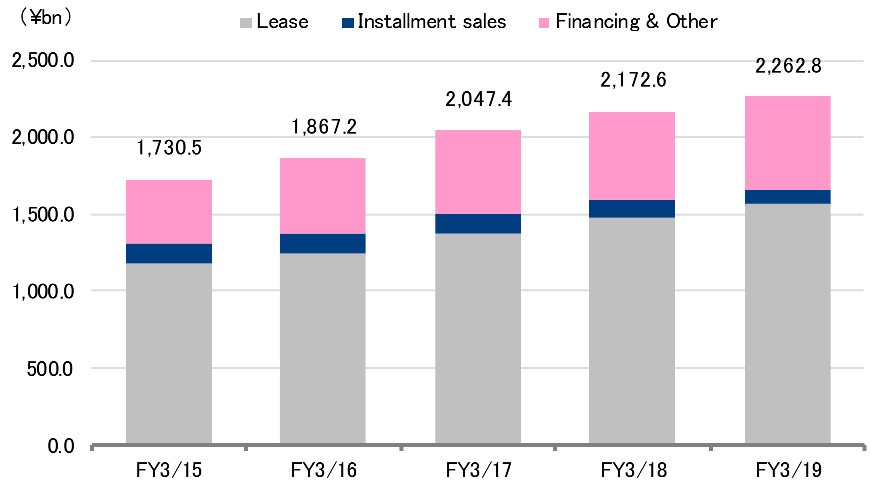
From a cost perspective, meanwhile, funding costs have been largely flat. This trend, despite growth in total funding value, is driven by decline in funding costs due to the impact of market rates. Additionally, the Company keeps personnel and equipment expenses at a certain level and has low credit-related costs. Low-cost operations, a strength, are paying off. Ordinary profit hence has risen for five straight fiscal years.

Interest-bearing debt has been growing due to the accumulation of operating assets, but the equity ratio remains steady at about 10%. The 10% range does not lag other companies in the leasing industry, which possesses large amounts of highly liquid operating assets, and should not spark concerns about stability of the Company's financial base.

ROA (Return on Assets) is also trending upwards alongside the accumulation of high-quality assets. In addition, ROE (Return on Equity), which shows capital efficiency, has been increasing since FY3/16 alongside the rise in the profit level, and it had reached the 10% range by FY3/19.

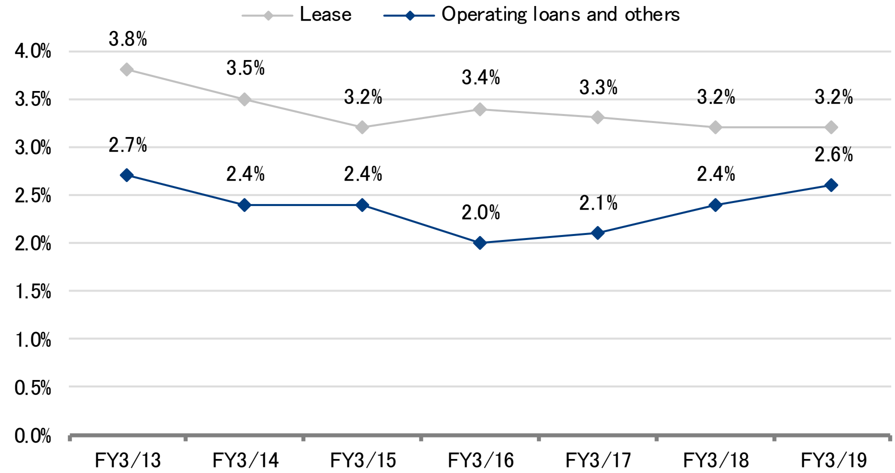
Operating cash flow remains negative and the size of this deficit has grown over the past five fiscal years. We think it is reasonable to interpret this as a reflection of the Company's growth potential because the main cause is aggressive accumulation of operating assets, which are future income sources.

Trend in operating assets



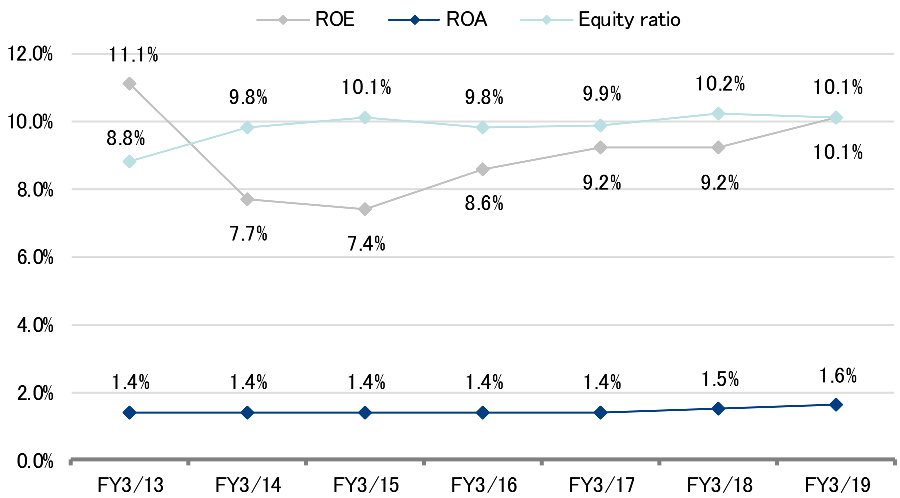

Source: Prepared by FISCO from the Company's results briefing materials

Trend in gross margin on assets




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

Trend in equity ratio, ROA, ROE




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

### 3. Summary of FY3/19 results

In FY3/19, the Company posted increases in revenues and profits, once again reaching all-time highs. The Company posted ¥618.1bn (+4.7% YoY) in total revenues, ¥35.7bn (+9.3%) in operating profit, ¥39.2bn (+11.3%) in ordinary profit, and ¥25.7bn (+17.1%) in profit attributable to owners of parent.

The effects of the consolidation of INVOICE (six months of results) and other factors contributed to the higher sales. In addition, profit before interest expenses, which shows the inherent results of the business, steadily increased, up 11.0% YoY to ¥75.3bn. The accumulation of operating assets in strategic fields like real estate and aircraft, the improvement of gross margin on assets, and the increase in non-asset earnings* contributed greatly to the growth in profit before interest expenses. Moreover, newly executed contract volume steadily expanded due to the significant growth of the factoring business, centered on Accretive, and also the new implementation of aircraft and the start of operations at the new solar power plants.

* Posting of gains on sales related to the asset turnover business (monetization transactions for the purpose of replacement of lease assets, etc.) and an increase in fee income.

Ordinary profit rose as growth in profit before interest expenses and an increase in the equity-method investment gain* absorbed cost increases due to an increase in interest expenses and the consolidation of INVOICE stemming from an increase in foreign currency borrowings (borrowings in conjunction with the expansion of the aircraft business).

* Full-year contribution of a Canadian pick-up truck rental and leasing company (equity-method affiliate) acquired in March 2018.

As a result of the above, ROA improved greatly to 1.77% (compared to 1.67% in the previous fiscal period). In addition to the improvement in yield through the selection of core-field projects and the accumulation of assets in highly profitable strategic fields, it can be said that the expansion of the non-assets business, including of INVOICE (BPO services), led to the improvement in ROA.

In terms of financial condition, total assets had increased 6.7% to ¥2,592.2bn from the end of FY3/18 due to increases in operating assets and cash and deposits. Meanwhile, the Company's equity ratio moved roughly sideways to 10.1% from 10.2% at the end of FY3/18 as shareholders' equity grew 5.1% to ¥261.8bn due to accumulated retained profit and other factors. Interest-bearing debt rose 6.7% to ¥2,097.0bn but we think the Company is maintaining a stable financial position with the long-term debt ratio of interest-bearing debt (excluding lease obligations) at 37.7% (vs. 37.3% at the end of FY3/18) and liquidity ratio at 133.7% (vs. 141.1% at the end of FY3/18).

### Summary of FY3/19 results

(¥bn)

| | FY3/18 | | FY3/19 | | Change | |
|---|---|---|---|---|---|---|
| | Results | Ratio | Results | Ratio | | % change |
| Total revenues | 590.3 | | 618.1 | | 27.8 | 4.7% |
| Lease | 511.2 | 86.6% | 479.6 | 77.6% | -31.7 | -6.2% |
| Installment sales | 49.1 | 8.3% | 38.2 | 6.2% | -10.9 | -22.3% |
| Financing | 13.2 | 2.2% | 15.0 | 2.4% | 1.8 | 13.7% |
| Other | 16.8 | 2.8% | 85.4 | 13.8% | 68.6 | 407.2% |
| Profit before interest expenses | 67.9 | 11.5% | 75.3 | 12.2% | 7.5 | 11.0% |
| Lease | 46.1 | 9.0% | 46.7 | 9.7% | 0.7 | 1.4% |
| Installment sales | 2.1 | 4.3% | 1.8 | 4.7% | -0.3 | -13.5% |
| Financing | 13.0 | 98.5% | 14.8 | 98.7% | 1.8 | 13.8% |
| Other | 6.7 | 39.9% | 12.0 | 14.1% | 5.3 | 78.9% |
| Interest expenses | 7.3 | 1.2% | 8.6 | 1.4% | 1.3 | 17.7% |
| Gross profit | 60.5 | 10.2% | 66.7 | 10.8% | 6.2 | 10.2% |
| SG&A expenses | 27.8 | 4.7% | 30.9 | 5.0% | 3.1 | 11.2% |
| Operating profit | 32.7 | 5.5% | 35.7 | 5.8% | 3.0 | 9.3% |
| Ordinary profit | 35.2 | 6.0% | 39.2 | 6.3% | 4.0 | 11.3% |
| Profit attributable to owners of parent | 21.9 | 3.7% | 25.7 | 4.1% | 3.7 | 17.1% |
| | | | | | | |
| Newly executed contract volume | 1,105.1 | | 1187.2 | | 82.1 | 7.4% |
| Lease | 563.6 | 51.0% | 530.0 | 44.6% | -33.6 | -6.0% |
| Installment sales | 49.9 | 4.5% | 32.9 | 2.8% | -17.0 | -34.0% |
| Financing & Other | 491.6 | 44.5% | 624.3 | 52.6% | 132.7 | 27.0% |
| | | | | | | |
| Newly executed lease contract volume by type of equipment | | | | | | |
| IT & office equipment | 183.9 | | 189.7 | | 5.8 | 3.2% |
| Industrial machinery | 38.4 | | 41.4 | | 2.9 | 7.8% |
| Civil engineering and construction machinery | 9.6 | | 9.4 | | -0.2 | -2.1% |
| Transportation equipment | 59.4 | | 84.0 | | 24.6 | 41.4% |
| Medical devices | 27.5 | | 26.2 | | -1.3 | -4.7% |
| Commercial/services equipment | 37.1 | | 29.6 | | -7.5 | -20.2% |
| Buildings, etc. | 189.8 | | 127.4 | | -62.4 | -32.9% |
| Other | 17.8 | | 22.3 | | 4.5 | 25.3% |
| Total | 563.6 | | 530.0 | | -33.6 | -6.0% |

| | March 31, 2018 | | March 31, 2019 | | Change | |
|---|---|---|---|---|---|---|
| | Results | | Results | | | % change |
| Operating assets | 2,172.6 | | 2,262.8 | | 90.2 | 4.2% |
| Lease | 1,474.4 | 67.9% | 1,564.8 | 69.2% | 90.4 | 6.1% |
| Installment sales | 115.1 | 5.3% | 96.0 | 4.2% | -19.0 | -16.5% |
| Financing & Other | 583.1 | 26.8% | 602.0 | 26.6% | 18.9 | 3.2% |
| Gross margin on assets | | | | | | |
| Lease | 3.2% | | 3.2% | | 0.0pt | |
| Financing & Other | 2.4% | | 2.6% | | 0.2pt | |
| | | | | | | |
| Total assets | 2,430.5 | | 2,592.2 | | 161.7 | 6.7% |
| Shareholders' equity | 249.1 | | 261.8 | | 12.7 | 5.1% |
| Equity ratio | 10.2% | | 10.1% | | -0.1pt | |
| | | | | | | |
| Interest-bearing debt | 1,965.0 | | 2,097.0 | | 132.0 | 6.7% |
| Short-term | 1,231.7 | | 1,307.1 | | 75.4 | 6.1% |
| Long-term | 733.3 | | 789.9 | | 56.6 | 7.7% |
| Long-term debt ratio | 37.3% | | 37.7% | | 0.4pt | |

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

Below we review results and activities in the Company's strategic business areas.

**(1) Real estate**

At the end of FY3/19, operating assets had steadily grown, up 16.5% on the end of the previous fiscal year to ¥421.9bn and the interim target (operating assets of ¥380bn by the end of FY3/20) was achieved one year ahead of schedule. Also, although newly executed contract volume decreased 32.9% YoY to ¥127.4bn, it was maintained at the second highest level ever. In particular, both long-term real estate leases and bridge projects performed well. In long-term real estate leases, progress was made in dispersing the uses of buildings (hotels, nursing care and residential, leisure, services, logistics, and other uses). On the other hand, ROA decreased slightly to 1.7% (1.8% in the previous fiscal year), so improving ROA can be said to be an issue for the future. The CRE strategy for companies with idle real estate is becoming increasingly important, and in this situation, the Company intends to improve profitability by further enhancing its strength, of sales proposals in which it provides land information, and progressing Company-initiated projects.

* Effective utilization of corporate-owned real estate

**(2) Aircraft**

At the end of FY3/19, operating assets had increased greatly, up 53.5% on the end of the previous fiscal year to ¥149.8bn. Due to the increase in the airlines with which the Company does business, particularly in Asia, the number of aircraft it owns steadily increased to 35 (up 11 aircraft on the end of the previous fiscal year). However, the reason why ROA declined to 1.4% (1.9% in the previous fiscal year) was that the implementation of new aircraft overlapped with the end of the fiscal period, and it is necessary to be aware that this is a temporary factor. Going forward also, the Company intends to further expand the numbers of airlines and countries with which it does business, including through further utilizing ALM in the UK.

**(3) Overseas**

At the end of FY3/19, operating assets (includes the amount invested in affiliated companies in the overseas business) had increased 7.0% on the end of the previous fiscal year to ¥99.9bn. ROA also improved to 0.8% (0.6% in the previous fiscal period). For overseas, the Company is pursuing growth on two axes, of organic (autonomous growth) and inorganic (through M&As, partnerships, etc.) In addition to the full-year contribution of a pickup truck rental and leasing company (Canada), which became an equity-method affiliate in March 2018, in January 2019 the Company made an equity-method affiliate of an operating lease company (US) for materials-handling equipment, and it can be said to have achieved a certain level of results for its inorganic strategy*. Inorganic growth is essential for business expansion and to improve ROA in the future, so it intends to actively conduct further M&A. On the other hand, for the organic strategy as well, it has recruited full-time employees for the Singapore local subsidiary. As the base for cross-border sales in the ASEAN region, its policy for the time being is to focus on sales to the Singapore and India markets.

* In the overseas business, the operating assets of affiliated companies (the Company's equity ratio) increased 55.2% on the end of the previous fiscal year to ¥19.4bn (approximate calculation).

### (4) Energy/environment

At the end of FY3/19, operating assets (solar power generation business) had increased greatly, up 41.6% on the end of the previous fiscal year to ¥27.9bn. Following the start of operations of two new plants in Fukushima and Miyagi, megasolar operations are generating power at 32 plants nationwide (in total,140MWdc). As a result, the Company achieved its interim target for total output (135MWdc at the end of FY3/20) one year ahead of schedule. In addition, construction has commenced for an ultra-large-scale project that will have output of 60MW (in the Fukushima area). However, the reason why ROA declined to 4.4% (5.1% in the previous fiscal year) is the increase in costs following the start of operations at the new sites, and it is necessary to be aware that this is a temporary factor. The Company is also strengthening measures for self-consumption-type power generation toward the post FIT period (after the Feed-In Tariffs system), while for storage batteries, whose market is expected to grow, it is progressing alliances, including by investing in venture companies. Moreover, it is participating in the management of a plant factory (Fujieda City, Shizuoka Prefecture) through the establishment of a joint venture company with TEPCO Energy Partner, Inc., and Farmship, Inc. It is expected to have the largest-scale production capacity in Japan as a single plant factory, and it is scheduled to start operations around the spring of 2020.

### (5) Medical/social welfare

The Company does not disclose specific numerical targets, but for factoring services for medical-treatment-fee receivables*1, at the end of FY3/19, operating assets had increased to ¥10.4bn (¥5.8bn at the end of the previous fiscal year) due to the strengthening of collaborations with alliance partners. For second-hand medical equipment also*2, purchases of second-hand medical equipment and orders for dismantling, removing, and processing projects are growing from the Company Group's customer base, which include public hospitals (approximately 600 beds) and metropolitan Tokyo university hospitals (approximately 1,000 beds). It has also newly established the Healthcare Advisory Office (now the Healthcare Advisory Department) and started a management support-type advisory business for medical corporations. The aims are to provide various one-stop solution proposals by offering a diverse lineup of products and service functions, and to strengthen the consulting business toward solving the problems facing hospital managers. In particular, the Company intends to improve profitability by converting from competitive-type, single-product sales to solution proposals, and it is aiming to expand the business through collaborating with its partner regional financial institutions and distinctive partner companies.

*1 Being deployed by Accretive, which became a consolidated subsidiary in January 2017.
*2 Being deployed by FUJITA Corporation, with which the Company entered-into a business alliance in December 2016 (made a consolidated subsidiary in January 2018)

### (6) New domains (BPO business)

There were contributions to the higher results from FPS (service for the faster payment of account receivables) being conducted by Accretive and FPS medical (service for the faster payment of medical care and nursing care receivables). In particular, the results of FPS medical grew significantly due to the Group collaborations (collaborations with partner regional financial institutions). Also, there was the addition of the results (six months) of INVOICE (integrated billing services), which was made a consolidated subsidiary in October 2018. INVOICE's and Accretive's ordinary profit were ¥4.7bn and ¥1.3bn respectively, for a total of ¥6bn when simply adding them. In April 2019, the Company newly launched the BPO domain as a core field in new domains. Its previous transaction points of contact (the general affairs and accounting departments) were in many cases the points of contact for proposals for BPO services, so it will utilize its existing customer base and develop the market for BPO services, as well as aiming to establish a position that can be said to be "FGL (Fuyo General Lease) when speaking of BPO for accounting and payment operations."

If summarizing the FY3/19 results from the above, we can say that results trended strongly, and also that as a whole, steady progress was made in each of the strategic fields. In particular, the Company can be evaluated as having achieving major results toward business expansion in the future, including strengthening the BPO business in new domains, establishing the Healthcare Advisory Office (now the Healthcare Advisory Department), (medical / social welfare), and participating in a large-scale plant factory project (energy / environment).

# Business outlook

## Forecasts are for the higher revenue and profits to continue in FY3/20 also

For the results in FY3/20, which is the third year (the mid-point) of the medium-term management plan, the Company is forecasting that revenues and profits will continue to increase, with total revenues to rise 13.2% YoY to ¥700bn, operating profit to grow 10.5% to ¥39.5bn, ordinary profit to climb 7.2% to ¥42bn, and profit attributable to owners of parent to increase 1.2% to ¥26bn. Ordinary profit will be at a level toward the upper limit of the interim target range (¥38bn to ¥42bn).

In addition to the full-year contribution to results from INVOICE following its consolidation (additional six months of results from FY3/19), growth is expected to be driven by the accumulation of operating assets in the strategic fields.

At FISCO, we think that the results forecasts are fully achievable when considering that operating assets are growing at a pace at least exceeding the lower value of the interim target (¥2,300bn to ¥2,400bn) and that the Company has already achieved the level of the ROA interim target (1.7% to 1.8%). We should also be aware of additional M&A that will cause results to fluctuate.

**FY3/20 outlook**

(¥bn)

| | FY3/19 | | FY3/20 | | Change | |
|---|---|---|---|---|---|---|
| | Results | Ratio | Forecast | Ratio | | % change |
| Total revenues | 618.1 | | 700.0 | | 81.9 | 13.2% |
| Operating profit | 35.7 | 5.8% | 39.5 | 5.6% | 3.8 | 10.5% |
| Ordinary profit | 39.2 | 6.3% | 42.0 | 6.0% | 2.8 | 7.2% |
| Profit attributable to owners of parent | 25.7 | 4.2% | 26.0 | 3.7% | 0.3 | 1.2% |

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

# Industry environment

## Although domestic leases are performing steadily, there are causes for concern, such as the uncertainty about the future of the macro environment and the intensifying competition

According to a survey by the Japan Leasing Association, in FY2018 the leasing transaction volume increased 2.8% YoY to ¥5,012.9bn, the first increase in three years. In the background to this is that in the context of the continued moderate recovery of the Japanese economy, although corporate earnings are basically unchanging, they are being maintained at high levels and capital investment is also strong. However, due to factors including the intensification of US-China trade friction and the UK's withdrawal from the EU, the future of the macro environment is uncertain, and there are also concerns about future trends in capital investment.

Competition is fierce with 10 listed companies, mainly independent companies, bank-affiliated companies, and manufacturer-affiliated companies. Leading participants in terms of operating assets are ORIX Corporation <8591>, Mitsubishi UFJ Lease & Finance Company Limited <8593>, Sumitomo Mitsui Finance and Leasing Company, Limited, Tokyo Century Corporation <8439>, and Hitachi Capital Corporation <8586>. The Company ranks sixth in the industry but posts strong growth rates among major companies. Bank affiliates expanded their scale through mergers as part of bank reorganizations. The top group has not changed much recently. Additionally, competition is likely to become even tougher with direct entry by banks in response to the impact of the negative interest rate policy.

# Growth strategy

## Aims to increase operating assets and raise ROA through expansion of businesses with high profitability and frontier (new domains) initiatives

### 1. Medium-term management plan

The Company is promoting its medium-term management plan Frontier Expansion 2021, which covers FY3/18 through FY3/22. With a slogan of “Going where no one has gone before,” it aims to become a corporate group with sustainable growth, despite major changes in the environment for domestic leasing business, through expansion of the business portfolio’s “frontier” by pursuing new business areas and business models. The plan is a five-year long-term outlook for expansion of the frontier.

Its business goals for five years from now are ¥2,500.0bn in operating assets (+¥456.4bn), 2.0% ROA (+0.4ppt), and ¥50.0bn in ordinary profit (+¥18.6bn). Average annual growth rates for the five years are 4.1% in operating assets and 9.8% in ordinary profit. While the ordinary profit goal presents a tough hurdle, the Company hopes to reach this level through the combined impact of expanded operating assets and improved ROA.

Numerical targets of the medium-term management plan

| | FY3/17 Results | FY3/18 Results | FY3/19 Results | FY3/20 Interim target | FY3/22 Target |
|---|---|---|---|---|---|
| Operating assets | ¥2,043.6bn | ¥2,172.6bn | ¥2,262.8bn | ¥2,300.0~2,400.0bn | ¥2,500.0bn |
| ROA | 1.61% | 1.67% | 1.77% | 1.70%~1.80% | 2.00% |
| Ordinary profit | ¥31.4bn | ¥35.2bn | ¥39.2bn | ¥38.0~42.0bn | ¥50.0bn |

Source: Prepared by FISCO from the Company's materials

Core strategies include 1) selection and concentration in strategic areas, 2) challenge the frontier, and 3) pursue Group synergies.

#### (1) Selection and concentration in strategic areas

The Company intends to concentrate business resources in strategic areas as growth drivers – 1) real estate, 2) energy/ environment, 3) medical and social welfare, 4) aircraft, 5) overseas, and 6) new domains. It also positions the following areas as core areas where it aims to maintain and expand the market (customer base) via group collaboration and other improvements in efficiency – 7) auto leases, 8) vendor leases, 9) domestic corporate, and 10) finance.

#### (2) Challenge the frontier

The Company plans to shift emphasis to added value, services, and business areas that banks cannot offer in order to clarify differentiation with rivals (bank-affiliated leasing companies and banks themselves). It aims to expand into areas that place value (business value) on goods. In new domain expansion, it is mainly considering utilization of M&A and capital and business alliances and seeking non-asset businesses that contribute to higher asset efficiency (ROA), such as through BPO services.

#### (3) Pursue Group synergies

It aims to maximize Group synergies by rolling out products (services) from Group companies to the markets (customer bases) of other Group companies. It hopes to dramatically enhance sales performance by effectively connecting the Group's "functions" and "customer bases," including its main operations with strength in large corporate transactions, SFC's retail-oriented business, Accretive's factoring platform that links large companies and small businesses, and INVOICE's integrated billing service with a customer base of 16,000 companies.

### 2. Direction in strategic areas

#### (1) Real estate

The Company set goals of ¥480.0bn in operating assets in five years (roughly doubling value over five years) and 2.2% in ROA (+0.3ppt) that it intends to achieve by maintaining and expanding upbeat newly executed contract volume. It plans to continue recruitment of customer needs by offering land information, expansion of risk-taking activities, such as finding tenants on its own, and broadening the frontier with real estate financing, investments in REITs, and real estate investments. It is also promoting Group initiatives, such as real estate lease proposals at SFC.

#### (2) Aircraft

The Company intends to accelerate arrangement of ownership to about 10 aircraft per year and expand the number of aircraft that it owns by fourfold to 70 (an increase of 51) in five years. With these additions, it is targeting expansion of operating assets to ¥280.0bn (+¥204.9bn) and ROA of 2.3% (+0.4ppt). While competition has heated up amid growth in global demand, the Company hopes to expand scale and improve asset efficiency through provision of added value that leverages its strengths, similar to real estate leases. In particular, as discussed above, it will seek expansion of transactions with airlines, arrange package deals (multiple aircraft), and realize inorganic growth (through investments, joint ventures, and other activities).

#### (3) Overseas

The Company presented goals in five years of a roughly 1.5-fold expansion of operating assets to ¥120.0bn (+¥35.9bn) and ROA of 1.8% (+1.2ppt) driven by further promotion of non-Japanese business mainly in North America and Asia and inorganic growth (including investments, acquisitions, and alliances). Its inorganic strategy appears to be targeting non-Japanese lease companies located in North America and Asian emerging countries (with specialized businesses that focus on transportation equipment leases, medical equipment leases, auto loans, and other areas). In organic growth, it is aiming for expansion of overseas sites and utilization of Accretive's overseas sites (offering small-sum financing services in Thailand and Cambodia).

#### (4) Energy/environment

In the mainstay solar power business, the Company seeks to expand scale by multiple times, while reducing the number of projects, as phase two that emphasizes mega-solar power sites unfolds. Over the next five years, it plans to expand power output to 165MW (doubling electricity supply in five years) and operating assets to ¥34.0bn (roughly doubling in five years) and sustain ROA at a strong 6.0%. As already explained, the Company has started operations at two large-scale solar plants in FY3/19 with combined electricity output of 140MWdc. The Company has also started construction on an ultra-large-scale project (60MW) that will be its biggest project ever.

#### (5) Medical/social welfare

While it has not presented specific goals, the Company expects growing demand, including wide adoption of community-based integrated care systems promoted by the government, and views this as an area where it can create synergies among Group companies. In medical business, it is taking steps to expand the frontier by offering consulting services for hospital revitalization, business management, and other areas, utilizing know-how in alliances with consolidated subsidiary FUJITA Co., Ltd., which sells used medical equipment, and promoting Accretive's factoring service for medical and care fees, as well as working toward switching to a model based on proposing solutions through the establishment of the Healthcare Advisory Office (currently the Healthcare Advisory Department) and launching a management support advisory business targeting healthcare companies. In social welfare (care) business, it plans to further pursue building leases for senior homes and other care facilities, an area where it led the industry, through the partnership with NICHIIGAKKAN, a major company in the care industry.

#### (6) New domains (BPO business)

New domain is the Company's general term for "a business that will be a new initiative," such as a new business or the expansion of a business domain. It is aiming to expand the business frontier, centered on the non-asset business, and plans to increase ordinary profit in the final fiscal year to as high as around ¥4bn. In April 2019, it launched the BPO domain as a core field in new domains. In the future, it will conduct marketing that utilizes its existing customer base and the contact points for them (the accounting and general affairs departments), and centered on the integrated billing services (INVOICE), its strategy is to aim to improve profitability and asset efficiency by providing a wide range of BPO services through Group collaborations, including for accounting operations and document entry (Accretive) and the outsourcing of payment operations (MerryBiz Inc.*), vehicle management operations (Fuyo Auto Lease Co., Ltd.), collection agency services (Sharp Finance), and leasing and fixed asset management services (FLOWCube+, jointly developed with SAP <SAP>).

* A capital and business partner

Numerical targets in strategic areas

| | FY3/17 Results | FY3/18 Results | FY3/19 Results | FY3/20 Interim target | FY3/22 Target |
|---|---|---|---|---|---|
| Real estate | | | | | |
| Operating assets | ¥240.2bn | ¥362.0bn | ¥421.9bn | ¥380.0bn | ¥480.0bn |
| ROA | 1.9% | 1.8% | 1.7% | 2.0% | 2.2% |
| Aircraft | | | | | |
| Operating assets | ¥75.1bn | ¥97.6bn | ¥149.8bn | ¥210.0bn | ¥280.0bn |
| ROA | 1.9% | 1.9% | 1.4% | 2.0% | 2.3% |
| Self-owned aircraft | 19 | 24 | 35 | 49 | 70 |
| Overseas | | | | | |
| Operating assets | ¥84.1bn | ¥93.4bn | ¥99.9bn | ¥110.0bn | ¥120.0bn |
| ROA | 0.6% | 0.6% | 0.8% | 1.5% | 1.8% |
| Energy/environment | | | | | |
| Operating assets | ¥17.2bn | ¥19.7bn | ¥27.9bn | ¥29.0bn | ¥34.0bn |
| ROA | 6.1% | 5.1% | 4.4% | 6.0% | 6.0% |
| Output (MWdc) | 77 | 102 | 140 | 135 | 165 |
| New domains | | | | | |
| Ordinary profit | ¥1.7bn | - | - | Aprox. 3.0bn | Aprox. 4.0bn |

Source: Prepared by FISCO from the Company's materials

Given these efforts, we expect expansion of operating assets and profitability improvement led by real estate and aircraft areas to continue to play a major role in attainment of the Company's goals in the medium-term management plan. We also think that the increase in BPO businesses, which have a high asset efficiency (including non-asset earnings), will contribute to an increase in ROA. In particular, it is very likely that the development of the BPO business will become a new earnings driver, due to the fact that potential demand is high and this is an area in which the Company can leverage its strengths.

We believe the Company is capable of reaching its goal for expansion of operating assets in light of the external conditions in strategic areas, its results up to now, and its advantages. Our main focus is how the Company increases ROA. Progress in lifting ROA should be assessed in terms of 1) expansion of business in areas with high ROA (change in mix), such as real estate, aircraft, and renewable energy, and 2) improvement of ROA in the real estate and aircraft businesses. We see healthy prospects for boosting ROA through changes in the mix by expanding businesses with high profitability and obtaining income in BPO businesses with high asset efficiency. For the latter effort (finding ways to raise ROA in the real estate and aircraft businesses), we think it is important to pay close attention to the external environment and internal measures.

# Responding to social issues

## Becoming a member of RE100 and disclosing information based on TCFD with the aim of realizing a sustainable society and creating business opportunities

As previously stated, in the medium-term management plan the Company defines “energy / environment” as one of its strategic fields, and in order to build a sustainable society, it is progressing efforts including expanding the solar power generation business and financing infrastructure and equipment that contributes to energy saving and the elimination of carbon emissions. In particular, it recognizes that tackling climate change, including through spreading the use of renewable energy, is a pressing issue, and in September 2018, it became the first general leasing company in Japan to become a member of RE100*. The Company is committed to switching to 100% renewable energy for the electric power it consumes in its business activities by 2050 (and to at least 50% by 2030). In its business fields also, its policy is to aim for the realization of a sustainable society and the creation of business opportunities for the Company itself through efforts including 1) contributing to local communities through further expanding the solar power generation business, 2) providing solutions and services for the use of renewable energy and introducing infrastructure and equipment that contributes to energy saving (developing a proposal-based solutions business), and 3) investing in, entering-into business alliances with, and providing sales promotion support for the product launches of venture companies that possess new technologies that will contribute to the spread of renewable energy.

* An international consortium of companies that aim to procure 100% of the energy used in their operations from sustainable sources.

In addition, in May 2019, the Company announced its agreement with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)*. It is analyzing both the risk and opportunities that climate change poses to the Company’s business and also formulating a policy for information disclosure measures.

* The Task Force established by the Financial Stability Board. In June 2017, it issued a proposal that provides a framework for disclosing information on the risks and opportunities posed to finance by climate change. As of May 2019, more than 600 institutions around the world, including financial institutions, companies, and governments, had expressed their approval of its recommendations.

# Shareholder returns

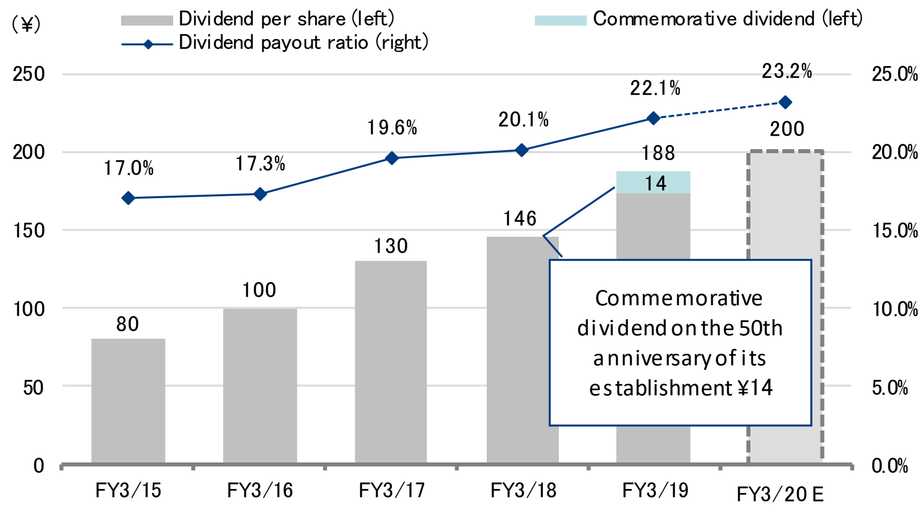
## Steadily raising the dividend with support from strong performance and plans to increase it again in FY3/20 by ¥12 to ¥200

The Company follows a fundamental policy of striving to return profits to shareholders by reinforcing shareholders' equity and continuing long-term, stable dividends to ensure a solid business foundation and robust financial conditions taking into account its profits and business goals.

In FY3/19, the Company increased the dividend by ¥32 YoY for an annual dividend of ¥188 per share (interim dividend of ¥78 and period-end dividend of ¥110 for a dividend payout ratio of 22.1%), which included a commemorative dividend of ¥14 on the 50th anniversary of its establishment. For FY3/20, it plans to increase the dividend ¥12 YoY for an annual dividend of ¥200 per share (interim dividend of ¥100 and period-end dividend ¥100 for a dividend payout ratio of 23.2%)

In addition to the higher dividend from profit growth, the Company has been gradually raising-up the dividend payout ratio, so at FISCO we think that there remains considerable room for the dividend to increase in the future due to both of these factors.

Dividend per share and dividend payout ratio




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

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