COMPANY RESEARCH AND ANALYSIS REPORT

Fuyo General Lease Co., Ltd.

8424

Tokyo Stock Exchange First Section

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Index

Summary

Results steadily grew in the previous fiscal period (and were once again new record highs). In FY3/21, results are forecast to grow moderately due to the impact of the coronavirus pandemic. However, the company has kept the forecasts in line with achieving the medium-term management plan's targets. Also, there are plans to continue to significantly increase the dividend.

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-Iida Co., Ltd. (currently Marubeni Corporation <8002>). Its strengths are information and office equipment and real estate leasing. The Company has ¥1,359.7bn in annual newly executed contract volume and ¥2,383.9bn in operating assets. 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 ¥2,500bn in operating assets, 2.0% ROA* (return on assets), and ¥50bn 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.

3. Summary of FY3/20 results

In the FY3/20 results, revenue and profits increased significantly, with total revenues increasing 15.2% year-on-year (YoY) to ¥712.3bn, operating profit rising 16.1% to ¥41.4bn, and ordinary profit growing 12.6% to ¥44.0bn, and the results were once again new record highs. The Company also made steady progress toward achieving the targets in the medium-term management plan. Operating assets increased in the strategic fields, including real estate and aircraft, while in addition, the growth of BPO* services, including the effects of making consolidated subsidiaries of INVOICE INC., and NOC Outsourcing & Consulting Inc. (hereafter, NOC), contributed greatly to the higher results. ROA also improved significantly from the accumulation of high-quality operating assets and the growth of non-asset earnings. In terms of strategy, the Company aimed to strengthen the BPO services business by making consolidated subsidiaries of NOC, which provides a wide range of outsourcing services, and also Yamato Lease Co., Ltd. (from April 2020), a subsidiary of YAMATO HOLDINGS CO., LTD.<9064>, while also progressing the mobility business.

* Business Process Outsourcing: A service that contributes to operational improvements and increased efficiency by handling some of client companies' business processes

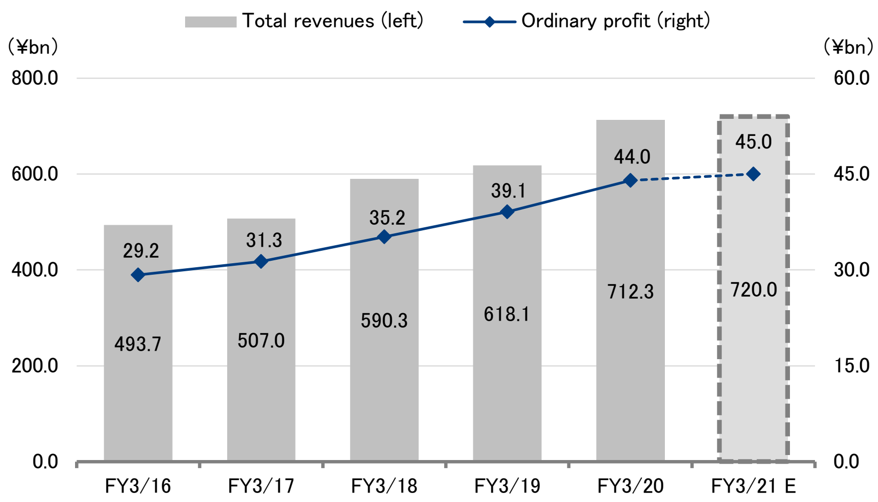
4. FY3/21 results outlook

For the FY3/21 results, the Company is forecasting that total revenues will increase 1.1% YoY to ¥720bn, operating profit will rise 1.4% to ¥42bn, and ordinary profit will grow 2.2% to ¥45bn. It is anticipated that results will continue to be driven by the growth in operating assets in each strategic field and in non-asset earnings, and also from the effects of making a consolidated subsidiary of Yamato Lease. Results will grow moderately compared to up to the present time, but this is because that it is estimated that the coronavirus pandemic will have an impact, to a certain extent. However, the Company has kept the forecasts in line with achieving the targets in the medium-term management plan. For the dividend, it plans to increase the dividend per share ¥15 YoY to ¥220, and its policy is to continuously increase the dividend significantly.

Key Points

- Total revenues and profits increased sharply in FY3/20, once again reaching all-time highs
- Realizing improvements in profits both in terms of accumulating assets and improving profitability from BPO services, etc.
- Progressing the mobility business by making a consolidated subsidiary of Yamato Lease
- The FY3/21 outlook is that results will grow moderately due to impact of the coronavirus pandemic
- However, has kept the forecasts in line with achieving the targets in the medium-term management plan, and also plans to once again increase the dividend

Trends in total revenues and ordinary profit



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

Company profile

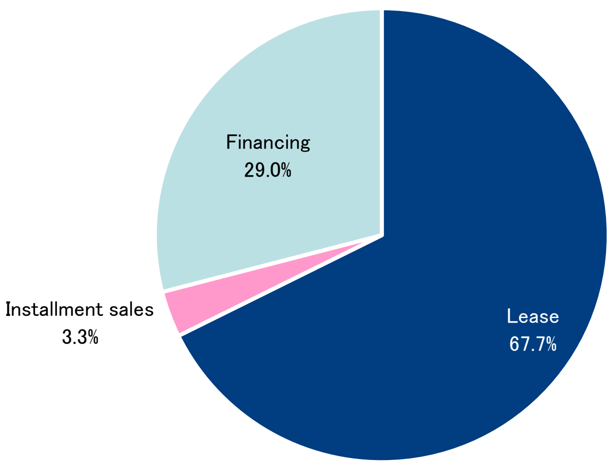
Comprehensive leasing company with strengths in real estate, aircraft, and other areas. Steadily expanding into new domains, such as BPO services and the mobility business

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 67.7%* of operating assets, and 59.9%* of profit before interest expenses* (as of FY3/20). The BPO services, which it is focusing on as a new domain, is currently included in Other.

* Profit excluding the acquisition cost of leased equipment from revenues

Ratio of operating assets by segment (FY3/20)



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

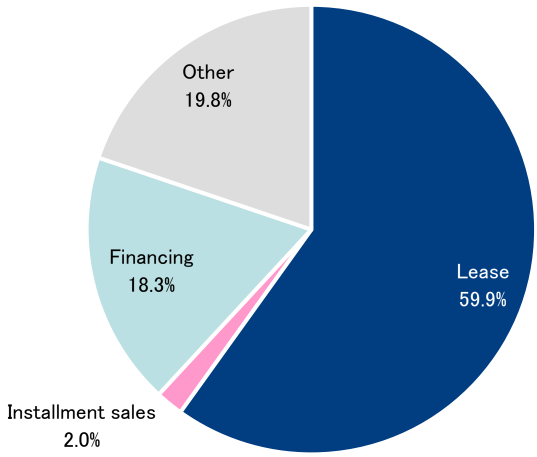
Below, we review the Company's business segments.

(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. Benefiting 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, as well as diversification of properties including hotels, nursing care and residential, leisure, services, and logistics, following the expansion in alliance partners. 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.

Revenue composition by segment (FY3/20)



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 Co., Ltd., 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 large-scale solar power 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, there is an integrated billing service* provided by INVOICE INC. which was made into a consolidated subsidiary in October 2018, and wide-ranging back office services (including accounting, human resources and salary, general affairs and sales administration) provided by NOC which was made into a consolidated subsidiary in August 2019. The Company has built a structure to respond to various BPO needs.

* A service that handles making burdensome monthly payments to telecom carriers and other utilities on behalf of customers.

2. History

The Company was established in 1969 with six companies from the Fuyo Group as shareholders led by Fuji Bank (now Mizuho Financial Group) 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 and contributed substantially to broadening business scope and increasing scale.

In July 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. 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 and then in August 2019, it made NOC, a back-office service provider with a wide range of operations, a consolidated subsidiary in an effort to strengthen the BPO services business. In April 2020, it made a consolidated subsidiary of Yamato Lease, a subsidiary of Yamato Holdings, establishing footholds toward the development of the mobility business, which is considered to have growth potential, and for the logistics industry.

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 70% of overall sales), revenue from installment sales, interest income on financing, and non-asset earnings (such as fee income). Since revenues (excluding non-asset earnings) 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.

Meanwhile, to ascertain the profitability of the Company's main business, we think that the most rational approach is monitoring trends in ordinary profit that deducts interest expenses (fund-raising costs), personnel and equipment expenses, credit-related costs (including reversals)*, and other items from profit before interest expenses. Ordinary profit is obtained by multiplying operating assets by ROA (the ratio of operating assets to ordinary profit), so it is affected by movements in both. Also, most recently, the Company has been working to grow non-asset earnings, so it is also necessary to pay attention to the Other segment.

* 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 back on past results trends, total revenues have trended upward alongside the accumulation of operating assets. Ordinary profit has also continued to increase from both the accumulation of operating assets and the improvement of ROA. The improvement of ROA has been particularly due to the growth of real estate leases and aircraft leases that have comparatively high yields, while most recently, the growth of new-domain businesses (non-asset earnings), mainly BPO services, has also been contributing.

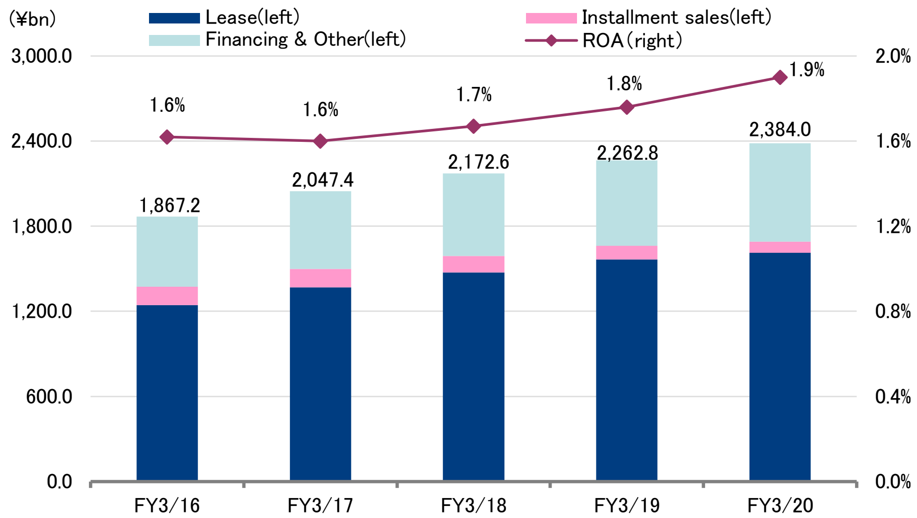
From a cost perspective, meanwhile, funding costs have been largely flat. This trend, despite growth in total funding value, is driven by decline in funding costs due to the impact of market rates. Additionally, the Company keeps personnel and equipment expenses at a certain level and has low credit-related costs. Low-cost operations, a strength, are paying off. Ordinary profit for FY3/20 hence has reached all-time highs for three 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 behind 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.

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.

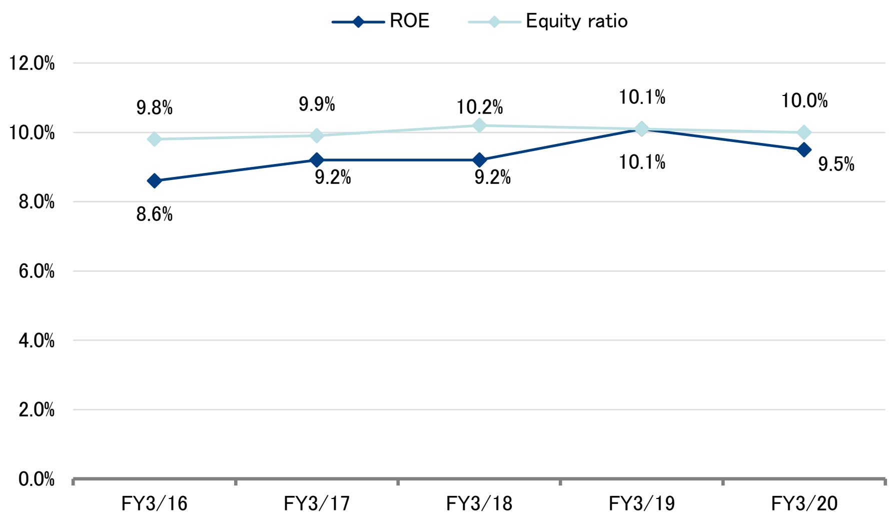
Operating cash flow remains negative and the size of this deficit has grown over the last few years. We think it is reasonable to interpret this as a reflection of the Company's growth potential because the main cause is aggressive accumulation of operating assets, which are future income sources.

Trend in operating assets and ROA



Note: ROA is calculated as ordinary profit ÷ operating assets (average balance)
Source: Prepared by FISCO from the Company's results briefing materials

Trend in equity ratio and ROE



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

Revenue and profits increased significantly in the FY3/20 results (for new record highs). The focus business, BPO services, steadily grew, while Yamato Lease was made a consolidated subsidiary toward progressing the mobility business

3. Summary of FY3/20 results

In the FY3/20 results, revenue and profits increased significantly, with total revenues rising 15.2% YoY to ¥712.3bn, operating profit growing 16.1% to ¥41.4bn, ordinary profit climbing 12.6% to ¥44.0bn, and profit attributable to owners of parent increasing 2.6% to ¥26.1bn. The results were also once again new record highs (ordinary profit for the third consecutive period and profit attributable to owners of parent for the fifth consecutive period). The Company also made steady progress toward achieving the targets in the medium-term management plan, whose final fiscal year is FY3/22.

The growth of the BPO services business, including the effects of making consolidated subsidiaries of INVOICE and NOC*, contributed greatly to the increase in revenues. Profit before interest expenses, which shows true business performance, also steadily increased, up 13.9% YoY to ¥85.8bn. In addition to the accumulation of operating assets in strategic fields, including real estate and aircraft, the growth of profit before interest expenses in the new domains, mainly BPO services, contributed greatly. For the newly executed contract volume as well, real estate leases steadily increased, while the factoring business conducted by Accretive (purchases of accounts receivables and medical care fee credits) grew greatly. At the end of March 2020, operating assets had steadily accumulated, up 5.4% on the end of the previous fiscal period to ¥2,384.0bn.

* In addition to the full fiscal year contribution of INVOICE, which was made a consolidated subsidiary in October 2018 (addition of six months of results), the addition of six months of results from NOC, which was made a consolidated subsidiary in August 2019.

An increase in ordinary profit was also secured. This was due to the growth in profit before interest expenses absorbing the rise in costs including higher interest expenses due to the increase in foreign currency-denominated loans (alongside the growth of the aircraft business), and costs relating to making INVOICE and NOC consolidated subsidiaries (including personnel expenses and amortization of goodwill).

As a result of the above, ROA improved greatly to 1.90% (compared to 1.76% in the previous fiscal period). In addition to the accumulation of high-quality operating assets in the strategic fields, it can be said that the expansion of the non-assets business, including of INVOICE and NOC (BPO services), led to the improvement in ROA.

As for financial condition, total assets increased 6.2% from the end of the previous fiscal period to ¥2,752.5bn, mainly due to the accumulation of operating assets. Shareholders' equity also grew, up 5.4% to ¥275.8bn due to the increase in retained earnings. Therefore, the equity ratio was basically unchanged at 10.0% (10.1% at the end of the previous fiscal period). Also, interest-bearing debt (excluding lease obligations) rose 6.4% to ¥2,231.0bn. But the direct procurement rate was 33.4% (34.1% at the end of the previous fiscal period), the long-term debt ratio of interest-bearing debt was 39.7% (37.7% at the end of the previous fiscal period), and the liquidity ratio, which indicates short-term payment capabilities, was 138.3% (133.7% at the end of the previous fiscal period), so these were stable and the Company maintained its financial soundness*.

* On November 8, 2019, Rating and Investment Information, Inc. (R&I) maintained the Company's issuer rating as A- (single A minus) and revised the direction of the rating to "positive." Similarly, on November 18, 2019, the Japan Credit Rating Agency, Ltd. (JCR) raised the Company's long-term issuer rating to A+ (single A plus).

Summary of FY3/20 results

(¥bn)

	FY3/19		FY3/20		Change	
	Results	Ratio	Results	Ratio		% change
Total revenues	618.1	100.0%	712.3	100.0%	94.2	15.2%
Lease	479.6	77.6%	494.6	69.4%	15.1	3.1%
Installment sales	38.2	6.2%	34.2	4.8%	-3.9	-10.3%
Financing	15.0	2.4%	16.0	2.2%	1.0	6.7%
Other	85.4	13.8%	167.5	23.5%	82.1	96.1%
Profit before interest expenses	75.3	12.2%	85.8	12.0%	10.5	13.9%
Lease	46.7	9.7%	51.4	10.4%	4.7	10.0%
Installment sales	1.8	4.7%	1.7	5.0%	-0.1	-7.9%
Financing	14.8	98.7%	15.7	98.1%	0.9	5.9%
Other	12.0	14.1%	17.0	10.1%	5.0	42.0%
Interest expenses	8.6	1.4%	9.4	1.3%	0.8	9.2%
Gross profit	66.7	10.8%	76.3	10.7%	9.7	14.5%
SG&A expenses	31.0	5.0%	34.9	4.9%	3.9	12.6%
Operating profit	35.6	5.8%	41.4	5.8%	5.7	16.1%
Ordinary profit	39.1	6.3%	44.0	6.2%	4.9	12.6%
Profit attributable to owners of parent	25.5	4.1%	26.1	3.7%	0.6	2.6%
Newly executed contract volume	1,187.2	100.0%	1,359.7	100.0%	172.5	14.5%
General lease	402.6	33.9%	402.3	29.6%	-0.3	-0.1%
Real estate lease	127.4	10.7%	142.2	10.5%	14.8	11.6%
Installment sales	32.9	2.8%	35.8	2.6%	2.8	8.8%
Financing & Other	298.0	25.1%	341.9	25.1%	43.9	14.7%
Accretive	326.3	27.5%	437.6	32.2%	111.3	34.1%
Newly executed lease contract volume by type of equipment						
IT & office equipment	189.7		207.2		17.6	9.2%
Industrial machinery	41.4		44.2		2.8	6.8%
Civil engineering and construction machinery	9.4		10.2		0.8	9.6%
Transportation equipment	84.0		57.1		-26.9	-32.0%
Medical devices	26.2		27.4		1.2	4.6%
Commercial/services equipment	29.6		31.2		1.6	5.4%
Buildings, etc.	127.4		142.2		14.8	11.6%
Other	22.3		25.0		2.7	12.1%
Total	530.0		544.5		14.5	2.7%

	As of March 31, 2019 Results	As of March 31, 2020 Results	Change	% change
Operating assets	2,262.8	2,384.0	121.2	5.4%
Financing & Lease	1,083.5	1,106.8	23.3	2.2%
Operating & Lease	481.3	506.8	25.5	5.3%
Installment sales	96.0	78.4	-17.6	-18.3%
Financing & Other	602.0	691.9	89.9	14.9%

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 March 2020, operating assets had steadily increased, up 5.4% on the end of the previous fiscal period to ¥444.7bn. Although a large bridge project was sold during the period, this was recovered by growing the newly executed contract volume to ¥142.2bn (its second highest level ever). Operating assets have steadily accumulated in the last few years and already greatly exceed the interim target in the medium-term management plan (¥380bn). Bridge projects are trending particularly strongly through the increase in alliance partners. In addition, the Company is maintaining the dispersal of the uses of long-term building leases (commercial facilities, hotels, nursing and residential, leisure and services, logistics, and other uses). ROA also improved to 2.2% (2.0% in the previous period), including due to the gain on the sale of a bridge project.

(2) Aircraft

At the end of March 2020, operating assets had increased significantly, up 10.1% on the end of the previous fiscal period to ¥164.9bn. The number of aircraft owned increased to 41 (up six aircraft YoY). It was also confirmed that ROA recovered to 2.1% (it had temporarily declined to 1.4% in the previous fiscal period because the implementation of new aircraft overlapped with the end of the period). Within the intensification of competition in the last few years, the Company has carefully selected projects, and therefore results were greatly below the interim targets in the medium-term management plan (operating assets of ¥210bn and 49 aircraft owned). However, looking at this from a different perspective, in a situation in which uncertainty is spreading about the results of airline companies in the future due to the impact of the coronavirus pandemic, it can be said that the Company can be positively evaluated for forming a sound portfolio* as a result of this approach.

* 60% of the portfolio is Japanese airlines (on an aircraft basis), while it does not incorporate into the portfolio wide-body models (large aircraft) that are easily affected by economic fluctuations.

(3) Overseas

At the end of March 2020, operating assets (including the amounts invested in affiliates in the overseas business) was sluggish, declining 0.7% on the end of the previous fiscal period to ¥99.2bn, including due to the effects of the strong yen. This was also below the interim target in the medium-term management plan (¥110bn). ROA improved only slightly to 0.9% (0.8% in the previous period). Overseas, the Company is progressing growth on two axes, organic and inorganic (such as through M&A and alliances). Up to the present time, in the North America area it has aimed to expand its business foundation centered on an inorganic strategy, including making equity-method affiliates of two local companies*. However, it is currently adopting a cautious stance due to the overheating of the global investment environment and also the spread of the uncertain conditions due to the impact of the coronavirus pandemic at the present time. In the future, the Company intends to realize organic growth through measures for overseas projects in cooperation with customers, centered on the fields in which it is strong (real estate, energy, the environment, etc.)

* TDF Group Inc. (pickup truck rentals and leases) and Pacific Rim Capital, Inc. (operating leases of materials-handling equipment).

(4) Energy/environment

At the end of March 2020, operating assets (solar power business), including an already operating power plant prior to it being made a consolidated subsidiary, had increased significantly, up 35.1% on the end of the previous fiscal period to ¥37.7bn*1. This not only already exceeds the interim target in the medium-term management plan (¥29bn), but also the final target (¥34bn). The total power output also increased to 200MW (140MW at the end of the previous period), which also achieved the final target in the medium-term management plan (200MW) ahead of schedule. ROA improved to 4.8% (4.4% in the previous period). As measures for the post-FIT period and toward solving social problems, the Company is focusing on the agri-business*2 and new fields related to the issue of climate-change (PPA services*3, storage batteries*4, finance programs*5, etc.)

*1 Including a power plant prior to it being made a consolidated subsidiary that started operating in February 2020 (¥11.7bn).
*2 It is participating in the management of a plant factory (Fujieda City, Shizuoka Prefecture) through the establishment of a joint venture company in April 2019 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.
*3 A framework in which a solar power generation system is installed on the roof of a customer's facility or other location, and green electricity that is free of CO_2, which has environmental value, is supplied directly to the customer. Since the start of fully fledged sales in the 2H of the previous period, it has already been provisionally selected for orders for multiple projects at factories.
*4 Storage batteries play an important role as the source of energy for electric vehicles, and also as the buffer for the output fluctuations of renewable energy in the transportation and energy fields. In anticipation of the opening of the domestic market for power demand and supply adjustments in 2021, the Company plans to participate in the business being conducted in the UK market by an alliance partner in advance.
*5 Development of the Renewable Energy 100 Declaration Support Program, which is a program targeting companies and organizations that declare their support to use 100% renewable energy for the energy they consume. Since the 2H of the previous period, the Company has concluded contracts with 16 companies, mainly companies participating in RE100.

(5) Medical/social welfare

The Company is using its platform concept to provide a wide range of solutions to respond to its customers' needs. At the end of March 2020, operating assets (including overlaps with other business fields) had increased 8.7% on the end of the previous fiscal period to ¥81.0bn. Also, Accretive's medical and care fee credits factoring (FPS Medical) balance had also grown significantly, up 66% on the end of the previous fiscal period to ¥17.2bn, including due to the strengthening of partnerships with regional financial institutions and medical consultants.

(6) BPO services business (new domain)

There was the addition of results (six-months' worth) from the integrated billing service provided by INVOICE, which was made a consolidated subsidiary in October 2018, and it appears that the number of completed contracts through Group collaborations is also steadily increasing. Moreover, since August 2019, it started making a consolidated subsidiary of NOC*, which provides a wide range of back-office services and business consulting. In addition to the accounting and payment services it has provided since the past, it is expanding its services to areas including human resources, general affairs, sales administration, and RPA, while also strengthening the business consulting function that make visible customer needs. In such ways, it is establishing a system to respond to its customers' various needs for improving operating efficiency. The ordinary profit results of the core subsidiaries conducting the BPO services business were ¥4.7bn in INVOICE, ¥1.5bn in Accretive, and ¥0.8bn in NOC, which when simply totaled, is on a scale of ¥7bn.

* It has the expertise accumulated from improving the businesses of 1,000 companies over 30 years, and its strengths including providing small-lot, multiple-product BPO services and making customers' issues visible through its business consulting.

(7) Mobility business (new domain)

The Company has redefined the auto lease business, which it has developed as a core field up to the present time, as the mobility business, which is considered to have growth potential. As one part of its measures for this, from April 2020 it started* making a consolidated subsidiary of Yamato Lease, which is a subsidiary of Yamato Holdings. Targeting major markets, such as automotive car sharing, transportation, and warehouses, the strategy is to support problem solving in the vehicle and logistics industries by providing a wide range of solutions. Yamato Lease's strength include its handling and proposal-bases sales for used trucks and that it has a customer base of around 3,000 companies, specializing in the logistics industry. Major benefits can be expected for the Company, of customer acquisitions in new markets (access to small- and medium-sized transport businesses that are broad in scope) and the creation of synergies through cross selling, such as of BPO services. It is also currently holding discussions with Yamato Holdings for further business collaboration.

* Acquired 60% of its shares at an acquisition cost of approximately ¥3.6bn. Yamato Holdings holds the remaining 40% of shares.

Business outlook

The FY3/21 outlook is that results will grow moderately due to the impact of the coronavirus pandemic. However, the company is maintaining the forecasts in line with achieving the targets in the medium-term management plan.

1. FY3/21 outlook

For the FY3/21 results, the Company is forecasting that total revenues will increase 1.1% YoY to ¥720bn, operating profit will rise 1.4% to ¥42bn, ordinary profit will grow 2.2% to ¥45bn, and profit attributable to owners of parent will climb 3.1% to ¥27bn. So the outlook is that results will grow only moderately due to the impact of the spread of the novel coronavirus (hereafter, the coronavirus pandemic).

Continuing from before, it is anticipated that the growth in results will be driven by the accumulation of operating assets in each of the strategic fields and the increase in non-asset earnings. However, the reason why results will grow only moderately compared to up to the present time is that it is estimated that the coronavirus pandemic will have an impact, to a certain extent.

FY3/21 outlook

(¥bn)

	FY3/20		FY3/21		Change	
	Results	Ratio	Forecast	Ratio		% change
Total revenues	712.3		720.0		7.7	1.1%
Operating profit	41.4	5.8%	42.0	5.8%	0.6	1.4%
Ordinary profit	44.0	6.2%	45.0	6.3%	1.0	2.2%
Profit attributable to owners of parent	26.2	3.7%	27.0	3.8%	0.8	3.1%

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

2. The main anticipated effects of the coronavirus pandemic

The Company has incorporated the following effects of the spread of the coronavirus pandemic into the results forecasts, assuming that the crisis will have settled down by the end of September 2020 (end of the 1H).

(1) Aircraft business

Due to the restrictions on travel on a global scale and other reasons, conditions have become extremely severe for the results of every airline company, and it is anticipated that the Company's lease business for the aircraft it owns will also be impacted by the requests for deferments of lease payments from its lease customers (airline companies) and alongside this, the fall in its debtor rating (an increase in credit-related expenses). However, even should the worst case occur (for example, the generation of bad debt due to the bankruptcies of lease customers), as these are transactions that rely on the value of the equipment, it seems that the impact will be limited. In particular, in the Company's case, as previously stated it owns narrow-body aircraft that have relatively stable market values, so this point can also be said to limit the risk of an increasing loss. Conversely, for JOLCO*, although there is no credit risk, there are concerns about a reduction in business opportunities due to the decline in investor needs.

* Japanese-style operating leases with purchase options attached. Mainly comprised of investment management products for investors.

(2) Real estate business

For property leases and related, lease customers are asking for deferments and exemptions from lease payments, and it is anticipated that this will have the effect of reducing the debtor rating (increasing credit-related expenses). However, the majority of the Company's transactions partners have high credit worthiness, so it seems that the effects of this will be limited. For financing, it is assumed that, due to declines in cash flow resulting from the fall in the utilization rates of commercial facilities and other properties, divided payments will be stopped (in the case of equity investment) and repayments of the principal and interest will be delayed (in the case of loans).

(3) Vendor leasing, auto leasing, other general leasing

It is anticipated that defaults will increase due to the slumps in consumer spending and corporate activities, that there will be requests for deferments of lease payments, mainly from small- and medium-sized companies, and that this will have the effect of reducing the debtor rating (increasing credit-related expenses).

(4) Fund raising

It is assuming that interest rates for fund raising will rise, including for commercial paper (CP). But judged from the current situation in the domestic financing market and the Company's financial position, it seems that the risk of interest rates rising significantly is low (the effect will be limited).

3. View of FISCO's analysts

At FISCO also, we think that although it will be necessary to continue to pay close attention to the impact of the coronavirus pandemic, we evaluate that the Company's results forecasts are fully achievable due to the following points. 1) The operating assets it has steadily accumulated up to the present time will contribute to results, 2) the real estate business is continuing to perform strongly, 3) it has established an earnings foundation for the BPO services business, 4) the effects remain of making NOC a consolidated subsidiary (addition of six months of results), and 5) the effects of making Yamato Lease a consolidated subsidiary from April 2020 will contribute for the full fiscal year. Based on these and other points, inherently it seems possible it can achieve ordinary profit of ¥47bn to ¥48bn (an increase of ¥3bn to ¥4bn YoY). Therefore, the key point is the extent to which the (negative) impact of the coronavirus pandemic will reduce these amounts. But even assuming that costs, such as credit-related costs and funding costs, increase by ¥2bn, this still establishes a scenario in which the Company can achieve its ordinary profit forecast of ¥45bn.

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 are ¥2,500bn in operating assets, 2.0% ROA, and ¥50bn in ordinary profit, which are unchanged from the initial forecasts. 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

(¥bn)

	FY3/17 Results	FY3/18 Results	FY3/19 Results	FY3/20 Results	FY3/20 Interim target	FY3/22 Target
Operating assets	2,047.4	2,172.6	2,262.8	2,384.0	2,300.0~2,400.0	2,500.0
ROA	1.61%	1.67%	1.77%	1.90%	1.70%~1.80%	2.00%
Ordinary profit	31.4	35.2	39.1	44.0	38.0~42.0	50.0

Source: Prepared by FISCO from the Company's results briefing 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) aircraft, 3) overseas, 4) energy/environment, 5) medical and social welfare, 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) vendor leases, 8) domestic corporate, and 9) finance. It has changed the position of auto leasing, which was previously one of the core fields, to be the mobility business, as one of the new frontiers (new domains) in which growth is expected.

(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, INVOICE's integrated billing service with a customer base of 16,000 companies, and NOC's strength in wide-ranging back office services and business consulting.

2.Progress made up to the present time

The Company has set interim targets toward achieving the final targets, and as previously stated, the FY3/20 results all cleared these interim targets (ordinary profit and ROA exceeded their targets), of operating assets of ¥2,384.0bn (interim target, ¥2,300bn to ¥2,400bn), ordinary profit of ¥44.0bn (¥38bn to ¥42bn), and ROA of 1.90% (1.70 to 1.80%). The Company has not revised the overall final targets, but it has revised the targets for some of the strategic fields (real estate and overseas, the details are given below) based on factors such as the progress made in each field and the current conditions.

Also, as previously explained, on considering the impact of the coronavirus pandemic, at the current time the Company is forecasting only moderate results growth for FY3/21. But from the effects of the buffer from results being higher than forecast up to the present time, it can be judged to be keeping the forecasts in line with achieving the final targets.

3. Direction in strategic areas

(1) Real estate

By maintaining and increasing the newly executed contract volume, which has been trending strongly, at the end of March 2020 operating assets greatly exceeded the interim target value, and they continue to trend strongly at the present time as well. Therefore, the Company has upwardly revised the operating assets target for the final fiscal year to ¥530bn (+¥50bn). It also intends to maintain ROA at a level of 2.2%. It will continue to work to expand alliance partners and also to progress projects initiated by the Company itself that utilizes its abundance of real estate information (on 4,000 properties a year). In addition, in anticipation of the expansion of the scope of the real estate business, it will work to strength the system for managing the real estate it holds (including monitoring).

(2) Aircraft

The Company intends to increase the number of aircraft leases it has taken out and expand the number of aircraft it owns to 70 by the final fiscal year. Alongside this, it will raise operating assets to ¥280bn and also ROA to a level of 2.3%. At the end of March 2020, the results were below the interim targets, but it has not revised the final targets. Going forward, assuming that the impact of the coronavirus pandemic will end, it intends to increase earnings through incorporating rotating-type businesses such as JOL*1, in addition to leases of its own holdings. Also, at the present time it is working to increase the number of aircraft it owns based on the changes to the market*2.

*1 Japanese-style operating leases. It provides investment management products to investors, so the Company's operating assets do not change.

*2 Due mainly to the impact of the coronavirus pandemic, a development has appeared of airline companies changing from owning aircraft to leasing aircraft in order to secure liquidity on hand. While inquiries from blue-chip airlines are increasing, the Company's policy is to respond carefully to them and select only high-quality projects.

(3) Overseas

The Company has expanded this business centered on an inorganic strategy (investment, acquisitions, alliances, etc.), but based on factors including the overheating of the global investment environment, it has downwardly revised the operating assets target for the final fiscal year to ¥110bn (down ¥10bn) and ROA to 1.6% (down 0.2%). Going forward, it intends to grow organic earnings, and it is progressing overseas projects in collaboration with customers in fields in which it is strong (including real estate, energy, and the environment). It is also working to further expand the overseas network, including strengthening the leasing business in Thailand and establishing a base in Taiwan.

(4) Energy/environment

In the mainstay solar power business, by the final fiscal year the Company intends to increase the total power output to 200MW and operating assets to ¥34bn, while it also plans to maintain ROA at the high level of 6.0%. As previously stated, it has already achieved the final targets for power output and operating assets ahead of schedule. In the future, as explained above it will provide PPA (Power Purchase Agreement) services for the post-FIT period and is working on measures for self-consumption-type power generation. It also intends to develop other initiatives, including newly participating in the management of a plant factory and contributing to the creation of a sustainable society.

(5) Medical/social welfare

For the final fiscal year, the Company is targeting operating assets (including overlaps with other fields) of ¥95bn. Continuing from previously, it will work to expand the business scope through collaborations with highly specialized players and by further developing advisory functions. Also, separate to this, it is targeting operating assets of ¥30bn for Accretive's medical and care fee credits factoring business (FPS Medical), and its policy is to differentiate itself from an approach from the upstream* and to further deepen collaborations with regional financial institutions and medical consultants.

* As a specific measure, it has joined the collaborating corporate members (the only leasing company) for the Medical Management Planning Group, which is a nationwide organization of more than 100 members of accounting firms specializing in medical management support.

(6) New domains (BPO services)

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 increase ordinary profit in the final fiscal year to around ¥4bn by expanding the business frontier, centered on the non-asset business. In the future, it will make fully fledged the collaboration with NOC, which provides a wide range of back-office services, and it will also work to further strengthen (establish a position for) BPO services, for which needs are growing due to the labor shortage.

(7) Other measures (mobility business)

From April 2020, the Company added a new strategic axis by making Yamato Lease a consolidated subsidiary. It intends to grow this business to a level in which it constitutes one part of its business portfolio in the future by doubling profits from their current level (of around ¥3bn) through providing solutions to the vehicle and logistics industries, which have major potential. It will achieve this including by creating synergies with Yamato Lease and collaborating with Yamato Holdings.

Numerical targets in strategic areas

(¥bn)

	FY3/17 Results	FY3/18 Results	FY3/19 Results	FY3/20 Results	FY3/22 Target
Real estate					
Operating assets	240.2	362.0	421.9	444.7	530.0 *3
ROA	1.9%	1.8%	2.0%	2.2%	2.2%
Energy/environment					
Operating assets	17.2	19.7	27.9	37.7 *1	34.0
ROA	6.1%	5.1%	4.4%	4.8%	6.0%
Output (MWdc)	77	102	140	200	200
Aircraft					
Operating assets	75.1	97.6	149.8	164.9	280.0
ROA	1.9%	1.9%	1.4%	2.1%	2.3%
Self-owned aircraft	19	24	35	41	70
Overseas					
Operating assets	84.1	93.4	99.9	99.2	110.0 *4
ROA	0.6%	0.6%	0.8%	0.9%	1.6% *5
Medical/social welfare					
Operating assets	66.9	66.3	74.5	81.0	95.0
New domains (BPO services, etc.)					
Ordinary profit	1.7	1.4	6.0	7.0 *2	4.0

*1 Includes a power plant prior to it being made a consolidated subsidiary that started operating in February 2020 (¥11.7bn)
*2 Total of the ordinary profit of the BPO services core companies (INVOICE, Accretive, NOC, etc.)
*3 Upwardly revised the initial target of ¥480bn to ¥530bn
*4 Downwardly revised the initial target of ¥120bn to ¥110bn
*5 Downwardly revised the initial target of 1.8% to 1.6%
Source: Prepared by FISCO from the Company's results briefing materials

At FISCO, while we are concerned about the impact of the coronavirus pandemic, we evaluate that the Company is fully capable of increasing operating assets in the remaining two years when judged from the external environment in its strategic fields, its results up to the present time, and its competitive advantages. For the improvement to ROA also, which is the biggest point to focus on, it is greatly improving it from the growth of 1) the businesses with high ROA, including the real estate, aircraft and renewable energy business, and 2) the BPO services business, which has high asset efficiency. So it can also be evaluated as making progress basically in line with its strategy's scenario. Therefore, in the future also, it would seem important that the Company progresses even more its strategy up to the present time while responding flexibly to environmental changes due to the impact of the coronavirus pandemic (in the post-coronavirus period). In addition, as can be seen from the current redefinition of the mobility business, it can be said that an important theme will be establishing a new strategic axis toward achieving the targets in the next medium-term management plan. In particular, in fields such as energy and the environment, we shall be paying attention to specific developments; namely, of what measures it will specify toward solving social issues and will they lead to the Company's own sustainable growth.

Responding to social issues

Aiming to realize a sustainable society and to create business opportunities. Selected as a constituent stock in leading ESG indexes

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.

Also, in May 2019, the Company announced its agreement with the declaration of the Task Force on Climate-Related Financial Disclosures (TCFD)*1. Moreover, it is working on various other measures, including participating in the Renewable Energy 100 Declaration Establishment Council and starting operations of its own support program that utilizes green bonds. It has also been selected as the constituent stock in various ESG indexes*2, including the FTSE 4Good Index Series, which selects excellent companies in terms of their responses to ESG (Environment, Society, Governance), the FTSE Blossom Japan Index, the MSCI Japan ESG Select Leaders Index, and the S&P/JPX Carbon Efficient Index. In February 2020, it was awarded the Gold Award (Minister of the Environment's Award) in the Bond Category of the ESG FINANCE AWARDS JAPAN*3 held by the Ministry of the Environment.

*1 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.

*2 Among these ESG indexes, the FTSE Blossom Japan Index, the MSCI Japan ESG Select Leaders Index, and the S&P/JPX Carbon Efficient Index have been adopted as the benchmarks of ESG passive management by GPIF (Government Pension Investment Fund), which is one of the world's largest pension funds.

*3 An awards system established by the Ministry of the Environment in FY2019 to evaluate and commend companies. Its aim is to share with society information on companies that are actively working on ESG finance and green projects; on investors, financial institutions, etc., that are having an excellent impact on the environment and on society; on initiatives for management strategies to improve enterprise value with regards to important environment-related opportunities and risks; and on company initiatives that are having a positive impact on enterprise value and the environment.

Shareholder returns

Steadily raising the dividend with support from strong performance and plans to increase it again in FY3/21 by ¥15 to ¥220

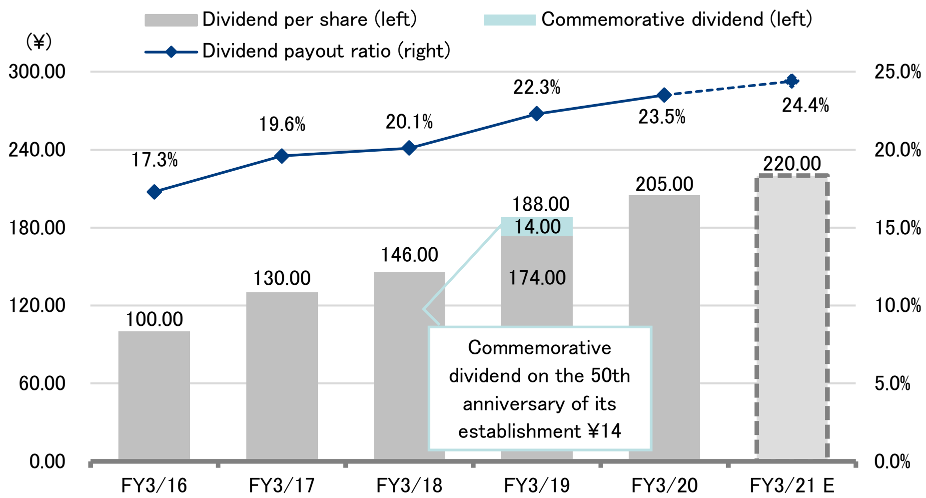
The Company follows a fundamental policy of striving to return profits to shareholders by reinforcing shareholders' equity and continuing long-term, stable dividends to ensure a solid business foundation and robust financial conditions taking into account its profits and business goals.

For FY3/20, it increased the dividend ¥17 YoY for an annual dividend of ¥205 per share (interim dividend of ¥100 and period-end dividend ¥105 for a dividend payout ratio of 23.5%)

For FY3/21, it plans to increase the dividend ¥15 YoY for an annual dividend of ¥220 per share (interim dividend of ¥110 and period-end dividend ¥110 for a dividend payout ratio of 24.4%)

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

FISCO

Disclaimer

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