COMPANY RESEARCH AND ANALYSIS REPORT

Fuyo General Lease Co., Ltd.

8424

Tokyo Stock Exchange First Section

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Index

Summary

In FY3/21, revenues and profits increased and set new record highs. In FY3/22, plans to increase the dividend ¥20 YoY

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 real estate, energy/environment, and it has an annual newly executed contract volume of ¥1,343.9bn and operating assets of ¥2,555.9bn (FY3/21 result). 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 "Go 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 scenario regarding ordinary profit in particular is realizing it through the combination of 1) accumulating operating assets and 2) improving ROA, including through increasing non-asset earnings.

3. Summary of FY3/21 results

In the FY3/21 results, both revenues and profits increased, with total revenues rising 3.9% compared to the same period in the previous fiscal year (year-on-year (YoY)) to ¥740.3bn, operating profit growing 7.6% to ¥44.6bn, ordinary profit climbing 9.0% to ¥48.0bn, and profit attributable to owners of parent increasing 12.9% to ¥29.6bn. 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 7.8% YoY to ¥92.5bn. Some businesses were impacted by the COVID-19 pandemic (pandemic), but others were not and grew, including real estate leases, financing, and BPO services*, and secured profit increases in all segments. Operating assets increased 7.2% YoY to ¥2,555.9bn, 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.

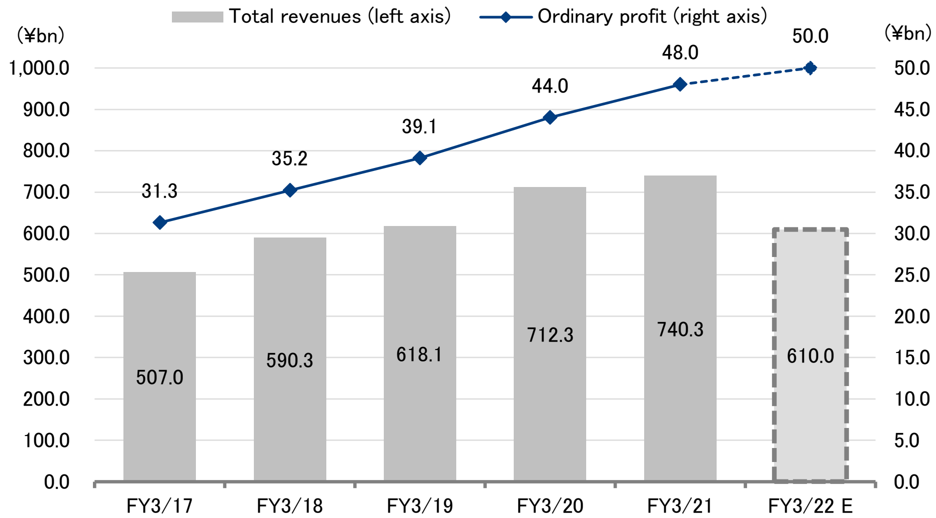
4. FY3/22 results outlook

For the FY3/22 results, the Company is forecasting that revenues will decline but profits will increase, with total revenues to decrease 17.6% YoY to ¥610bn, operating profit to increase 4.4% to ¥46.5bn, ordinary profit to grow 4.2% to ¥50bn, and profit attributable to owners of parent to increase ¥4.8% to ¥31bn. The outlook is also for ordinary profit to achieve the target in the medium-term management plan. Revenues are forecast to decline because of a change of accounting standard, however in actuality, the trend of expansion will continue. It is anticipated that the continuing accumulation of operating assets in each strategic field and the growth of non-asset earnings will contribute to the increases in profits. The Company also plans to increase the dividend by ¥20 YoY for a dividend per share of ¥260.

Key Points

- In the FY3/21 results, revenues and profits grew, exceeding targets and were once again new record highs
- While some businesses were impacted by the pandemic, higher profits were still secured, including from the increases in the real estate and energy/environment fields
- Is also making steady progress in FY3/22, which is the final fiscal year of the medium-term management plan, including achieving the operating assets target ahead of schedule
- For the FY3/22 results, is forecasting increases in profits from the accumulation of operating assets in each strategic field and the growth of non-asset earnings. Also plans to increase the dividend by ¥20 YoY.

Trends in total revenues and ordinary profit



Note: The decrease in total revenues is mainly due to the application of Accounting Standard for Recognizing Revenue (ASBJ Statement No. 29). So although total revenues will decline due to this accounting reason, profits will not be affected.
Source: Prepared by FISCO from the Company's financial results

Company profile

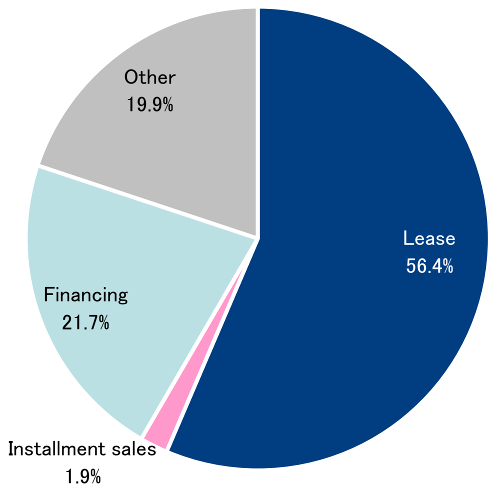
Comprehensive leasing company with strengths in real estate, energy/environment, and other areas. Steadily expanding into new domains, such as BPO services and the mobility business

1. Business overview

The Company has three business segments - lease and installment sales, financing, and other - but the company discloses "leasing" and "installment" separately. Mainstay lease business accounts for 67.0% of operating assets, and 56.4% of profit before interest expenses* (as of FY3/21). The BPO services, which it is focusing on as a new domain, is currently included in Other.

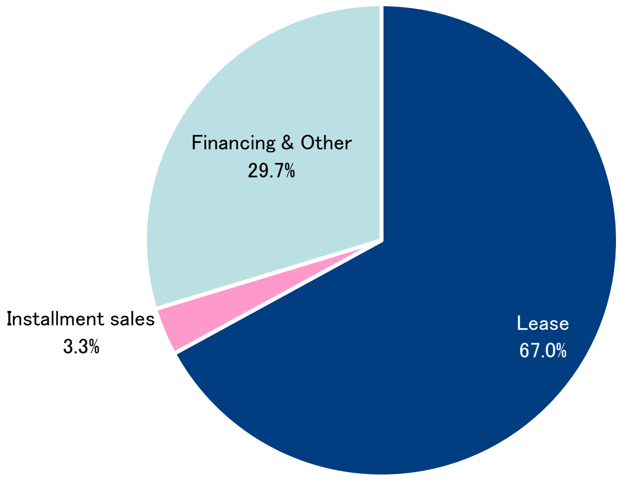
* Profit excluding the acquisition cost of leased equipment from revenues.

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



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

Ratio of operating assets by segment (FY3/21)



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

Below, we review the Company's business segments.

(1) Lease and installment sales

This segment handles leases of information and communications equipment, office equipment, industrial machine tools, and other equipment and installment sales of commercial facilities, production facilities, hospital facilities, and other facilities. In lease business, the leasing company purchases and leases machinery, equipment, or other facilities selected by customers for a certain leasing fee over a relatively long period. In other words, leases constitute a funding method (financial transaction) that focuses on facility deployment. 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 pandemic. 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 <9064>. 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 payments service for accounts receivable) for small- and medium-sized companies, and FPS Medical (early payment service for medical and care fee credits) for medical institutions.

(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, 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.

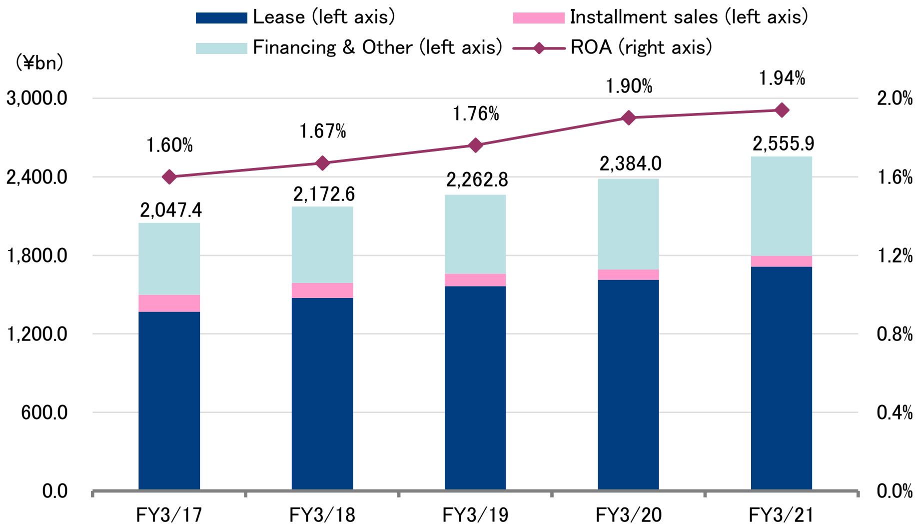
From a cost perspective, meanwhile, funding costs have been largely flat. This trend, despite growth in total funding value, is driven by decline in funding costs due to the impact of market rates. Additionally, the Company keeps personnel and equipment expenses at a certain level and has low credit-related costs. Low-cost operations, a strength, are paying off. Ordinary profit for FY3/21 hence has reached all-time highs for four 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 FY3/21.

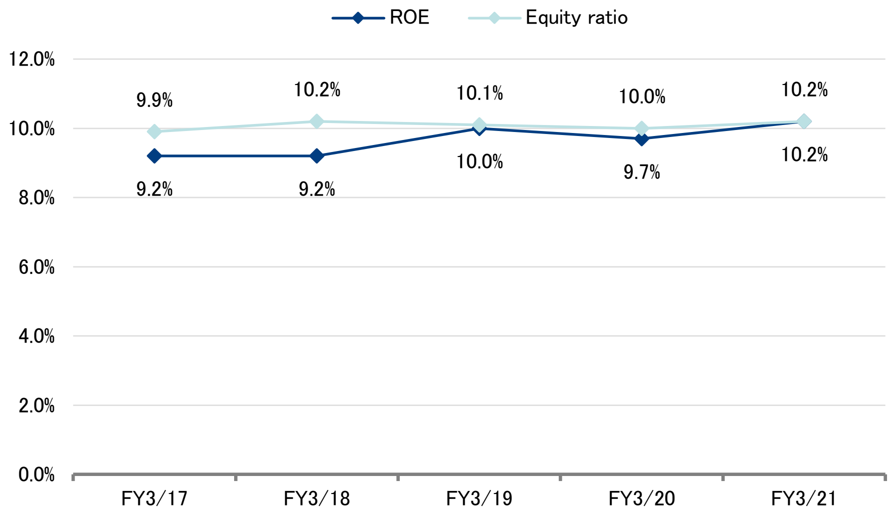
Operating cash flow remains negative. We think it is reasonable to interpret this as a reflection of the Company's growth potential because the main cause is aggressive accumulation of operating assets, which are future income sources.

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

In FY3/21, revenues and profits increased and were higher than forecast. Record highs in both sales and profits

3. Summary of FY3/21 results

In the FY3/21 results, revenues and profits increased and were higher than forecast, with total revenues increasing 3.9% YoY to ¥740.3bn, operating profit rising 7.6% to ¥44.6bn, ordinary profit growing 9.0% to ¥48.0bn, and profit attributable to owners of parent increasing 12.9% to ¥29.6bn, Moreover, total revenues and profits set new record highs.

Total revenues increased, including from the contributions of making YAMATO LEASE and NOC consolidation subsidiaries*1. Also, profit before interest expenses, which shows true business performance, steadily grew, increasing 7.8% YoY to ¥92.5bn. Although some businesses, such as aircraft, were impacted by the pandemic, profits still increased in every segment due to the growth of the strategic fields, centered on real estate and energy/environment that continue to perform strongly, and also of financing and BPO services. 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 ¥9.8bn (up ¥0.3bn 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 0.43% (0.46% in the same period in the previous fiscal year).
*3 Credit-related costs increased to ¥1.5bn (up ¥0.5bn YoY). This was mainly due to the recording of a provision for future lease payments because of the impact of the pandemic, but it was within the expected range.

As a result, ROA (Return on Assets) improved to 1.94% (1.90% in the previous period). Centered on the strategic fields, high-quality assets were accumulated and used to replace other assets, and also non-asset earnings grew, including from INVOICE and NOC (BPO services), which can be said to have led to the improvement of ROA.

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 pandemic, 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 7.2% YoY to ¥2,555.9bn, mainly in the strategic fields.

In the financial condition, total assets were up 8.2% from the end of the previous fiscal year to ¥2,979.3bn, including through making YAMATO LEASE a consolidated subsidiary and the accumulation of operating assets. Shareholders' equity increased 10.4% to ¥304.6bn due to the accumulation of retained earnings, and the equity ratio was basically unchanged YoY at 10.2% (10.0% at the end of the previous period). Also, interest-bearing debt (excluding lease obligations) rose 8.9% to ¥2,431.0bn. But the direct procurement rate was 32.6% (33.4% at the end of the previous fiscal period), the long-term debt ratio of interest-bearing debt was 44.1% (42.7% at the end of the previous fiscal period), and the liquidity ratio, which indicates short-term payment capabilities, was 137.0% (138.3% at the end of the previous fiscal period), so these were stable and the Company maintained its financial soundness*.

* The Company has been highly evaluated on points such as expanding its earnings foundation centered on the strategic fields, and Rating and Investment Information Inc., raised its issuer rating to A (stable) in October 2020. The bond balance also increased through actively issuing bonds, including sustainability linked bonds and foreign bonds for the first time, which has led to improvements in the direct procurement ratio and the long-term interest-bearing debt ratio.

Summary of FY3/21 results

(¥bn)

	FY3/20		FY3/21		YoY change		FY3/21		Achievement rate
	Results	% of revenues	Results	% of revenues	Amount	% change	Initial forecasts	% of revenues	
Total revenues	7,123		7,403		279	3.9%	7,200		102.8%
Lease	4,946	69.4%	5,001	67.6%	55	1.1%			
Installment sales	342	4.8%	416	5.6%	74	21.6%			
Financing	160	2.2%	206	2.8%	46	28.8%			
Other	1,675	23.5%	1,780	24.0%	105	6.2%			
Profit before interest expenses	858	12.0%	925	12.5%	67	7.8%			
Lease	514	10.4%	522	10.4%	8	1.6%			
Installment sales	17	5.0%	18	4.3%	1	6.4%			
Financing	157	98.1%	201	97.6%	44	28.3%			
Other	170	10.1%	184	10.3%	13	7.8%			
Interest expenses	94	1.3%	98	1.3%	3	3.2%			
Gross profit	763	10.7%	827	11.2%	64	8.4%			
SG&A expenses	349	4.9%	382	5.2%	33	9.5%			
Operating profit	414	5.8%	446	6.0%	31	7.6%	420	5.8%	106.2%
Ordinary profit	440	6.2%	480	6.5%	40	9.0%	450	6.3%	106.7%
Profit attributable to owners of parent	262	3.7%	296	4.0%	34	12.9%	270	3.8%	109.6%
Newly executed contract volume	13,597	100.0%	13,439	100.0%	-158	-1.2%			
General lease	4,023	29.6%	2,919	21.7%	-1,104	-27.4%			
Real estate lease	1,422	10.5%	1,617	12.0%	195	13.7%			
Installment sales	358	2.6%	320	2.4%	-38	-10.6%			
Financing & Other	3,419	25.1%	3,952	29.4%	533	15.6%			
Accretive	4,376	32.2%	4,631	34.5%	255	5.8%			
Newly executed lease contract volume by type of equipment									
IT & office equipment	2,072		1,588		-485	-23.4%			
Industrial machinery	442		276		-165	-37.6%			
Civil engineering and construction machinery	102		91		-11	-10.8%			
Transportation equipment	571		383		-188	-32.9%			
Medical devices	274		188		-87	-31.8%			
Commercial/services equipment	312		203		-109	-34.9%			
Buildings, etc.	1,422		1,617		194	13.6%			
Other	250		191		-59	-23.6%			
Total	5,445		4,536		-909	-16.7%			

	As of March 31, 2020 Results	As of March 31, 2021 Results	YoY change	
			Amount	% change
Operating assets	23,840	25,559	1,719	7.2%
Financing & Lease	11,068	10,808	-260	-2.4%
Operating & Lease	5,068	6,325	1,258	24.8%
Installment sales	784	835	51	6.4%
Financing & Other	6,919	7,590	671	9.7%

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

Some businesses were impacted by the pandemic, but others, including real estate and the new domains, grew

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

(1) Real estate

At the end of FY3/21, operating assets had grown steadily, increasing 24.8% on the end of the previous fiscal year to ¥555.2bn, achieving the revised target for the increase amount in the medium-term management plan (¥530bn) one year ahead of schedule. Based on the partnerships with the alliance partners, projects steadily accumulated for buildings with a wide range of uses, including logistics facilities*, nursing facilities, and residences. Looking at the breakdown by property use, they are diversified into uses such as commercial facilities, hotels, nursing facilities, residences, leisure and services, logistics, and other uses. Conversely, the impact of the pandemic (including requests to reschedule lease payments) has been limited, and ROA was maintained at the high level of 2.3% (2.2% in the previous period).

* Including a logistics facility jointly developed with ITOCHU Corporation <8001> (scheduled to be acquired and operated by Kyushu Railway Company <9142>).

(2) Aircraft

At the end of FY3/21, due to the impact of the pandemic, operating assets had fallen by 10.0% on the end of the previous fiscal year to ¥148.4bn. The pandemic is having a significant impact on the aircraft industry, and in this situation new measures for aircraft leases were kept down, so the number of Company-owned aircraft was only 44 aircraft (up 3 aircraft YoY), while other aircraft (the number of managed aircraft, etc.) declined to 65 aircraft (down 5 aircraft). Also, a cost-increase factor was the recording of a provision for future lease payments from some airlines, and ROA fell significantly to 0.2% (2.1% in the previous period). However, there have been no new requests from airlines to reschedule lease payments and the situation is calming down, and also it seems that there have been no returns of aircraft due to the coronavirus.

(3) Overseas

At the end of FY3/21, operating assets (including the amount invested in affiliates in the overseas business) had declined 1.8% on the end of the previous fiscal year to ¥97.4bn, decreasing only slightly due to the impact of the pandemic, such as restrictions on activities. However, the business in North America grew steadily, while equity method investment income also increased, so ROA improved greatly to 1.6% (0.9% in the previous period). In addition, in November 2020 the Taiwanese local subsidiary started operating and we also started reorganizing our base in Thailand, and the Asia area expanded to 5 bases(Shanghai, Hong Kong, Singapore, Taiwan, and Thailand). The Company's policy is also to accelerate organic growth through measures for the strategic fields, including energy/environment, real estate, and the mobility business.

(4) Energy/environment

At the end of FY3/21, operating assets (the Fuyo General Lease Group's renewable energy power generation business) had grown significantly, up 26.9% on the end of the previous fiscal year to ¥33.0bn, and equity investment income had also increased to ¥11.4bn (¥2.3bn in the previous period). The total power output increased to 283MW (the total of the Group's business and the equity investment portion), exceeding the numerical target in the medium-term management plan (200MW), while ROA also improved greatly to 6.0% (4.8% in the previous period). On the other hand, as measures for the post-FIT period, it is considered that the Company is expanding this business by continuing to acquire joint-investment projects with alliance partners and solar power secondary projects, as well as through overseas business development (North America and Asia)*1. Also, the 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. Moreover, it has made significant progress in measures to address social problems, including PPA services*2 and the development of cutting-edge renewable energy-related technologies*3.

*1 As its track record for measures overseas, in the US (Texas), the Company is jointly participating in a large-scale solar power generation business with ENEOS Corporation, and also in the US, it is investing in a renewable energy fund established by the Development Bank of Japan and others. In addition, it is investing in a solar power generation fund in Taiwan.

*2 The Company concluded its first green power purchase agreement (PPA services) with Morioka Seiko Instruments Inc. (a Seiko Holdings Corporation <8050> 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.

*3 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 FY3/21, operating assets (including overlaps with other business fields) had steadily grown, increasing 17.5% on the end of the previous fiscal year to ¥115.4bn (of which, ¥20.3bn was Accretive's medical and care fee credits factoring business). The Company is meeting customer needs through collaborations in strategic fields, which contributed to the growth of operating assets. Also, against the backdrop of the support for financing, including the government's emergency loans system, the balance of the medical fee credits factoring business continues to trend upward moderately.

(6) BPO services business (new domain)

At the core subsidiaries that are responsible for the BPO services business, ordinary profit trended steadily to ¥4.4bn at INVOICE, to ¥1.4bn at Accretive, and to ¥0.5bn at NOC. The number of consultations from customers is increasing due to the promotion of workstyle reforms, which have been accelerated by the pandemic, and the expansion of teleworking. Further, alongside the increases in Group collaborations and alliance partners, the number of companies completing contracts with INVOICE grew by more than 40% YoY*1. Also, based on the diversification of customer needs, the Group has started to provide new services through collaborations with non-Group companies*2.

*1 In December 2020, Tohoku Electric Power Co., Inc. <9506> and INVOICE concluded a business partnership agreement for BPO services. The policy is to provide proposals in response to management issues, such as to respond to labor shortages and to promote workstyle reforms, through the provision of INVOICE's BPO services to Tohoku Electric Power's corporate customers.

*2 Including the provision of NOC-OCR, an AI-OCR service (optical character recognition function that incorporates artificial intelligence technology) through a collaboration between NTT East and NOC, and of OneVoice Detailed Statement (a system for automating issues of forms) service through a collaboration between RAKUS Co., Ltd. <3923> and INVOICE.

(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 March 2021, operating assets had increased greatly, rising 84.2% from the end of the previous fiscal year to ¥179.8bn. 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. In particular, against the backdrop of the rapid growth of the EC market, the increase in logistics-related facilities and the workstyle reforms occurring alongside this increase, the environment surrounding the logistics industry is changing greatly, such as securing drivers and responding to DX, and we can expect there to be a wide range of needs. 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 "Employee Friendly 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 pandemic on the 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, in the aircraft business, the severe environment has continued for one year due to the decline in aviation demand and the delay in the recovery. However, it can be said that the Company has been able to absorb the increase in costs through the growth in profits in the other strategic fields.

The impact of the pandemic

		Initial expectation	Period-end result
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 slump in aviation demand, some overseas airlines have applied for Chapter 11 and collections of lease payments have been delayed. Recorded credit-related costs • There have been no new requests for deferred payments from airlines and conditions are calming down
	JOLCO	• Decrease in business opportunities due to the decline in investor needs	• Investors' attitude is one of caution for passenger-plane projects • Strong willingness to invest in ships and cargo plans
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)	• Assets are steadily accumulating • There are few companies requesting payment deferrals and no companies receiving reduced or exempted payments
	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 losses have been incurred on hotel projects, but the impact of this is limited • There have been no delays in loan interest payments
Vendor 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	• There is financial support, such as from the government, and credit-related costs are decreasing, centered on Sharp Finance Corporation
Auto leases Other General leases		• 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	
Fund raising		• Rise in fund-raising interest rates, including CP	• The impact on fund raising has been limited and will not become a cost-increase factor

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

5. Summary of FY3/21

To summarize FY3/21 from the above, while the pandemic impacted some businesses, its anticipated negative factors were kept down to having only a limited impact, while high quality assets were also steadily accumulated and used to replace other assets, mainly in the strategic fields. Therefore, results grew higher than forecast, and it can be said that the Company can be highly evaluated on the point of having proven the strength of its ability to respond to risks in its asset portfolio. In terms of activities also, it is implementing a variety of measures, including new measures for the energy/environment field that is expected to grow in the future, and to strengthen structures in the new domains (BPO services and mobility business), and it was able to achieve a certain level of results.

Business outlook

As the strong results will continue in FY3/22, expects to achieve the targets in the medium-term management plan

For the results in FY3/22, which is the final fiscal year of the medium-term management plan, the Company is forecasting that revenues will decrease but profits will increase, with total revenues to decline 17.6% YoY to ¥610bn, operating profit to increase 4.4% to ¥46.5bn, ordinary profit to rise 4.2% to ¥50bn, and profit attributable to owners of parent to grow 4.8% to ¥31bn. Also, the outlook is that ordinary profit will achieve the target in the medium-term management plan. Revenues are forecast to decrease due to a change of accounting standard* however in actuality (in comparison with the previous period when using the same standard), they are forecast to continue to increase.

* The application of the Accounting Standard for Recognizing Revenue (ASBJ Statement No. 29). Mainly in INVOICE's integrated billing services business, total revenues will decrease in accounting terms on the application of the net standard (the difference between earnings and costs) instead of the application of the gross standard (the total amount of earnings and costs) that had been used to recognize revenue previously. However, profits will not be affected.

It is anticipated that the continuing accumulating of operating assets in each strategic field and the growth of non-asset earnings will contribute to the increases in profits. Operating assets have already achieved their numerical target in the medium-term management plan (¥2,500bn) ahead of schedule, so the Company is aiming to further accumulate assets, including through the growth of real estate, energy/environment, and the mobility business, which continue to perform strongly.

In profits, the Company expects to achieve ordinary profit of ¥50bn from the accumulation of operating assets and the further improvement of ROA.

FY3/22 outlook

(¥bn)

	FY3/21		FY3/21		YoY change	
	Results	% of revenues	Forecast	% of revenues	Amount	% change
Total revenues	7,403		6,100		-1,303	-17.6%
Operating profit	446	6.0%	465	7.6%	19	4.4%
Ordinary profit	480	6.5%	500	8.2%	20	4.2%
Profit attributable to owners of parent	296	4.0%	310	5.1%	14	4.8%

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

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 "Go 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. The scenario for ordinary profit in particular, sees the Company reaching 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	FY3/21 Results	FY3/22 Target
Operating assets	2,047.4	2,172.6	2,262.8	2,384.0	2,555.9	2,500.0
ROA	1.60%	1.67%	1.76%	1.90%	1.94%	2.00%
Ordinary profit	31.4	35.2	39.1	44.0	48.0	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

As previously stated, in FY3/21 operating assets reached ¥2,555.9bn, achieving its target one year ahead of schedule. The Company is also making steady progress toward achieving the targets for ordinary profit and ROA (expects to achieve the ordinary profit target in the FY3/22 results forecasts).

3. Direction in strategic areas

(1) Real estate

For the plan's final fiscal year, the Company's policy is to maintain operating assets at ¥530bn (¥555.2bn at the end of the previous period) and ROA at a level of 2.2% (2.3%). It has already achieved the final fiscal year's target for operating assets, but it will continue to expand alliance partners and also progress Company-led projects that utilizes its abundance of real estate information (4,000 projects annually).

(2) Aircraft

The Company is currently adopting a cautious approach in this business based on the impact of the pandemic. However, after considering the market's recovery conditions and other factors, its policy is to work on high-quality projects (for airlines and aircraft models) toward re-growth and to increase the number of Company-owned aircraft. It is also thought that it will expand the business areas to peripheral businesses, including a parts-out business and investment in airline-related ventures, and aim to improve the profitability of the aircraft business as a whole, not just leasing.

(3) Overseas

The targets for the plan's final fiscal year are operating assets of ¥110bn (¥97.4bn at the end of the previous period) and ROA of 1.6% (1.6%). Up to the present time, the Company has expanded this business mainly through an inorganic growth strategy (investments, acquisitions, partnerships, etc.), but going forward, its policy is also to grow earnings organically. Centered on the fields in which the Company is strong (real estate, energy/environment, mobility business, etc.), it is progressing overseas projects in collaboration with customers. In particular, it is working to further expand its overseas network through increasing bases in Asia and other measures.

(4) Energy/environment

In the mainstay solar power generation business, for the plan's final fiscal year the Company's is targeting a total power output of 202MW (283MW*1 at the end of the previous period) and to increase operating assets to ¥34bn (¥33bn*2), and also to maintain ROA at the high level of 6.0% (6.0%). It has already achieved the final targets for the total power output and operating assets, while going forward, it will strengthen overseas business development toward the post-FIT period (a renewable energy power generation business overseas and joint investments with alliance partners), and also develop the business including to provide Power Purchase Agreement (PPA) services and to contribute to the management of the plant factory in which it is newly participating, and also to contribute to building a sustainable society.

*1 375MW on including projects currently under development.
*2 ¥44.4bn on including equity investment income (excluding projects currently under development).

(5) Medical/social welfare

For operating assets* in the plan's final fiscal year, the Company is targeting ¥125bn (¥115.4bn at the end of the previous period). It is continuing to work on expanding the business areas through collaborations with highly specialized players and to further developing the advisory functions. In particular, toward realizing sustainable and stable care services, it is providing solutions for care businesses through collaborations with major care businesses, while it is also developing services through collaborations with medical device manufacturers and Siers. Within operating assets, the forecast is for the balance of Accretive's medical and care fee credits factoring business (FPS Medical) to be ¥30bn (¥20.3bn at the end of the previous period), and the policy is to further deepen collaborations, including with regional financial institutions and medical consultants.

* There are some overlaps with other business fields. It includes Accretive's medical fee credits factoring business.

(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, and it is expanding the business frontier centered on the non-asset business. It is continuing to make fully fledged the collaboration with NOC, which provides a wide range of back office services; to further strengthen (establish a position for) BPO services, for which needs are growing during the with-coronavirus period; and to provide new services through collaborations with non-Group companies.

(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.

4. Primary Focus of FISCO's Analysts

At FISCO, while we are aware of the continuing impact of the pandemic, on considering that 1) operating assets are already above the numerical target, 2) the highly profitable businesses, such as real estate and energy/environment, are growing, and 3) we can expect the BPO services business, which has high asset efficiency, to also grow, we judge that the Company is fully capable of achieving its targets for ROA and ordinary profit. In addition to working so results further exceed the forecasts, it seems that it should look to efforts toward business expansion in the future. In particular, as can be seen in 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. We shall also be focusing on specific developments, including what kind of measures will it identify to solve social issues, such as in the energy/environment field, and how will it connect these measures 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 2030 (and to at least 50% by July 2024). It has set a goal with the aim to become carbon neutral. 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 further expanding the solar power generation business in Japan and overseas, 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 was the first financial institution in Japan to issue Sustainability Linked Bonds*2. In October 2020 as a new environment financing program, it started the Fuyo Zero Carbon City Support Program*3, and then in November 2020, it became the first financial institution in Japan to become a member of the Ellen MacArthur Foundation in the UK, which promotes a circular economy. It is acquiring findings on and developing capabilities and building a network for the circular economy, while it is also aiming for collaborations with other companies and research facilities.

*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 Within the areas of local governments that have declared to be a “Zero Carbon City,” it is installing renewable energy equipment in offices and bases (in organizations such as companies, educational institutions, medical facilities, and in local governments, etc.), and providing preferential financing, including for energy-saving equipment, and also conducting a donation program in which it donates jointly under the names of customers.

These efforts have been highly evaluated, and as a result the Company's share has been selected as a constitute issue of various ESG (Environment, Society, Governance) indexes*1. These include the FTSE4Good Index Series, which selects excellent companies in terms of their responses to ESG, 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*2.

*1 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.

*2 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

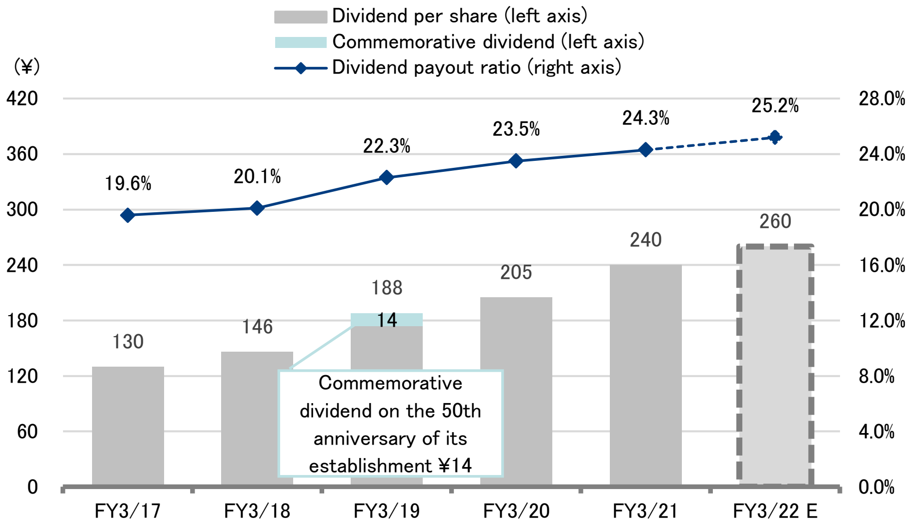
Steadily raising the dividend with support from strong performance and plans to increase it again in FY3/22 by ¥20 to ¥260

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 the FY3/21 annual dividend, the Company upwardly revised its initial forecast and paid a dividend per share of ¥240 (interim dividend ¥110, period-end dividend ¥130, dividend payout ratio 24.3%), which was an increase of ¥35 YoY. For the FY3/22 annual dividend, it plans to increase the dividend per share by ¥20 YoY to ¥260 (interim dividend ¥130, period-end dividend ¥130, dividend payout ratio 25.2%).

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

Dividend per share and dividend payout ratio



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

FISCO

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