COMPANY RESEARCH AND ANALYSIS REPORT

NEC Capital Solutions Limited

8793

Tokyo Stock Exchange First Section

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Summary

Diversified from sales financing for NEC products to investment and loans, fund formation, and other financial services. Aim for CSV management achieving both resolutions to social issues and creating profits for companies.

NEC Capital Solutions Limited <8793> (hereinafter, the Company) is an equity-method affiliate of NEC Corporation <6701> that offers leasing, installment and factoring (purchasing sales credits) of information and communications equipment, including NEC products, office equipment, industrial machinery and facilities and other various types of equipment and facilities, as well as lending, and collection agent services. It has steadily increased handling of non-ICT products and expanded service areas. Furthermore, it aims to shift to high value-added businesses and pursue diversification with investments and loans, fund formation, and other financial services. It also promotes CSV (Creating Shared Value) management that seeks to jointly solve social issues and generate earnings.

1. FY3/21 forecasts

In FY3/21 guidance, reflecting decline in fund exit income due to impact from the COVID-19 pandemic and higher credit costs, the Company expects ¥220,000mn in revenues (down 0.3% YoY), ¥6,500mn in operating income (down 21.6%), ¥6,500mn in ordinary income (down 28.5%), and ¥4,000mn in profit attributable to owners of parent (down 21.8%).

2. Goals in the Medium-Term Plan 2020

As a Group Vision, the Company aims “To be a global solution service company that aims to enhance social value with customers.” It formulated the Group Vision in October 2013 in recognition of the importance of setting an unwavering course over the longer term and promoting management within a unified purpose among all employees, rather than just responding to immediate changes. It clearly depicted “what it wants to be” in 10 years and prepared a roadmap with three stages to attain this goal. The Company’s Medium-Term Plan 2017, the second stage of initiatives, was completed in FY3/20.

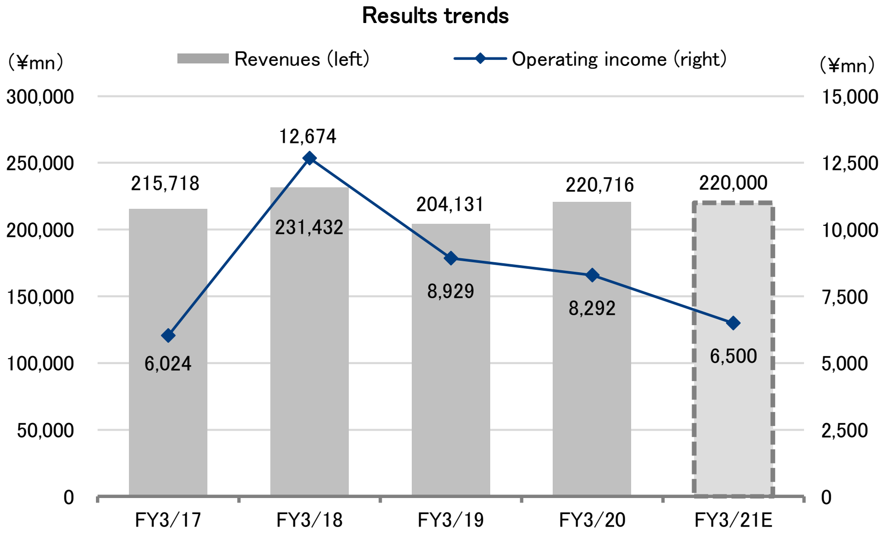
In the Medium-Term Plan 2020, the Company presents the final stage of an overarching effort to fulfill its Group Vision. It intends to securely capture opportunities as business chances in the eras during and after the COVID-19 pandemic eras and lead social innovations with financial services and ICT. Through pursuit of various actions while emphasizing profitability, the Company seeks to achieve FY3/23 goals of ¥11,000mn in operating income (up 32.7% versus the FY3/20 result), ¥12,000mn in ordinary income (up 32.0%), and ¥7,500mn in profit attributable to owners of parent (up 46.6%), setting all-time highs.

3. Promoting realization of CSV management

In the Group Vision formulated in October 2013, the Company adopted the concept of CSV management that aims to jointly solve social issues and generate profits. While it had already promoted eco-friendly business activities and solving social issues, the Company placed the CSV management approach of creating shared value for society and the company at the core of its activities and intends for the business itself to accelerate initiatives that will lead to solutions for social issues. With the combination of core areas (existing businesses) and new businesses, it is establishing social and ICT infrastructure, revitalizing local communities and economies, preventing global warming, and responding to the aging population.

Key Points

- Collaboration with NEC in a strategic partnership
- Formulated the Medium-Term Plan 2020 as the final stage of the 10-year roadmap
- Pursuing new business initiatives in four areas (energy, tourism, agriculture, and healthcare)



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

Company overview

Diversified from leasing for NEC products to financing, fund formation, and other financial services

The Company is an equity-method affiliate of NEC Corporation that offers leasing of information and communications equipment, including NEC products, leasing and installment sales of office equipment, industrial machinery and facilities, other various types of equipment and facilities, factoring (purchasing sales credits), lending, and collection agent services. It has steadily increased handling of non-ICT products and expanded service areas with additions of investments and loans, fund formation, and other services and aims to transition to high value-added business.

It has cultivated three strengths of "strategic partnership with NEC," "wealth of ICT knowledge," and "broad range of financial solutions." The Company strives to create and supply valuable services that integrate these elements and pursue initiatives to realize CSV management that targets sustainable growth while enhancing "social value" and generating "economic value." The Company started in 1978 as an entity handling sales financing for NEC products. Since its founding, it has supplied leases for ICT and other equipment and facilities in rental (mainly leasing) and installment business and a menu of financing services. It was listed on the Tokyo Stock Exchange's Second Section (TSE-2) Market in 2005 and was transferred to the First Section (TSE-1) Market in 2006. After broadening the scope of financial solutions, it changed the company name to NEC Capital Solutions Limited in 2008. The Company formed a capital and business alliance with RISA Partners, Inc.* in 2009 and promoted a shift to higher value-added business. It actively diversified business even during economic slowdowns from the global financial crisis and Great East Japan Earthquake.

* The Company acquired RISA Partners as a wholly owned subsidiary in December 2010.

History

Date	History
November 1978	NEC Leasing, Ltd. started operation of finance lease and installment sales transactions primarily of information related equipment. (with a capitalization of 72 million yen.)
March 1979	Joined the Japan Lease Association as an associated member.
September 1979	Capital increased to 100 million yen.
September 1987	Joined the Japan Lease Association as a regular member.
April 1989	Capital increased to 400 million yen.
March 1996	Outstanding value of active assets (purchase price basis) surpassed ¥1trn
May 1999	Capital increased to 800 million yen.
December 1999	Obtained "ISO14001" certification, international standard for environmental management systems.
February 2002	Changed name to NEC Leasing, Ltd.
July 2004	Capital increased to ¥1,041mn.
February 2005	Capital increased to ¥3,776mn. Listed in the Second Section of the Tokyo Stock Exchange.
March 2006	Listed in the First Section of the Tokyo Stock Exchange. Obtained "ISO27001" certification, international standard for Information Security Management Systems (ISMS).
October 2007	Established NL Asset Service, Ltd.
April 2008	Established Reboot Technology Services.
November 2008	Changed name to NEC Capital Solutions Limited.
December 2010	Acquired RISA Partners Inc.
April 2012	Changed the name of Asset Service, Ltd. to Capitech Limited. Established Innovative Venture Fund Investment Limited Partnership.
October 2012	Established NEC Capital Solutions Hong Kong Limited.
December 2012	Established NEC Capital Solutions Singapore Pte. Limited.
December 2013	Established NEC Capital Solutions Malaysia Sdn. Bhd.
October 2015	Reboot Technology Services merged Capitech Limited and changed the name to Reboot Technology Services and Capitech Limited.
May 2016	Established NEC Capital Solutions (Thailand) Ltd.
September 2018	Obtained "ISO9001" certification, international standard for Quality Management System. (Government and Public Sales Department)

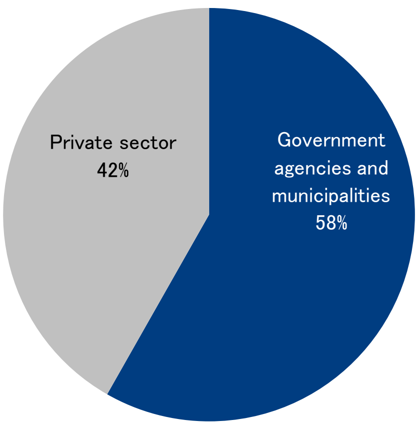
Source: Prepared by FISCO from the Company's website

Business overview

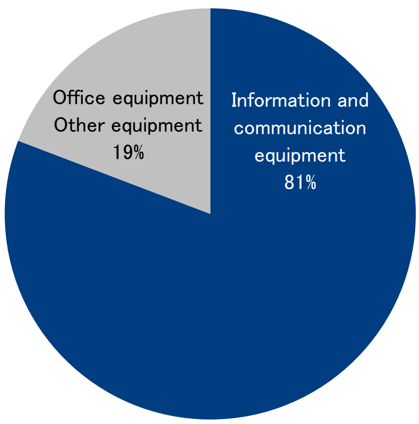
Offers a wide range of financial services and possesses ICT knowhow obtained from many years of handling these products
Has a track record of transactions with government agencies and municipalities nationwide
RISA Partners has a nationwide network with regional financial institutions

The Company's business provides a wide range of financial solutions from leases to corporate loans, securitization, and fund formation and equity investments. The Company has grown while closely collaborating with NEC due to its history of being established to handle sales financing services for NEC products. In the case of transactions with government agencies and municipalities, which account for the majority of contracts executed by industry (based on FY3/20 results), NEC and other vendors deliver solutions that utilize ICT technology to improve business efficiency and enhance the quality of public services. The Company supports these solutions financially with contract formats tailored to single fiscal-year budgets of government agencies and municipalities. It has transactions with government agencies and municipalities, and these are key components of the customer base as seen in its roughly 30 sites around the country and registration as a designated bidder with about 1,800 local entities. The Company has accumulated knowhow on the work process and other characteristics of government agencies and municipalities through experience in transactions over many years and supports construction of the social foundation, such as building public infrastructure, with financing. In contracts executed by product type in FY3/20, ICT equipment accounted for roughly 80%, reflecting the Company's strength in ICT equipment due to its history of having grown alongside NEC. The Company has assembled operations that meet a variety of customer requests, including provision of services that integrate its experience with ICT transactions over many years and financial services such as PIT Managed Service that provides from deployment to management and operation of ICT equipment utilizing a service-fee payment format.

Contracts executed by industry
(FY3/20)



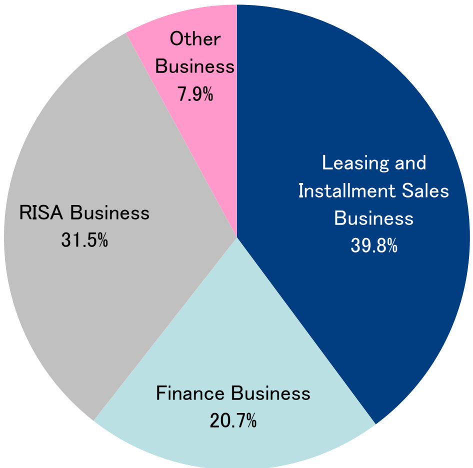
Contracts executed
by product type
(FY3/20)



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

The Company's business is divided into the four segments of Leasing and Installment Sales Business as its core along with Finance Business, RISA Business, and Other Business. Gross profit composition (using FY3/20 results) was Leasing and Installment Sales Business at 39.8%, Finance Business at 20.7%, RISA Business at 31.5%, and Other Business at 7.9%.

Gross profit composition by business segment (FY3/20)



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

(1) Leasing and Installment Sales Business

Leasing and Installment Sales Business handles leasing and rental and installment sales of information and office equipment, industrial, civil engineering, and construction equipment, and other equipment. Utilizing knowhow cultivated as a manufacturer-related leasing company, the Company provides maintenance leases that combine equipment and maintenance service, vendor finance programs that deliver financing service for product sales to vendors, and other arrangements. It has extensive transactions with government agencies and municipalities and supports establishing social and ICT infrastructure and stimulation of communities and economies from a financial aspect. In recent years, it has been diversifying the assets it covers, including solar panels and other energy-related facilities and buildings, and collaborating with energy companies, energy saving firms, ESCOs (offering energy-saving services with guaranteed effects), and others to deliver energy-saving services with fund procurement to companies that own or use plants, commercial facilities, office buildings, and other sites.

(2) Finance Business

Finance Business handles money lending (loan) business, factoring business, and investment business for securities owned to obtain business purpose income. Since Finance Business only reports interest and fees as income while Leasing and Installment Sales Business books leasing fees, which cover the leased property payment and interest and fees, as income, revenues values differ significantly for the same gross profit between these businesses.

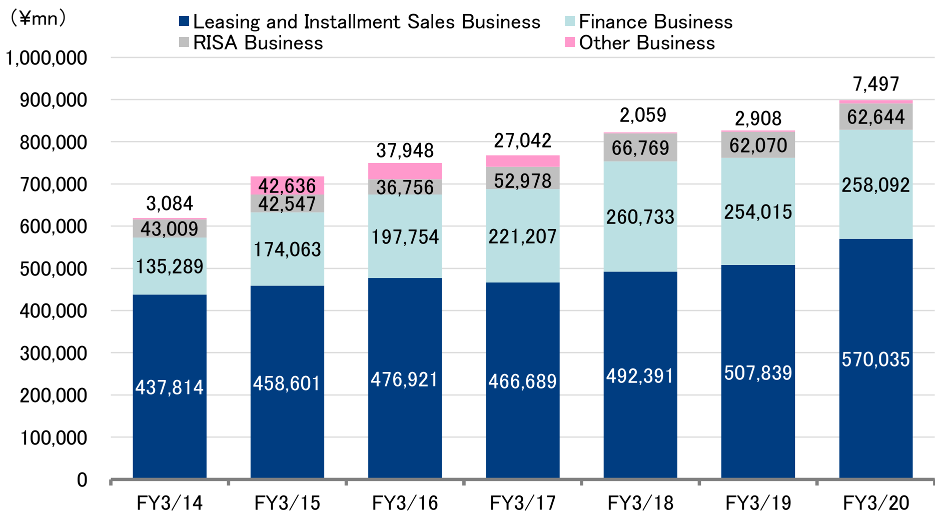
(3) RISA Business

RISA Business involves corporate investment, credit investment, real estate, financial services, and advisory business handled by subsidiary RISA Partners. With its team of professionals from a wide range of fields, RISA Partners is capable of delivering multi-faceted functions and services in a one-stop format that covers everything from business growth assistance to enhancement of capital efficiency, improvement of credit health, and effective utilization of real estate. It has bolstered business succession solutions for small- and mid-sized companies, such as business succession assistance business jointly with regional financial institutions, to address rising business succession needs at small- and mid-sized companies nationwide. Furthermore, it has a customer base that differs from the Company with a network of relationships with more than 180 regional financial institutions nationwide because of its history of conducting business activities with emphasis on financial corporations.

(4) Other Business

Other Business handles buying/selling of goods, property sales related to leasing contract completion and early terminations, fee transactions, investments in venture companies, healthcare-related business (Healthcare & Medical Investment Corporation <3455>), and solar power generation and sales business. It has established operations for buying and selling used ICT equipment after completing lease contracts through wholly owned Reboot Technology Services and Capitech Limited (CRTS). CRTS sells used ICT equipment in Japan and abroad following rigorous inspection and data elimination processes on the scale of a few thousand units a month. It also promotes PFI and PPP (formats for private-sector participation in provision of public services) business with support from the customer base of government agencies and municipalities cultivated in Leasing and Installment Sales Business.

Current state of the operating asset balance



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

Strengths

Collaborates with NEC in a strategic partnership
Provides a wide range of financial solutions such as loans, securitization, fund formation, equity investment, and other activities

The Company has a strategic partnership with NEC that stems from being established to handle sales financing of NEC products and having grown while collaborating with NEC. The fact that government agencies and municipalities comprise a majority of the customer base, which is one of the Company's main characteristics, is also related to its background of having grown alongside NEC. The Company has extensive knowledge related to ICT as evidenced by the presence of ICT equipment as roughly 80% of executed lease contract value (FY3/20 result; executive contract value by product type). It hence goes beyond just leasing ICT equipment to provision of a wide range of service utilizing broad knowhow, including procurement and installation as well as operation and management of ICT equipment. It also delivers services coordinated to lifecycle management because ICT equipment, an area with rapid technology innovation, has a higher frequency of upgrades to the latest model than other equipment. Additionally, it supports one-stop provision of peripheral businesses related to ICT products (above-mentioned PIT Managed Service) via group member CRTS that handles ICT equipment kitting (set-up work for installing PCs and other products) and sales of ICT-related equipment that has finished the lease period.

Another strength is provision of a wide range of financial solutions. The Company offers financing programs designed from the standpoint of manufacturers and sales companies, such as vendor finance that supports product sales by manufacturers and sales companies including the customer payment method. It is bolstering its service menu as a financial services company too through delivery of a wide range of financial solutions that includes corporate loans, securitization, fund formation, and equity investments. RISA Partners, a professional services company in investments and loans and advisory services, delivers solutions that combine "investments and loans" as capital assistance and "advisory" as advice on financing, real estate, and other matters from an expert perspective. FISCO sees growth opportunities from expansion of business scope considering the different customer bases of RISA Partners, which has a network with regional financial institutions, and the Company, which focuses on government agencies and municipalities, and ordinary companies.

Results trends

1Q results proceeded generally on track with guidance
Increase in Leasing and Installment Sales Business sales. Sales and profit declines in RISA Business caused by downturn of gains from large-scale sales booked in the previous fiscal year.

1. FY3/21 1Q results

In FY3/21 1Q, the Company reported ¥52,660mn in revenues (down 10.4% YoY), ¥862mn in operating income (down 82.7%), ¥924mn in ordinary income (down 82.4%), and ¥592mn in profit attributable to owners of the parent (down 76.8%). Regarding the business environment, according to leasing data statistics from the Japan Leasing Association, total leasing contracts for the entire leasing industry in Apr-Jun 2020 fell 13.1% YoY to ¥1,062.5bn, and leasing value for information and communications equipment, the Company's main segment, was down 4.0% YoY due to the COVID-19 pandemic. Trends in the fund-raising environment and bankruptcies should be closely monitored in terms of COVID-19 impact. Given these conditions, FISCO thinks the Company's revenue and profit declines in FY3/21 1Q, which included the impact of booking credit costs associated with COVID-19, were generally in line with expectations, particularly because of a large setback from downturn of gains from large-scale sales in RISA Business in the previous year.

FY3/21 1Q results

(¥mn)

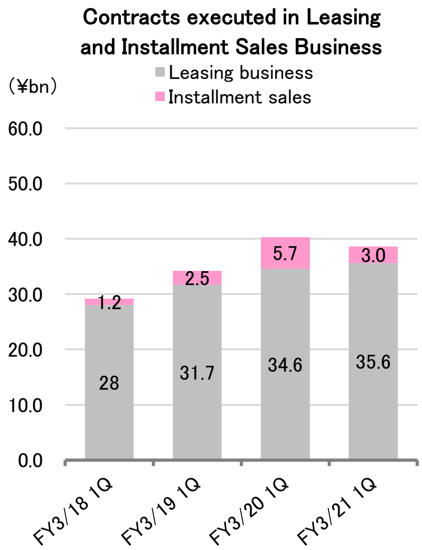
	FY3/20 1Q Results	FY3/21 1Q	
		Results	YoY change
Revenues	58,796	52,660	-10.4%
Operating income	4,989	862	-82.7%
Ordinary income	5,243	924	-82.4%
Profit attributable to owners of the parent	2,551	592	-76.8%

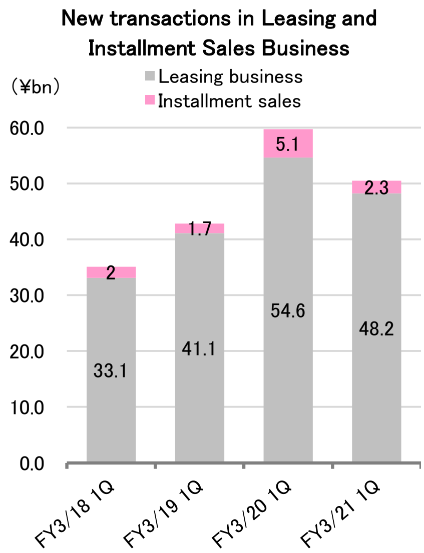
Source: Prepared by FISCO from the Company's financial results

2. Segment results

In segment results, Leasing and Installment Sales Business and Finance Business saw gross profits roughly on par with the previous year. RISA Business, meanwhile, had a setback from non-recurrence of previous-year selling profit. Leasing and Installment Sales Business posted ¥46,906mn in revenues (up 11.6% YoY) and ¥870mn in operating income (down 19.0%). While contracts executed fell 4.3% YoY and new transactions was down 15.3%, backlash decline was the main cause due to steep increase in information and communications equipment amid Windows 10 replacement demand and acquisition of a large vendor finance deal in the previous fiscal year. Compared to 1Q results in FY3/17 and FY3/18, meanwhile, contracts executed and new transactions were both higher. It appears that this year's YoY declines stemmed from special demand in the previous year. Looking at contracts executed by industry, government agencies and municipalities stayed at roughly the same value with a 0.3% YoY increase, despite reactionary decline from Windows 10 replacement demand, thanks to accumulation of large deals.

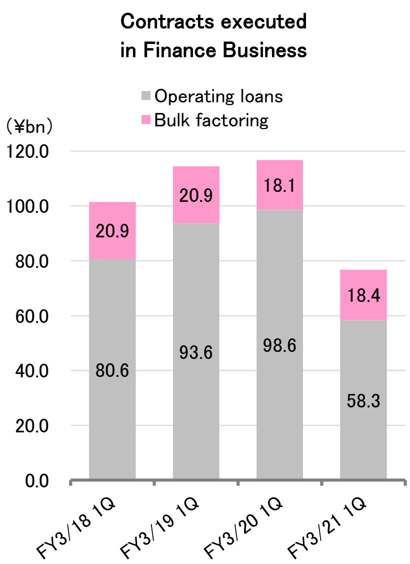
Results trends

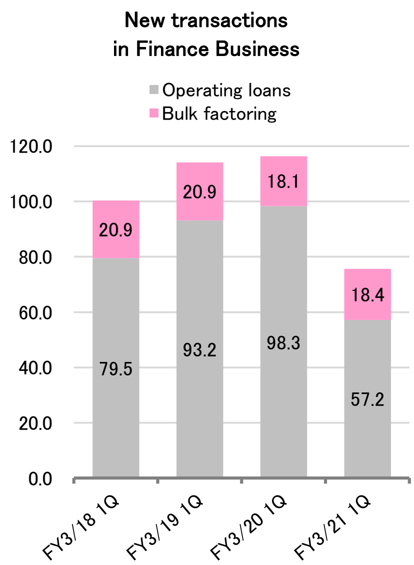




Source: Prepared by FISCO from the Company's supplemental results materials

Finance Business reported ¥1,405mn in revenues (down 13.7% YoY) and ¥290mn in operating income (down 64.9%). While contracts executed and new transactions both undershot the previous year due to decline in individual factoring (down 54.0%), which is largely short-term loans, this mainly happened because of shrinkage in outstanding credit value covered by factoring with the drop in sales receivables and other credits at clients.





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

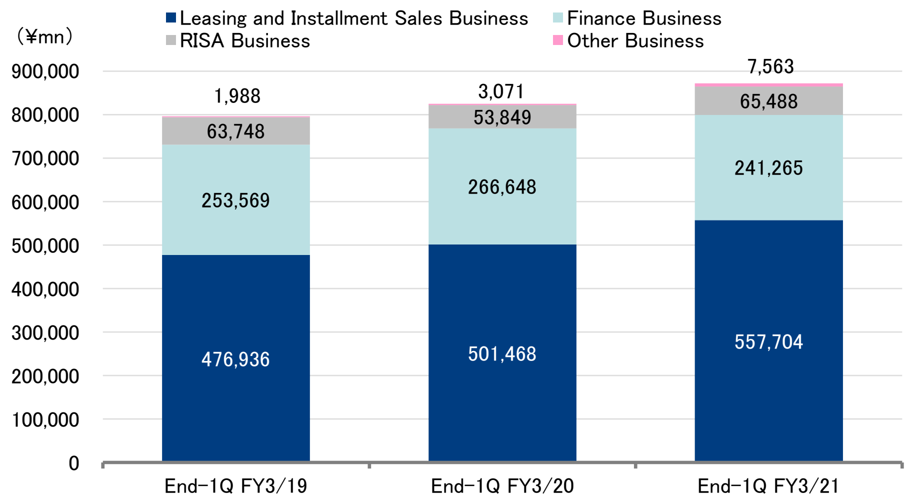
RISA Business booked ¥1,431mn in revenues (down 87.4% YoY) and ¥263mn in operating income (down 92.7%). Results weakened on non-recurrences of major sales of operating and investment securities by funds and real estate for sale. Viewed by business income categories, setbacks occurred in asset business (fund business and credit investment business) on backlash from multiple fund exits in the previous year and real estate business from non-recurrence of selling real estate for sale also in the previous year. In advisory business, meanwhile, revenues and gross profit climbed due to increases in fee income and other sources.

Other Business posted ¥2,927mn in revenues (down 23.7% YoY) on decline in product sales and a ¥110mn operating loss (vs. a ¥92mn loss in the previous year), roughly on par with a year ago.

3. Operating asset balance situation

The Company reported an operating asset balance of ¥872,022mn at the end of FY3/21 1Q, an increase of ¥46,983mn (up 5.7%) versus end-FY3/20 1Q. Leasing and Installment Sales Business saw a gain of ¥56,235mn YoY on advances in public and private-sector areas. Private-sector business benefited from measures to bolster ICT rentals and vendor financing. Since Leasing and Installment Sales Business operates an asset business that generates stable income over the long term, it contributes to steady income in the future. Finance Business incurred a decline of ¥25,382mn, despite growth in corporate loans, on less individual factoring. RISA Business had an increase of ¥11,638mn on acquisition of real estate for sale. Other Business saw a gain of ¥4,492mn on acquisition of healthcare facilities.

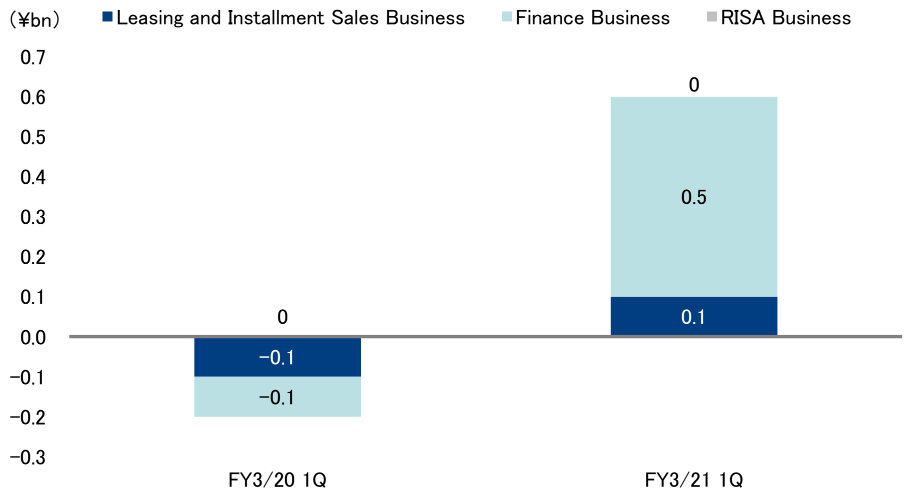
Operating asset balance situation



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

While COVID-19 had an effect on credit costs, the Company booked ¥500mn in new reserves. Actual erosion amounted to ¥700mn because of the ¥200mn contribution a year earlier on reversal of allowance for doubtful accounts. The Company allocated the reserves in consideration of the impact of COVID-19.

Credit costs



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

Outlook

1. Outlook for FY3/21

In FY3/21 guidance, the Company forecasts ¥220,000mn in revenues (down 0.3% YoY), ¥6,500mn in operating income (down 21.6%), ¥6,500mn in ordinary income (down 28.5%), and ¥4,000mn in profit attributable to owners of the parent down 21.8%), reflecting decline in fund exit income associated with the COVID-19 pandemic and higher credit costs. It initially did not present guidance because of the difficulty of making a reasonable calculation due to the impact of COVID-19. However, it is offering targets based on currently available information and estimates particularly with the end of the state of emergency and the prospect that continued implementation of measures by the government and Bank of Japan will provide a certain amount of support for economic activity.

FY3/21 earnings outlook

(¥mn)

	FY3/20 Result	FY3/21	
		Forecast	YoY
Revenues	220,716	220,000	-0.3%
Operating income	8,292	6,500	-21.6%
Ordinary income	9,092	6,500	-28.5%
Profit attributable to owners of parent	5,117	4,000	-21.8%

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

Aiming for realization of CSV management under the Group Vision. Medium-Term Plan 2020 as the final stage of the 10-year roadmap

2. Medium-Term Plan

As a Group Vision, the Company aims "To be a global solution service company that aims to enhance social value with customers." It formulated the Group Vision in October 2013 in recognition of the importance of setting an unwavering course over the longer term and promoting management within a unified purpose among all employees, rather than just responding to immediate changes. It clearly depicted the "what it wants to be" in 10 years and prepared a roadmap with three stages to attain this goal. The Company is pursuing CSV management that creates shared value for society and itself through creation of social value and also economic value that it needs as a company via business activities by implementing its Medium-Term Plan in three stages. It has been promoting business aimed at realizing CSV management based on the 10-year roadmap and hopes to attain the Group Vision as the cumulative effect of carrying out the three Medium-Term Plans over a period of 10 years.

The Company emphasized "rebuild core areas" and "build corporate systems" in Medium-Term Plan 2014 and "complete core areas" and "develop new businesses" in Medium-Term Plan 2017. It outlined a strategy of "expand core areas" and "harvest new businesses" as further evolution of initiatives accumulated in the two previous plans in Medium-Term Plan 2020. The Medium-Term Plan 2017, the second stage of initiatives, was completed in FY3/20. In the Medium-Term Plan 2020, the Company presents the final stage of an overarching effort to fulfill its Group Vision.

(1) Results from Medium-Term Plan 2017

In Medium-Term Plan 2017, the Company substantially overshot goals in the three-year plan for ordinary income and profit attributable to owners of the parent. Specifically, it reached ¥31,447mn in ordinary income over the three years of the medium-term plan period versus the ¥24,000mn goal and ¥17,514mn in profit attributable to owners of the parent versus the ¥12,000mn goal, substantially exceeding each target.

Medium-Term Plan 2017 and results

(¥mn)

	FY3/18 Medium-Term Plan assumption	FY3/19 Initial plan	FY3/20 Assumptions of Medium-Term Plan	Three-year totals
Ordinary income	7,500	8,000	8,500	24,000
Profit attributable to owners of parent	3,500	4,000	4,500	12,000
ROA	-	-	1.0%	-

	FY3/18 Results	FY3/19 Results	FY3/20 Results	Three-year totals	Versus the Medium-Term Plan assumption (three-year totals)
Revenues	231,432	204,131	220,716	-	-
Ordinary income	13,455	8,900	9,092	31,447	7,447
Profit attributable to owners of parent	6,006	6,391	5,117	17,514	5,514
ROA	1.7%	1.1%	1.1%	-	-
Annual dividend per share	¥50	¥55	¥60	-	-

Source: Prepared by FISCO from the Company's Medium-Term Plan materials and financial results

In "complete core areas," the Company expanded NEC-related commerce in Japan in public and private-sector segments. It improved cooperation and collaboration with vendors and deepened and developed relationships in corporate sales, thereby bolstering the customer base. It also captured demand for transition to Windows 10, significantly increased ICT services business, and achieved high income exceeding the plan level in RISA business.

In "develop new businesses," it participated in initiatives for energy, tourism, and agriculture areas in multiple regions and increased its presence through knowhow and solidifying collaboration with business partners. It expanded initiatives in warehousing business for healthcare facilities. It also strengthened internal operations and capabilities to support diversified business as a robust management foundation for business strategies.

(2) Management goals in the Medium-Term Plan 2020

In the Medium-Term Plan 2020, the Company intends to reliably capture opportunities as business chances in the eras during and after the COVID-19 pandemic and lead social innovations with financial services and ICT. Through pursuit of various actions while emphasizing profitability, the Company seeks to achieve FY3/23 goals of ¥11,000mn in operating income (up 32.7% versus the FY3/20 result), ¥12,000mn in ordinary income (up 32.0%), and ¥7,500mn in profit attributable to owners of parent (up 46.6%), setting all-time highs.

Management goals in the Medium-Term Plan 2020

(¥mn)

	FY3/20 results	FY3/21 outlook	FY3/23 Medium-Term Plan goals
Operating income	8,292	6,500	11,000
Ordinary income	9,092	6,500	12,000
Profit attributable to owners of parent	5,117	4,000	7,500
ROA	1.1%	0.7%	1.3%

Source: Prepared by FISCO from the Company's Medium-Term Plan materials and financial results

In "expand core areas," the Company aims to accelerate establish new services with vendors and accelerate specialty business in growth areas as well as reinforce the customer base and utilize sales planning and promotion capabilities. Establishment of new services with vendors involves strengthening the strategic partnership with the NEC Group and collaboration with vendors and advancement of vendor finance. The Company will also establish joint services through cooperation with vendors, provision of sales financing, and joint development of a service foundation. As a mean of accelerating specialty business in growth areas, it intends to provide high value-added services via enhanced collaboration with business partners and bolster profitability in ICT services business, PFI/PPP business, venture fund business, RISA business, and other specialty areas. As a mean of reinforcing the customer base and utilization of sales planning and promotion capabilities, it hopes to develop latent customers and deepen ties with existing ones by reinforcing sales planning functions and providing solutions.

In "harvest new businesses," the Company plans to steadily acquire revenue from activities related to financial services in four areas where it has initiatives (energy, tourism, agriculture, and healthcare). It also aims to realize unique services that help in stimulating local areas. In energy, it wants to promote local energy production and consumption with inroads by renewable energy and prevention of global warming and expand energy business revenue. In tourism, it intends to promote activities that stimulate regional areas via utilization of local tourism resources and boost tourism business revenue. In agriculture, it plans to stabilize and enhance profitability of agricultural revenue by promoting sixth industry opportunities and optimizing the value chain and increase agricultural revenue. In healthcare, it intends to reinforce related facilities through promotion of warehousing business at healthcare facilities and raise healthcare business income.

The Company is establishing companywide business processes based on a hybrid work style of telework and office work to strengthen the business foundation needed to support these two strategies. It is also making effective utilization of cutting-edge ICT to accelerate enhancement of business processes and reviewing and formulating a plan to upgrade the core system. It is striving to optimize the management stance in development of human resources, recruit and cultivate expert personnel, and realize reforms in work style.

Targeting realization of CSV management

The Company, which pursues solutions to social issues in core areas and new businesses (energy, tourism, agriculture, and healthcare), hopes to achieve CSV management that both solves social issues and generates profits.

While it had already promoted eco-friendly business activities, since formulation of its Group Vision in 2013, the Company placed the CSV management approach of creating shared value for society and the company at the core of its activities and promoted initiatives to realize the Group Vision. With the combination of core areas (existing businesses) and new businesses, it is establishing social and ICT infrastructure, revitalizing local communities and economies, preventing global warming, and responding to an aging population.

(1) Core areas

Main initiatives in core areas are promoting activities that lead to establishing social infrastructure, such as building public infrastructure, with optimal proposals made in cooperation with NEC and NEC Group companies, putting together the syndicated loan as the lead arranger (managing financial institution) for a project to build a high-capacity optical undersea cable system with a total length of about 3,900km connecting Hong Kong and Guam, and supporting various other projects with finance. It implements PIT Managed Service and vendor finance that contribute to reductions in labor and costs to operate and manage ICT asset and promotes a strategic partnership with NEC and unique services as a company with knowhow in ICT.

Furthermore, the RISA Corporate Solutions Fund, which is arranged and operated by RISA Partners, delivers solutions that address business succession, corporate revitalization, growth assistance, and other needs and engages in private equity (PE) fund activities that seek improvement in enterprise value at investees. It has handled more than 30 cases thus far that include business liquidation and revitalization, growth assistance, including overseas entry, IPO assistance, and MBO assistance. It has also ramped up the Innovative Venture Fund that is jointly operated with SMBC Venture Capital and the CSV Venture Fund with cooperation from Venture Labo Investment as well as invested in and given assistance to technology-related venture companies. The fund size is just over ¥6bn, and there are more than 50 investees.

(2) New businesses

The Company is promoting new initiatives in four areas – energy, tourism, agriculture, and healthcare.

In energy, it promotes establishment of new, regional power companies and investment and loans for renewable energy. It founded a new power company with public and private collaboration in Hamamatsu (Shizuoka Prefecture) with the concept of local production and consumption of energy in 2015. It is promoting wider use of renewable energy and participation at the conceptual stage to realize an eco-friendly smart city. Through this project, the Company has added a collaborative business model with local governments in regional areas and is accelerating initiatives in various energy areas.

In healthcare, it established Healthcare Asset Management Co., Ltd. with Sumitomo Mitsui Banking Corporation and SHIP HEALTHCARE HOLDINGS, INC. <3360> with the aim of helping to build infrastructure in the healthcare field that it is vital to an aging population. Healthcare & Medical Investment Corporation, which Healthcare Asset Management manages as a consignment, was listed on the J-REIT market in March 2015. It assists REIT growth by temporarily holding (warehousing) healthcare facilities prior to inclusion in the healthcare REIT.

In agriculture, the Company implements initiatives to solve social issues that surround agriculture, such as the aging farmer population, lack of successors and increase in abandoned farming land due to acreage reduction policy as well as other factors. It founded Mirai Kyousou Farm Akita Co., Ltd., a corporation with approval to own farmland, through joint investments in Ogata Village (Akita Prefecture). This entity seeks to establish a large-scale farming model that is efficient and highly profitable with a goal of sixth industrialization (integrated business that not only produces agricultural crops but also manufactures and sells processed foods using the crops as raw materials) by farming rice on idle farmland and unused land in addition to handling consignment farming and crop sales.

In tourism, the Company is pursuing activities in multiple regions, including capital participation in OMOTENASHI YAMAGATA Co., Ltd. which was founded by Yamagata Prefecture Tourism Center and other companies and organizations in March 2017. Besides provision of funds (investments), the Company directly participates in business and aims to enhance value as a tourist area by utilizing local tourism resources. Being able to flexibly form teams with the most suitable players in order to deliver optimal services will work to the Company's advantage. The Company believes it is capable of contributing to solutions for issues confronting various regions and is taking action to develop precursors to "community design."

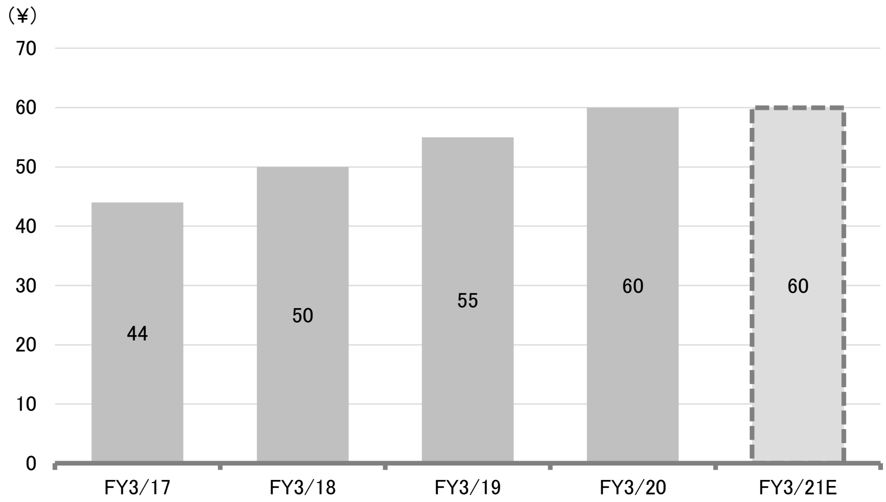
Shareholder returns

Plans to pay a ¥60 dividend in FY3/21

The Company's dividend policy adheres to sustaining a stable dividend as the core approach and suitably adjusts the dividend based on an assessment of the fair level in consideration of market trends and fluctuations in business results while securing enough retained profits to invest in growth strategy and reinforce its financial standing. In FY3/21, the Company plans to pay a ¥60 dividend (including a ¥30 interim dividend).

The Company also provides online catalog gifts utilizing the Internet as a shareholder benefit program. It gives benefits to shareholders who own at least 100 shares and who are registered on the shareholder register as of March 31 each year. The value differs depending on the number of owned shares and ownership period. Shareholders with more 100 shares and fewer than 500 shares receive an online catalog gift worth roughly ¥2,000 for ownership duration of less than one year and roughly ¥3,000 for duration of one year or longer. Shareholders with at least 500 shares receive an online catalog gift worth roughly ¥10,000 for ownership duration of less than one year and roughly ¥15,000 for duration of one year or longer.

Dividends per share



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

Shareholder benefit program

Number of shares owned	At least one unit (100 shares) to fewer than five units (500 shares)	
Period of ownership	Less than one year	One year or more*1
Online catalog gift	Roughly ¥2,000	Roughly ¥3,000

Number of shares owned	At least five units (500 shares)	
Period of ownership	Less than one year.	One year or more*2
Online catalog gift	Roughly ¥10,000	Roughly ¥15,000

*1 Shareholders consecutively recorded as owning at least 100 shares under the same shareholder number in the shareholder register on March 31 each year and in the shareholder register at the end of the previous fiscal year as well as the end of the interim period of the fiscal year under review.
*2 Shareholders consecutively recorded as owning at least 500 shares under the same shareholder number in the shareholder register on March 31 each year and in the shareholder register at the end of the previous fiscal year as well as the end of the interim period of the fiscal year under review.
Source: Prepared by FISCO from the Company's website

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