Fuyo General Lease Co., Ltd.

8424

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Index

Summary

Sales and profits continued to increase in 1H FY3/21 (steady progress also made for forecasts). While the coronavirus impacted some businesses, others, including real estate leases and new domains, grew. 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 include information-related, office equipment, and real estate leases, and it has an annual newly executed contract volume of ¥1,359.7bn (FY3/20 result) and operating assets of ¥2,575.6bn. In addition to the steady increase in operating assets in business fields it has positioned as strategic fields, such as real estate, the Company is steadily expanding its earnings through the growth of BPO services from M&A.

2. Medium-term management plan

The Company is promoting its five-year 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. The targets for the plan’s final fiscal year are operating assets of ¥2,500bn (already achieved ahead of schedule), ROA (Return on Assets) of 2.0%, and ordinary profit of ¥50bn. The hurdle to achieve the ordinary profit target is particularly high, but its scenario to realizing it is through the combination of 1) accumulating operating assets and 2) improving ROA, including through increasing non-asset earnings.

3. Summary of 1H FY3/21 results

In the 1H FY3/21 results, both revenues and profits increased, with total revenues rising 3.7% compared to the same period in the previous fiscal year (year-on-year (YoY)) to ¥357.4bn, operating profit growing 2.3% to ¥20.9bn, ordinary profit climbing 3.7% to ¥22.8bn, and profit attributable to owners of parent increasing 1.1% to ¥13.9bn. The results reached new record highs. Total revenues increased from the effects of making consolidated subsidiaries of YAMATO LEASE CO., LTD., and NOC Outsourcing & Consulting Inc. (hereafter, NOC). Profit before interest expenses, which shows true business performance, also steadily increased, rising 10.4% YoY to ¥45.9bn. Some businesses were impacted by the coronavirus, but others were not and grew, including real estate leases, financing, and BPO services*, and secured profit increases in all segments. On excluding aircraft, which was impacted by the coronavirus, operating assets increased 8.0% from the end of the previous fiscal year to ¥2,575.6bn, mainly in the strategic fields. For activities also, the Company implemented various measures to strengthen businesses expected to grow in the future, including energy/environment, and for new domains (BPO services and mobility business), and it was able to achieve a certain level of results.

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

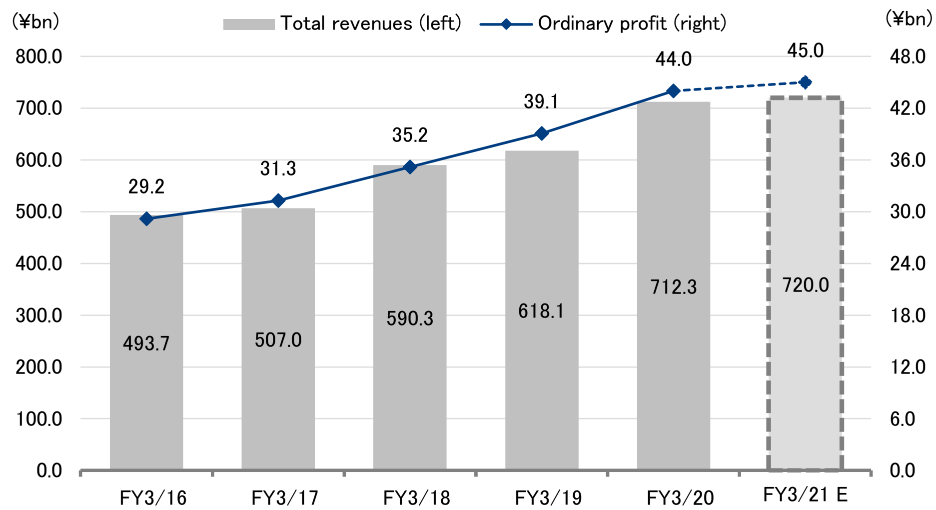
4. FY3/21 results outlook

For the FY3/21 results outlook, the Company has left the initial forecasts unchanged, which are for total revenues to increase 1.1% to ¥720bn, operating profit to rise 1.4% to ¥42bn, ordinary profit to grow 2.2% to ¥45bn, and profit attributable to owners of parent to increase 3.1% to ¥27bn. In addition to the continued accumulation of operating assets in strategic fields and the growth of non-asset earnings, it is anticipated that the effects of making a consolidated subsidiary of YAMATO LEASE will contribute to raising-up the results. 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

- In the 1H FY3/21 results, revenues and profits grew and were once again new record highs
- The coronavirus impacted some businesses, such as aircraft, but an increase in profits was still secured, including from the effects of making a consolidated subsidiary of YAMATO LEASE and accumulating real estate leases, and steady progress was made toward the full fiscal year forecasts
- The company has left the FY3/21 results forecasts unchanged and expects higher revenues and profits for the full fiscal year as well
- The company 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

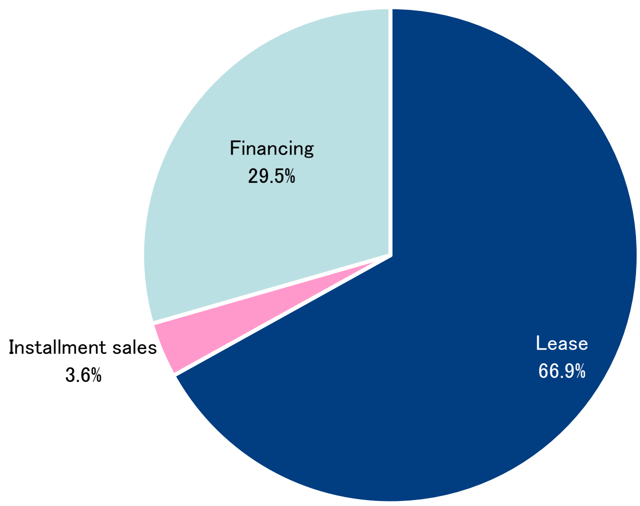
Comprehensive leasing company with strengths in real estate, aircraft, and other areas. Steadily expanding into new domains, such as BPO services and the mobility business

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 66.9% of operating assets, and 57.5% of profit before interest expenses* (as of 1H FY3/21). The BPO services, which it is focusing on as a new domain, is currently included in Other.

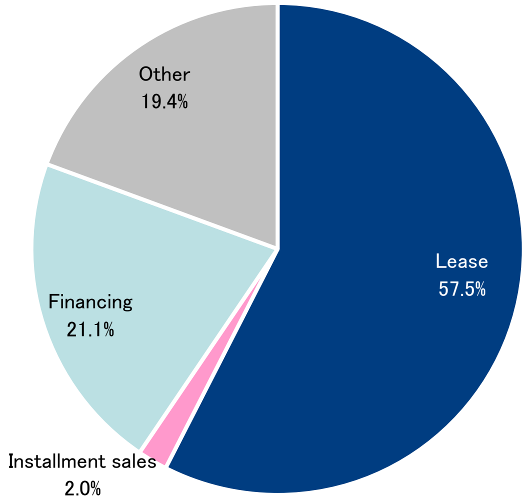
* Profit excluding the acquisition cost of leased equipment from revenues

Ratio of operating assets by segment (1H FY3/21)



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

Composition of profit before interest expenses by segment (1H FY3/21)



Source: Prepared by FISCO from the Company's 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. Also, the growth of transportation equipment up until recently was due to aircraft leases, and at the current time they are being impacted by the coronavirus. However, the Company's strengths include its track record and expertise accumulated over many years. In addition, it is aiming to strengthen the mobility business, which is expected to grow in the future, through making YAMATO LEASE* a consolidated subsidiary in April 2020.

* Started making a consolidated subsidiary of YAMATO LEASE, which was a subsidiary of YAMATO HOLDINGS CO., LTD. The Company's shareholding ratio became 60% and YAMATO HOLDINGS became 40%.

(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. 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. In addition to pursuing synergies through cross-selling with each company in the Group, the Company is also progressing other measures, including strengthening measures for the new domains. 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 <9064>, 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, which shows true business performance, is trending upward, including through the accumulation of operating assets and the growth of 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.

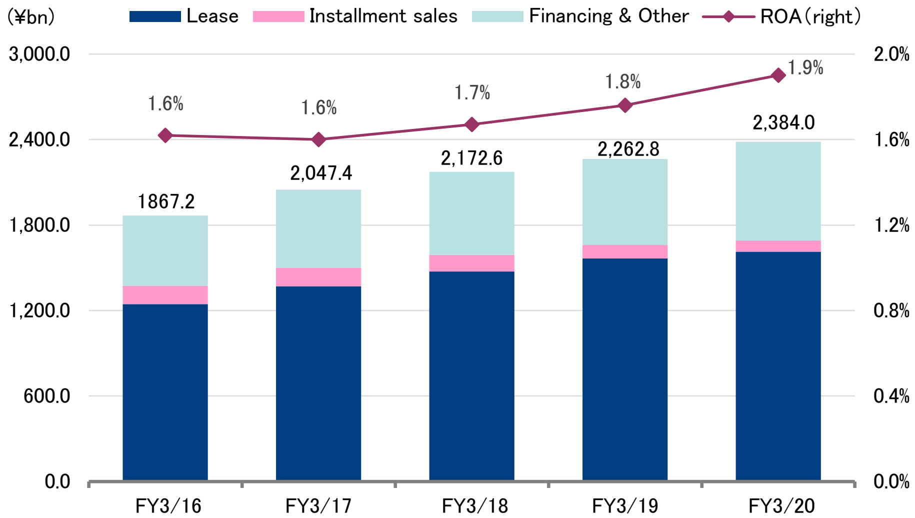
From a cost perspective, meanwhile, funding costs have been largely flat. This trend, despite growth in total funding value, is driven by decline in funding costs due to the impact of market rates. Additionally, the Company keeps personnel and equipment expenses at a certain level and has low credit-related 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.

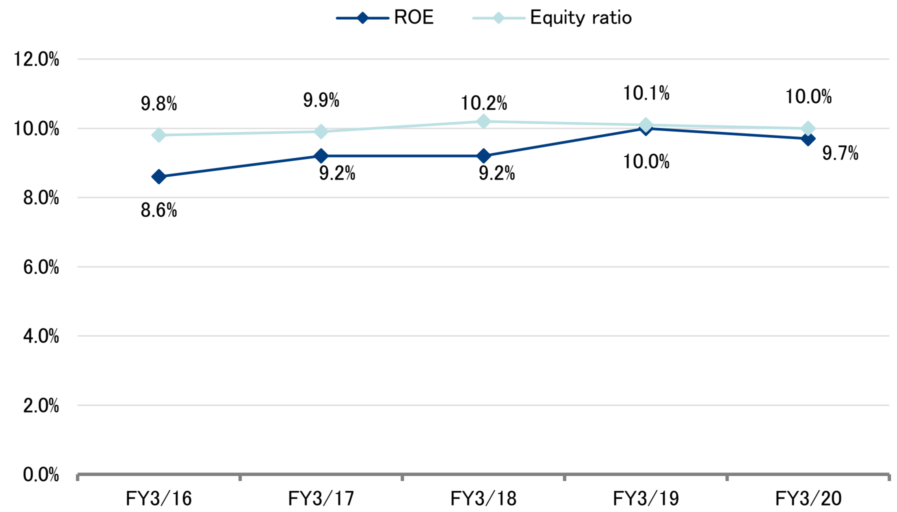
Operating cash flow remains negative and the size of this deficit has grown over the last few years. We think it is reasonable to interpret this as a reflection of the Company's growth potential because the main cause is aggressive accumulation of operating assets, which are future income sources.

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



Note: FY3/19 and FY3/20 reflect the values determined through accounting treatment for business combination in FY3/20.
Source: Prepared by FISCO from the Company's financial results and results briefing materials

Revenues and profits continued to increase in 1H FY3/21 (for new record highs), and although the coronavirus impacted some businesses, the strong results, including in real estate leases, were maintained. Made YAMATO LEASE a consolidated subsidiary in order to progress the mobility business

3. Summary of 1H FY3/21 results

In the 1H FY3/21 results, both revenues and profits increased, with total revenues rising 3.7% YoY to ¥357.4bn, operating profit growing 2.3% to ¥20.9bn, ordinary profit climbing 3.7% to ¥22.8bn, and profit attributable to owners of parent increasing 1.1% to ¥13.9bn. Total revenues and each profit item were also new record highs (on a 1H basis), and steady progress was made toward achieving the full fiscal year targets.

Total revenues increased with the contributions from consolidating YAMATO LEASE and NOC*1 and other factors. Profit before interest expenses, which shows true business performance, also steadily grew, rising 10.4% YoY to ¥45.9bn. The coronavirus impacted some businesses, but others grew, including real estate leases, financing, and BPO services, and profits increased in all segments. Conversely, costs increased, due in part to the rise in personnel costs following the additions of consolidated subsidiaries, and also due to the increases in interest expenses*2 and in credit-related costs*3. But all these increases were within the expected range. The higher costs were absorbed by the rise in profit before interest expenses, and secured an increase in ordinary profit.

*1 YAMATO LEASE, which was made a consolidated subsidiary in April 2020, contributed, while NOC, which was made a consolidated subsidiary in August 2019, added six months of results.
*2 Interest expenses increased to ¥5bn (up ¥300mn YoY) due to the rise in the interest-bearing debt balance following the accumulation of operating assets. However, the interest on funding is stably at a low level, of 0.45% (0.47% in the same period in the previous fiscal year).
*3 Credit-related costs increased to ¥700mn (up ¥300mn YoY). This was mainly due to the recording of a provision for future lease payments because of the impact of the coronavirus, but it was within the expected range.

The newly executed contract volume was secured at around the same level as in FY3/20. This was because although new measures were kept down for aircraft leases, which are being impacted by the coronavirus, real estate leases continued to perform strongly, and as financing and the factoring business conducted by Accretive (purchases of accounts receivables and medical care fee credits) grew, allowing the Company to maintain a level nearly on par with FY3/20. As a result, operating assets increased 8.0% YoY to ¥2,575.6bn, mainly in the strategic fields.

In the financial condition, total assets were up 6.9% from the end of the previous fiscal year to ¥2,941.7bn, including through making YAMATO LEASE a consolidated subsidiary and the accumulation of operating assets. Shareholders' equity increased 2.6% to ¥283.2bn due to the accumulation of retained earnings, and the equity ratio was basically unchanged YoY at 9.6% (10.0% at the end of the previous period). Also, interest-bearing debt (excluding lease obligations) rose 8.9% to ¥2,428.8bn. But the direct procurement rate was 33.3% (33.4% at the end of the previous fiscal period), the long-term debt ratio of interest-bearing debt was 39.1% (39.7% at the end of the previous fiscal period), and the liquidity ratio, which indicates short-term payment capabilities, was 136.4% (138.3% at the end of the previous fiscal period), so these were stable and the Company maintained its financial soundness*.

* Rating and Investment Information Inc. (R&I) raised the Company's issuer rating to A (stable) in October 2020, while the Japan Credit Rating Agency, Ltd., maintained the Company's long-term issuer rating at A+ (stable) in November 2019. In other words, the issuer ratings have both improved by one notch compared to when it started the medium-term management plan in April 2017.

Summary of 1H FY3/21 results

(¥bn)

	1H FY3/20		1H FY3/21		YoY change	
	Results	% of revenues	Results	% of revenues	Amount	% change
Total revenues	344.5		357.4		12.8	3.7%
Lease	239.4	69.5%	237.7	66.5%	-1.7	-0.7%
Installment sales	17.4	5.1%	22.3	6.2%	4.9	28.2%
Financing	7.3	2.1%	9.9	2.8%	2.6	35.6%
Other	80.4	23.3%	87.5	24.5%	7.1	8.8%
Profit before interest expenses	41.6	12.1%	45.9	12.8%	4.3	10.4%
Lease	25.8	10.8%	26.4	11.1%	0.6	2.3%
Installment sales	0.8	4.6%	0.9	4.0%	0.1	12.5%
Financing	7.1	97.3%	9.7	98.0%	2.6	36.6%
Other	7.8	9.7%	8.9	10.2%	1.1	14.1%
Interest expenses	4.7	1.4%	5.0	1.4%	0.3	6.4%
Gross profit	36.9	10.7%	40.9	11.4%	4.0	11.0%
SG&A expenses	16.4	4.8%	20.0	5.6%	3.6	21.8%
Operating profit	20.5	5.9%	20.9	5.9%	0.5	2.3%
Ordinary profit	22.0	6.4%	22.8	6.4%	0.8	3.7%
Profit attributable to owners of parent	13.7	4.0%	13.9	3.9%	0.2	1.1%
Newly executed contract volume	688.7	100.0%	662.4	100.0%	-26.3	-3.8%
General lease	229.4	33.3%	154.8	23.4%	-74.6	-32.5%
Real estate lease	72.2	10.5%	62.5	9.4%	-9.7	-13.4%
Installment sales	18.7	2.7%	17.1	2.6%	-1.6	-8.6%
Financing & Other	162.9	23.7%	211.1	31.9%	48.2	29.6%
Accretive	205.4	29.8%	217.0	32.8%	11.6	5.6%
Newly executed lease contract volume by type of equipment						
IT & office equipment	119.9		86.9		-33.0	-27.5%
Industrial machinery	26.0		13.6		-12.3	-47.7%
Civil engineering and construction machinery	5.2		4.2		-1.0	-19.2%
Transportation equipment	32.9		18.0		-14.8	-45.3%
Medical devices	16.0		9.8		-6.2	-38.8%
Commercial/services equipment	16.8		11.9		-4.8	-29.2%
Buildings, etc.	72.2		62.5		-9.7	-13.4%
Other	12.8		10.3		-2.4	-19.5%
Total	301.6		217.3		-84.3	-28.0%

	As of March 31, 2020 Results	As of September 30, 2020 Results	Change	
			Amount	%
Operating assets	2,384.0	2,575.6	191.6	8.0%
Financing & Lease	1,106.8	1,154.2	47.4	4.3%
Operating & Lease	506.8	569.7	63.0	12.4%
Installment sales	78.4	93.1	14.6	18.8%
Financing & Other	691.9	758.6	66.6	9.6%

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 September 2020, operating assets had steadily increased, up 11.1% from the end of the previous fiscal period to ¥494.3bn. The newly executed contract volume exceeded the forecast due to continued inquiries even during the coronavirus pandemic, and accumulating project information, including by utilizing its expertise in responding to diverse needs and complex schemes. Bridge projects increased through collaborations with a wide range of alliance partners that went beyond affiliations, while it also diversified* the uses of building leases (commercial facilities, hotels, nursing facilities, residences, leisure and services, logistics, and other uses) through building relations with users. Also, tenants deferring rent due to the coronavirus were limited to some commercial facilities and hotels, while the deferral period was only for a short period of half a fiscal year. ROA was maintained at the high level of 2.1% (2.2% in the previous period).

* One example of a completed contract worthy of note is the proposal to provide a real estate lease for the facilities of the Warner Bros. Studio Tour Tokyo – The Making of Harry Potter (former site of Toshimaen Amusement Park, scheduled to open in first half of 2023).

(2) Aircraft

At the end of September 2020, operating assets had decreased 4.2% from the end of the previous fiscal year to ¥158.0bn. The coronavirus is having a major impact on the aviation industry, and in this situation, the Company kept down new measures for aircraft leases, and the number of aircraft owned was unchanged YoY at 41 aircraft. The progress toward achieving the medium-term management plan's targets (operating assets of ¥280bn and 70 aircraft owned in FY3/22) fell further behind schedule. However, in the case of the Company, it has a portfolio mainly of new aircraft and narrow-body aircraft for which demand is stable, and it seems that the aircraft under lease are all being continuously used. It recorded a provision for future lease payments from some airlines, but this was within the expected range and at the current time, no new requests for rescheduling lease payments have been received. Also, ROA was maintained at a level of 1.8% (2.1% in the previous period). Conversely, as a measure for the future, the Company invested in an aviation-related venture fund formed by the Airbus Group with the aim of expanding the business domains into peripheral businesses and acquiring earnings opportunities.

(3) Overseas

At the end of September 2020, operating assets (including the amounts invested in affiliates in the overseas business) had decreased 1.2% from the end of the previous fiscal year to ¥98.0bn, declining slightly mainly due to the restrictions on activities because of the coronavirus. However, ROA improved greatly to 1.4% (0.9% in the previous fiscal period) due to the strong performance of the business in North America and an increase in equity method investment income. Also, in November 2020, the Taiwanese local subsidiary started operations, and the policy is for it to propose solutions, centered on leases mainly to Japanese companies. Taiwan is focusing on expanding renewable energy, and the Company is accelerating its overseas development of the energy/ environment business, which is a strategic field.

(4) Energy/environment

At the end of September 2020, operating assets (solar power business) had increased 37.6% from the end of the previous fiscal year to ¥35.8bn and have already exceed the target in the medium-term management plan (operating assets of ¥34bn in FY3/22). The total power output has also reached 200MW through the operations of a large-scale site, achieving the medium-term management plan's target ahead of schedule. ROA is 6.7% (4.8% in the previous period), but this is due to a seasonal factor (solar power operations increase in the summer), and it seems it will settle-down to a level of around 5.0% for the full fiscal year. Also, as measures for the post-FIT period, in addition to the joint-investment projects with alliance partners both in Japan and overseas, there has been an increase in site-sale projects due to the economic slump caused by the coronavirus pandemic, and it seems the Company views them as new opportunities for the solar power business. The equity balance for joint investment projects is currently growing greatly to ¥8.1bn (up ¥5bn from the end of the previous fiscal year). Also, a large-scale plant factory that the Company is working on as an agri-business started operations as planned in July 2020, and it is scheduled to become fully operational in the summer of 2021. It also made significant progress in measures to address social problems, including PPA services*1 and the development of cutting-edge, renewable energy-related technologies*2.

*1 The Company concluded its first green power purchase agreement (PPA services) with Morioka Seiko Instruments Inc. (a Seiko Holdings Corporation Group company) and started providing services in December 2020. Based on society's rising need for PPA services, it seems that the number of project stocks is also increasing.

*2 It has developed and is commercializing the world's first "on-site ammonia production system" and has concluded a capital and business agreement with Tsubame BHB Co., Ltd. (a venture company). Ammonia is attracting attention as an energy carrier that facilities the transportation and storage of hydrogen, and also as a CO_2-free fuel that does not emit CO_2 when used as energy.

(5) Medical/social welfare

At the end of September 2020, operating assets (including overlaps with other business fields) had increased 3.6% from the end of the previous fiscal year to ¥101.8bn. Through the platform concept, the Company is working to provide solutions tailored to meet the needs of each business. As one part of this, it is currently building the nursing care business support program* in collaboration with major nursing care businesses and financial institutions in order to realize continuous and stable nursing care services. Also, the balance of Accretive's medical and care fee credits factoring business (FPS Medical) increased 8.7% from the end of the previous fiscal year to ¥18.7bn. As it has been replaced by financial support, including the government's emergency loan system, the balance's pace of increase was moderate compared to that up until recently, but it can still be highly evaluated for its steady growth. In addition, to respond to society's needs "for non-face-to-face and non-contact," it has established "Medicare in," which is the specialist website of FPS Medical.

* In addition to providing funding support by financial institutions and the Company for nursing care businesses, the plan is to provide joint services for soft aspects by combining the management-support services of major nursing care businesses with the Company's solutions.

(6) BPO services business (new domain)

A positive factor adding to the results was the wide range of back-office services and business consulting provided by NOC, which was made a consolidated subsidiary in August 2019. The ordinary profit (on a 1H basis) of the core subsidiaries that conduct the BPO services business trended strongly, at ¥2.2bn in INVOICE, ¥700mn in Accretive, and ¥100mn in NOC. They are benefiting from the environmental changes (workstyle reforms, expansion of DX, rule reforms, revisions to the legal system, etc.) during the with-coronavirus period, and it seems that BPO needs are growing at the present time. They are also focusing on meeting new needs* through Group collaborations.

* They are working on measures, including the outsourcing of work relating to the remaining labor force during teleworking (accounting-related processing, etc.), and the bulk outsourcing of the general affairs work of the shared-services subsidiaries.

(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. Alongside this, at the end of September 2020, operating assets had increased greatly, rising 90.5% from the end of the previous fiscal year to ¥186.0bn. 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 strengths 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. YAMATO LEASE was the first lease company to be certified as a promotion institution of the "easy-to-work workplace certification system*," which is geared toward vehicle transport businesses. Its policy is to provide management-support services, including support to acquire certification, for truck transportation businesses, and it is considered that developing a consulting-type business will enable it to ascertain customer needs and provide them with solutions proposals.

* A system to certify businesses working on improving drivers' working conditions and working environments, as well as on workstyle reforms in order to secure and train drivers, such as correcting the long working hours.

4. The impact of the coronavirus (summary)

To summarize the impact of the coronavirus on the 1H results, its impact was limited for real estate and vendor leases and funding costs, and so it did not become a factor reducing results as was initially anticipated. Conversely, the aircraft business environment continues to be severe due to the fall in aviation demand and the slowness of the recovery. Therefore, it is expected that to a certain extent credit-related costs, including the recording of a provision for future lease payments, will be incurred in the 2H as well. But at the current time, it can be said that the situation is no worse than was initially anticipated.

The impact of the coronavirus

		Initial expectations for 1H FY3/21	Conditions in 2H FY3/21
Aircraft business	Leases of Company-owned aircrafts	• Occurrence of additional costs following the completion of the first lease • Increase in credit-related costs due to requests for payment deferments for lease fees from airlines and the decline in the debtor rating (however, there are also transactions that depend on property values, so the impact was limited)	Due to the deterioration of the results of overseas airlines, Chapter 11 and delays in collecting lease fees have occurred. However, there are no new such occurrences at the present time.
	JOLCO	• Decrease in business opportunities due to the decline in investor needs	Some sales activities were restricted in April and May and sales trended at a low level
Real estate business	Leases	• Credit-related costs increased due to requests to defer payments and to reduce or exempt lease fees from lessees and the decline in the debtor rating (however, as the majority of transactions are with highly creditworthy lessees, the impact was limited)	• Inquiries became active from June onwards and assets are steadily accumulating • Only a very small number of lessees have deferred payments and there have been no reductions or exemptions
	Financing	• Alongside the decrease in cash flows due to the decline in the operating rates of commercial-facility properties, there have occurred 1) stopping of dividends (equity investment) and 2) principal and interest delays (loans)	• Some dividend distributions have been retained, mainly at hotels, although the amount is small • No delays to loan interest payments
Vendor leases, auto leases, etc., and general leases		• Increase in defaults due to the stagnation of personal consumption and corporate activities, and an increase in credit-related costs due to the decline in the debtor rating. • An increase in credit-related costs due to requests for payment deferments for lease fees, mainly from small- and medium-sized companies, and the decline in the debtor rating	In the 1Q, credit-related costs increased due to responding to requests for lease-fee deferrals, but in the 2Q, payments were progressed and the situation settled down
Fund raising		• Rise in fund-raising interest rates, including CP	Interest rates rose due to purchases of CP and corporate bonds by The Bank of Japan, but the impact of this has been limited and at the current time it is not affecting the fund-raising environment

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

5. Summary of the 1H FY3/21

To summarize the 1H FY3/21 from the above, it can be said that the Company can be positively evaluated on the fact that it secured higher revenues and profits and made steadily progress toward achieving the targets even during the coronavirus pandemic. However, on looking at the content of the results, while there were positive aspects, such as accumulation of operating assets through the strong performance of real estate leases, and the growth of new domains including from the effects of M&A, there were also some negative aspects, of the slump of the aircraft business due to the impact of the coronavirus and that conditions in the future continue to remain unclear. So, the results are characterized by these positive and negative aspects, depending on the field. However, the Company was able to keep down the negative aspects to within the expected range and at the current time, they are not factors that would cause results to be below forecast. For activities also, it worked on various measures, including new measures for the energy/environment field, which is expected to grow in the future, and to strengthen the structure for the new domains (BPO services and mobility business), and it achieved a certain level of results.

Business outlook

The FY 3/21 results forecast remains unchanged. Due to the coronavirus, expects revenues and profits to increase comparatively moderately

1. FY3/21 outlook

For the FY3/21 results outlook, the Company has left the initial forecasts unchanged, which are for total revenues to increase 1.1% to ¥720bn, operating profit to rise 1.4% to ¥42bn, ordinary profit to grow 2.2% to ¥45bn, and profit attributable to owners of parent to increase 3.1% to ¥27bn. So, the outlook is for results to grow moderately due to the impact of the coronavirus.

It is expected that the continued accumulation of operating assets in each strategic field and the growth of non-asset earnings will contribute to raise the results. 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. View of FISCO's analysts

FISCO's analysts think that, while it will be necessary to continue to pay attention to how the coronavirus develops, it is fully possible that the Company will achieve its results forecasts on considering the progress made in the 1H results and the fact that the impact of the coronavirus is staying within the expected range. The point to focus on is how the Company will launch a new pillar of earnings while continuing to accumulate operating assets in strongly performing fields like real estate towards growth from FY3/22 onwards. In particular, for the new pillar of earnings, the important points would seem to be responding to the environmental changes, including during the with-coronavirus period, such as through BPO services and the mobility business, and creating synergies between the businesses. On the other hand, a risk factor can be said to be the developments in the aircraft field, in which the environment continues to be severe. Judged from the Company's asset conditions at the current time (the conditions of individual property values and the portfolio as a whole), the impact would appear to be limited. But going forward, it will be necessary to pay close attention to developments in the market environment and the effects they will have.

Growth strategy

The Company is aiming to accumulate operating assets and improve ROA through the expansion of highly profitable businesses and challenging the frontier (new domains)

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 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%). Moreover, at the end of September 2020, operating assets were ¥2,575.6bn, so it achieved the target for the plan’s final fiscal year ahead of schedule.

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

Its policy is to accumulate operating assets to ¥530bn by the final fiscal year and 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 is currently maintaining a cautious business approach based on the impact of the coronavirus, and the number of Company-owned aircraft has remained unchanged YoY. Going forward, assuming that the coronavirus pandemic settles-down, it is aiming to grow earnings through leases of Company-owned aircraft and also through the partial incorporation of a rotating-type business, such as JOL*1. In addition, it will work to increase the number of aircraft based on a market change*2 that is occurring at the present time and to expand the domains into peripheral businesses.

*1 Japanese-style operating leases.
*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 targets are operating assets of ¥110bn and ROA of 1.6% in the plan's final fiscal year. The Company has expanded this business centered on an inorganic strategy (investment, acquisitions, alliances, etc.), but 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 202MW 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. 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 further deepen collaborations with regional financial institutions and medical consultants.

(6) New domain (BPO services 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 increase ordinary profit in the final fiscal year to around ¥4bn by expanding the business frontier, centered on the non-asset business. Going forward, it will work to make fully fledged the collaboration with NOC, which provides a wide-range of back-office services, and to further strengthen (establish a position for) BPO services, for which needs are growing during the with-coronavirus period.

(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
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
ROA	0.6%	0.6%	0.8%	0.9%	1.6%
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.)
Source: Prepared by FISCO from the Company's results briefing materials

4. Primary Focus of FISCO's Analysts

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 one year and half 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, and energy and the environment, 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). Also, as can be seen from the strengthening of the mobility business, it can be said that an important theme will be developing a new strategic axis (pillar of earnings) toward 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. Furthermore, it is conducting a variety of measures, including that on participating in the Renewable Energy 100 Declaration Establishment Council, it started to operate its own support program that utilizes green bonds and that in addition, it is the first financial institution in Japan to issue Sustainability Linked Bonds*2. It has also been selected as the constituent stock in various ESG indexes*3, 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*4 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 A form of fund raising in which investors invest on evaluating the sustainability and ESG Performance measures and targets (SPTs) of the issuers. The Company plans to set targets of 1) more than 50% of the Group’s use of power consumption to be from renewable energy, and 2) a handling amount of at least ¥5bn for the Fuyo Renewable Energy 100 Declaration Support Program and the Fuyo Zero Carbon City Support Program (the deadlines for both are July 2024).
*3 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.
*4 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

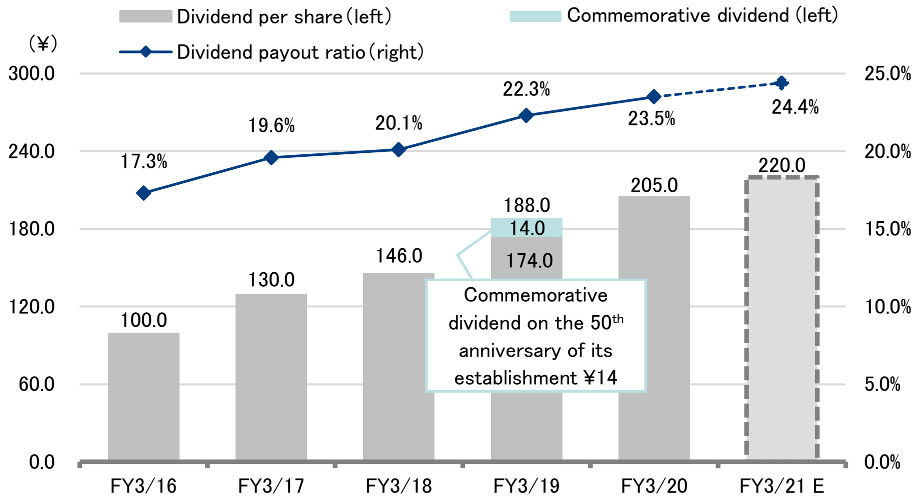
Steadily raising the dividend with support from strong performance and plans to increase it again in FY3/21 by ¥15 to ¥220

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 FY3/21, 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

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