COMPANY RESEARCH AND ANALYSIS REPORT

NEC Capital Solutions Limited

8793

Tokyo Stock Exchange First Section

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Index

Summary

The Company is creating new social value as the NEC Group's financial services company toward solving social problems in the with-coronavirus and after-coronavirus periods,

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 results

In the Leasing and Installment Sales Business, contracts executed increased 0.3% year-on-year (YoY) and new transactions rose 4.6%. There was a decrease as a rebound to the major increase in information and communications equipment in the previous period against the backdrop of demand to upgrade Windows10. But in the period under review, the Company was able to steadily capture demand, including for GIGA school projects and to respond to teleworking during the coronavirus pandemic, so both contracts executed and new transactions increased YoY.

2. FY3/22 forecasts

In FY3/22, the Company is aiming for the sustainable growth of the Leasing and Installment Sales Business and also to harvest (generate earnings from) new businesses, while it expects decreases in costs, including amortization of goodwill costs in the RISA Business and credit costs. Therefore, for the FY3/22 results, it is forecasting revenues of ¥230,000mn (up 4.0% YoY), operating income of ¥10,000mn (up 67.6%), ordinary income of ¥10,000mn (up 64.2%), and profit attributable to owners of parent of ¥5,500mn (up 33.5%). The novel coronavirus pandemic is having a major impact on ways of conducting business and daily lives, and moreover its impact is expected to continue in the future as well. In this situation, it is considered that the Company may have opportunities to create new social value in its business activities.

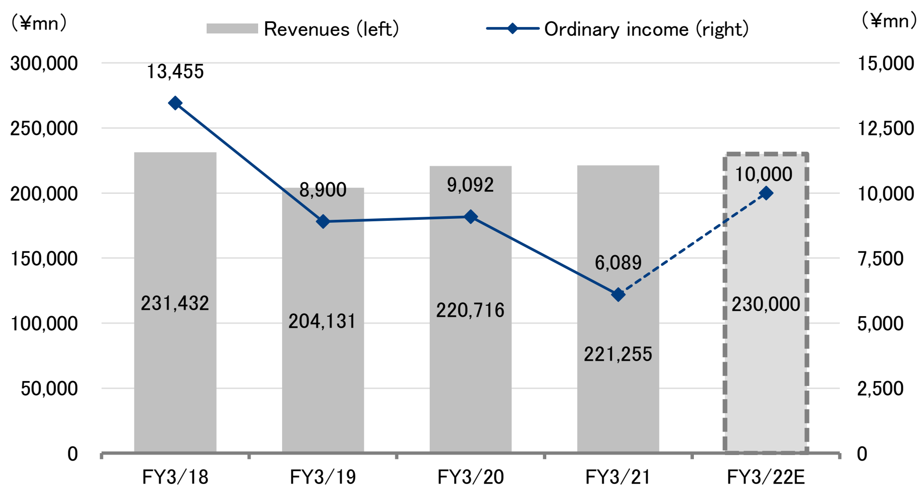
3. Progress made in the Medium-Term Plan 2020

In "Expand core areas," toward establishing new services with vendors, the Company acquired NEC Financial Services, LLC, a US company, and obtained a new business opportunity in North America. By securing a base in North America, it is expected to conduct measures toward business growth in the future. By strengthening collaborations in the NEC Group, measures for GIGA school and fire-fighting projects grew significantly. Even after peaking out, GIGA school projects will contribute a certain level of profits, while in the fire-fighting field, it expects horizontal development for new transactions. Other than these, the Company has started new measures with foreign-owned ICT vendors, while it is also progressing measures to establish a services model for medical care and ICT devices.

Key Points

- Collaborates with NEC in a strategic partnership
- The Company is focusing on creating new social value toward solving social problems in the with-coronavirus and after-coronavirus periods
- Is aiming for the sustainable growth of the Leasing and Installment Sales Business and to harvest new businesses

Results trends



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

Company overview

In addition to the Leasing and Installment Sales Business, which is centered on leasing, is expanding the service areas and converting to high-value-added businesses

The Company is an equity-method affiliate of NEC Corporation that offers leasing of information and communications equipment, including NEC products centering on ICT devices, 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 and is expanding its financing services offerings to help companies solve their management issues. In addition to promoting the development of social infrastructure in transactions with public offices and local governments, which has been a strength for many years, the Company 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, Inc. 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 72mn.)
March 1979	Joined the Japan Lease Association as an associated member.
September 1979	Capital increased to ¥100mn.
September 1987	Joined the Japan Lease Association as a regular member.
April 1989	Capital increased to ¥400mn.
March 1996	Outstanding value of active assets (purchase price basis) surpassed ¥1,000,000mn
May 1999	Capital increased to ¥800mn.
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. (East Japan Government, Public and Social System Sales Division, West Japan Government, Public and Social System Sales Division)
April 2020	Obtained Privacy Mark certification
November 2020	Made NEC Financial Services, LLC, of the US a consolidated subsidiary

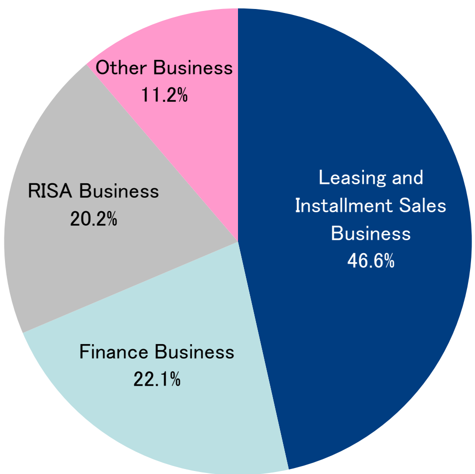
Source: Prepared by FISCO from the Company’s website

Business overview

In addition to a wide range of financial services, has ICT knowledge acquired from the experience of many years of transactions. Has a track record of transactions with government agencies and municipalities throughout the country, and RISA Partners has a network of regional financial institutions nationwide.

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 FY3/21 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, and it is leveraging those strengths in the PFI and PPP (formats for private-sector participation in provision of public services) business. In contracts executed by product type in FY3/21, 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.

Gross profit composition by business segment (FY3/21)



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

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 FY3/21 results) was Leasing and Installment Sales Business at 46.6%, Finance Business at 22.1%, RISA Business at 20.2%, and Other Business at 11.2%.

(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.

(2) Finance Business

Finance Business handles money lending business, factoring business, and investment business for securities owned to obtain business purpose income. It loans funds to established specific purpose companies (SPC), and it also provides funds in the form of investing in SPCs. 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. In the energy business, it conducts a solar power generation business through a special purpose company (SPC), and it also manages the solar power generation businesses of other new regional power companies and buys and sells power. The sources of power it handles are not limited to solar and it has expanded them to include wind, biomass and hydrogen. 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. It mainly participates in projects in forms such as constructing structures optimized for businesses, supporting fund raising with low interest rates, and preparing proposals for government agencies and municipalities.

Strength

Collaborates with NEC in a strategic partnership. Half of its customer base is government agencies and municipalities and has an abundance of ICT knowledge

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 half 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 (FY3/21 result; contracts executed by product type). It hence goes beyond just leasing 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 to meet rising needs 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.

Image of the business model

Source: Company's website

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 engaged in 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

FY3/21 results proceeded generally on track with guidance. Captured ICT demand for GIGA schools and workstyle reforms, and both contracts executed and new transactions increased YoY

1. FY3/21 results

In the FY3/21 results, revenues were ¥221,255mn (up 0.2% YoY), operating income was ¥5,965mn (down 28.1%), ordinary income was ¥6,089mn (down 33.0%), and profit attributable to owners of parent was ¥4,118mn (down 19.5%). In terms of the business environment, according to leasing statistics from the Japan Leasing Association, total leasing contracts for the entire leasing industry from April 2020 to March 2021 fell 13.9% YoY to ¥4,591bn. Compared to FY2019, they declined 8.4% mainly due to the impact of the coronavirus. Information and communications equipment, which is the Company's main segment, decreased 13.8% compared to the previous fiscal year, but increased 5.7% compared to FY3/19 due to strong ICT demand during the with-coronavirus period.

FY3/21 results

(¥mn)

	FY3/20 Results	FY3/21	
		Results	YoY
Revenues	220,716	221,255	0.2%
Operating income	8,292	5,965	-28.1%
Ordinary income	9,092	6,089	-33.0%
Profit attributable to owners of parent	5,117	4,118	-19.5%

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

Also, due the impact of the coronavirus, it will be necessary to continue to pay attention to developments in the future for the funding environment and bankruptcy conditions. In this sort of environment for the Company's businesses in FY3/21, in the Leasing and Installment Sales Business, contracts executed increased 0.3% YoY and new transactions rose 4.6%. In the period under review, there was a decline as a rebound to the major increase in information and communications equipment in the previous period against the backdrop of Windows 10 upgrade demand. But it steadily captured demand, including for GIGA school projects and to respond to teleworking during the coronavirus pandemic, so both contracts executed and new transactions increased YoY.

Earnings by business

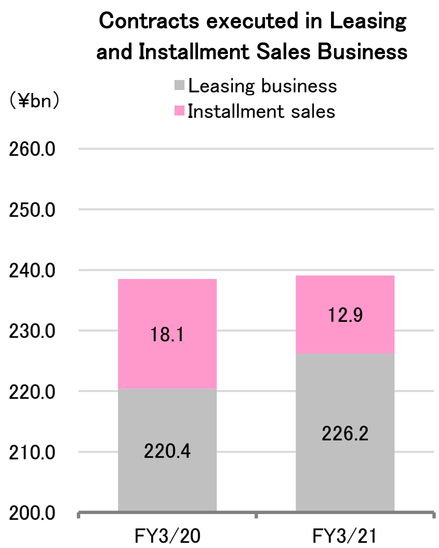
(¥bn)

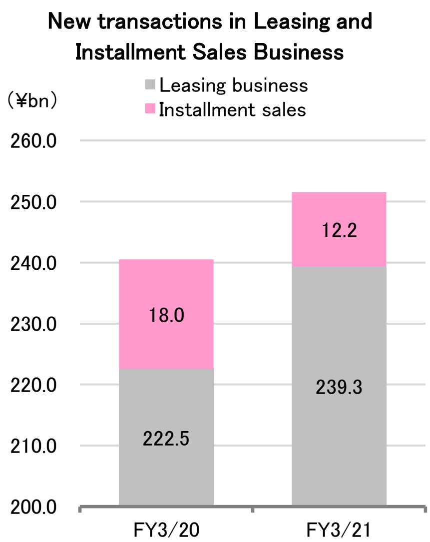
		FY3/20	FY3/21	YoY
Leasing and Installment Sales Business	Revenues	174.9	192.6	10.1%
	Gross profit	11.0	12.0	9.3%
	Operating income	2.8	3.6	25.3%
Finance Business	Revenues	7.3	6.6	-9.2%
	Gross profit	5.7	5.7	-0.1%
	Operating income	3.1	2.7	-13.8%
RISA Business	Revenues	16.2	6.8	-57.9%
	Gross profit	8.7	5.2	-40.2%
	Operating income	4.0	1.0	-76.4%
Other Business	Revenues	22.4	15.3	-31.8%
	Gross profit	2.2	2.9	32.5%
	Operating income	-0.1	0.4	-

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

2. Results trends by business

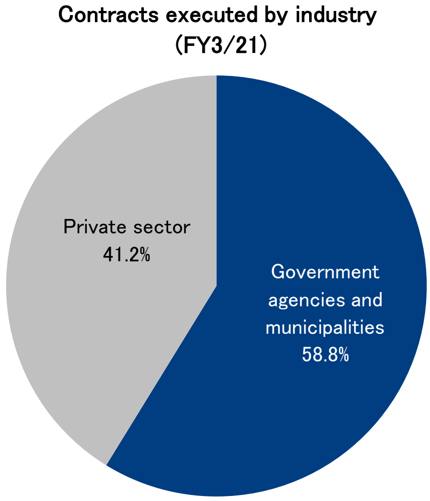
In the results by business segment, in the Leasing and Installment Sales Business, revenues were ¥192,573mn (up 10.1% YoY) alongside the increase in the operating asset balance, and gross profit was ¥12,027mn (up 9.3%). Operating income was ¥3,557mn (up 25.3%) due to the increase in revenues. Contracts executed was ¥239.1bn (up 0.3%) and new transactions were ¥251.5bn (up 4.6%). The main factors were that although there was a decline as a rebound to the major increase in information and communications equipment in the previous period against the backdrop of demand to upgrade Windows10, in the period under review, the Company steadily captured ICT demand.

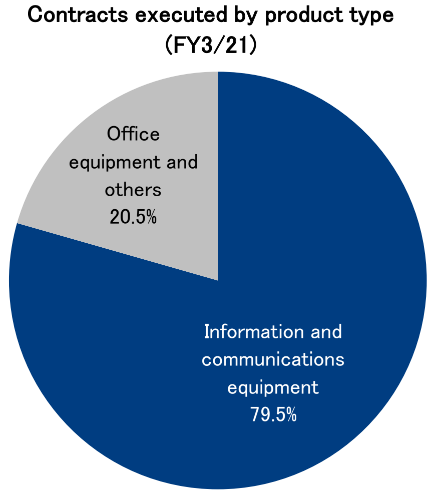




Source: Prepared by FISCO from the Company's results briefing material

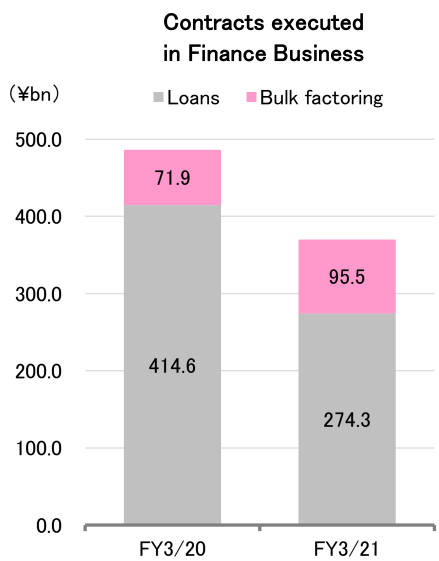
The percentages of contracts executed by industry were 58.8% for government agencies and municipalities, and 41.2% for the private sector (service industry, distribution industry, manufacturing industry, and others), while the percentages of contracts executed by product type were 79.5% for information and communications equipment (electronic computers and related devices, software, communication devices and related devices), and 20.5% for office equipment and others.

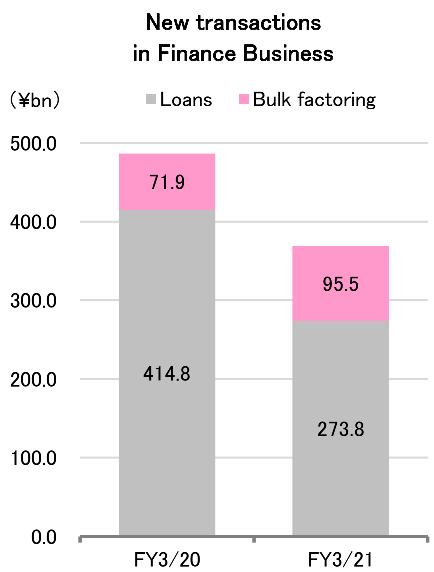




Source: Prepared by FISCO from the Company's results briefing material

In the Finance Business, revenues were ¥6,617mn (down 9.2% YoY), but due to factors including the decrease in funding costs, gross profit was at the same level as in the previous fiscal year at ¥5,712mn (down 0.1%). Operating income was ¥2,677mn (down 13.8%) because of the recording of credit costs. Contracts executed was ¥369.8bn (down 24.0%) and new transactions were ¥369.2bn (down 24.1%), mainly due to the decline in the credit balance covered by factoring alongside the decrease in customers' sales receivables and other credits, and decline in the large-scale projects.





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

In the RISA Business, revenues were ¥6,801mn (down 57.9% YoY) and gross profit was ¥5,216mn (down 40.2%) Results were down YoY due to the recording of major gain on sales of operational investment securities and real estate for sale in the previous fiscal year. As a result, operating income was ¥955mn (down 76.4%) because of the decline of gross profit. The cumulative result up to 3Q was an operating loss, due to the recording of upfront costs, including in the real estate business, but following the recording of gains on sales of real estate in 4Q, the operating loss up to the 3Q was eliminated.

Trends in RISA Business

(¥bn)

		FY3/20	FY3/21	YoY
Asset business	Revenues	10.3	5.1	-50.8%
	Gross profit	5.2	3.7	-29.1%
	Operating income	2.7	1.4	-48.3%
Real estate business	Revenues	5.3	1.0	-80.3%
	Gross profit	2.9	0.8	-71.0%
	Operating income	2.3	0.4	-83.2%
Advisory services business	Revenues	0.6	0.7	19.7%
	Gross profit	0.6	0.7	19.8%
	Operating income	0.0	0.2	-
Goodwill, other	Revenues	0.0	0.0	-
	Gross profit	0.0	0.0	-
	Operating income	-1.0	-1.1	-

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

Breaking this down, in the assets business, there were multiple EXIT from funds in the previous period, so revenues were ¥5.1bn (down 50.8% YoY), gross profit was ¥3.7bn (down 29.1%), and operating income was ¥1.4bn (down 48.3%). In the real estate business, in the previous year there was a major gain on sale of real estate for sales, and therefore revenues were ¥1bn (down 80.3% YoY), gross profit was ¥800mn (down 71.0%), and operating income was ¥400mn (down 83.2%). In the advisory business, revenues were ¥700mn (up 19.7% YoY), gross profit was ¥700mn (up 19.8%), and operating income was ¥200mn (¥0mn in previous fiscal year). Gross profit is increasing due to the rise in commission income and other income.

Functions and services of RISA Business

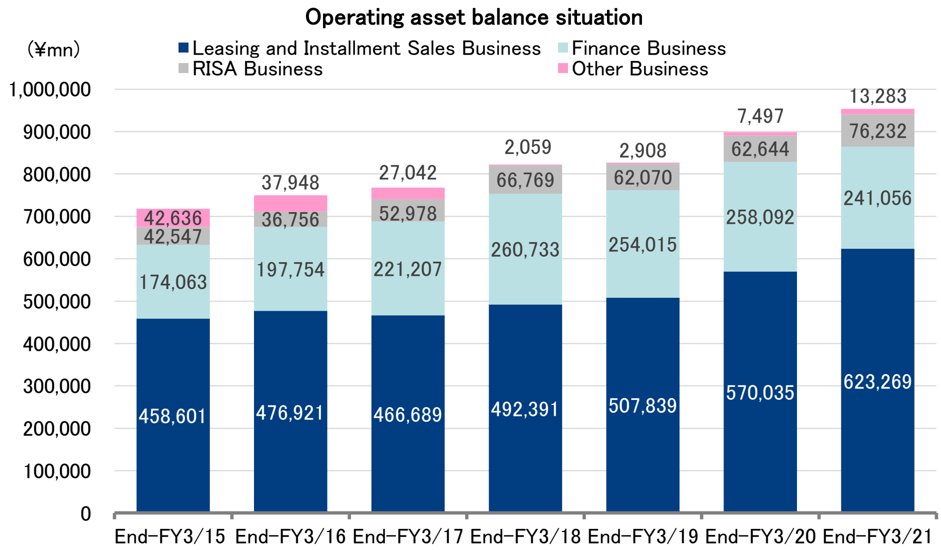
Asset business	RISA Corporate Solutions Fund
	Tourism Revitalization Mother Fund
Real estate business	Support rebuilding and effective use of corporate property
	Support store opening and establishment of funds
Advisory services business	Advice related to corporate revitalization and development support

Source: Prepared by FISCO from the Company's website

In the Other Business, revenues were ¥15,312mn (down 31.8% YoY) and gross profit was ¥2,904mn (up 32.5%). Revenues decreased due to a major gain on sale in the previous year, but gross profit increased, including because of sales of revenue properties and acquisitions of healthcare-related rental income, and an increase in solar power generation sales. Operating income was ¥397mn (a loss of ¥130mn in the previous period) due to the increase in gross profit.

3. The operating asset balance situation

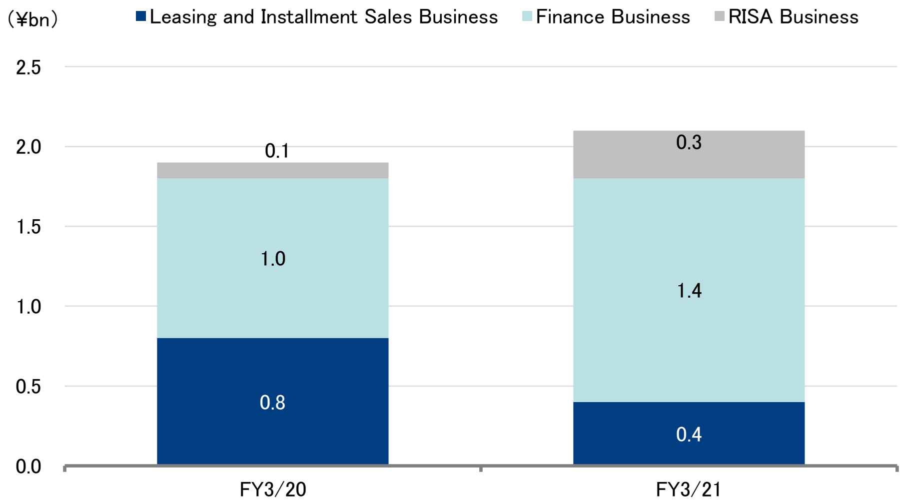
At the end of FY3/21, the operating asset balance was ¥953,841mn, increasing ¥55,571mn from the end of the previous fiscal year (up 6.2%). Breaking this down, in the Leasing and Installment Sales Business, the Company captured demand for GIGA school projects and teleworking demand, and the balance grew both for government agencies and the private sector, increasing ¥53,234mn YoY. The acquisition of the US subsidiary also contributed. The Leasing and Installment Sales Business is an assets business that generates earnings stably over the long term, so it is contributing in advance to stable earnings. In the Finance Business, corporate loans decreased and the operating asset balance declined ¥17,036mn. In the RISA Business, it increased ¥13,588mn, including due to the rise in operating and investment securities. In the Other Business, it increased ¥5,786mn, mainly because of acquisitions of healthcare facilities. As the operating asset balance is growing due to the current expansion of business scale, at FISCO we think that it is highly likely to increase to ¥1tn in FY3/22.



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

Credit costs were recorded in consideration of the impact of the coronavirus and were at the same level as in the previous year.

Credit costs



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

Outlook

Solving social problems in the with-coronavirus and after-coronavirus periods will provide opportunities to create new social value

1. FY3/22 forecasts

In FY3/22, the Company is aiming for the sustainable growth of the Leasing and Installment Sales Business and also to harvest new businesses. Therefore, for the FY3/22 results, it is forecasting revenues of ¥230,000mn (up 4.0% YoY), operating income of ¥10,000mn (up 67.6%), ordinary income of ¥10,000mn (up 64.2%), and profit attributable to owners of parent of ¥5,500mn (up 33.5%). The novel coronavirus pandemic is having a major impact on ways of conducting business and daily lives, and moreover its impact is expected to continue in the future as well. In this situation, it is considered that the Company may have opportunities to create new social value in its business activities. It is considered that solving social problems in the with-coronavirus and after-coronavirus periods, such as relating to contactless operations, non-face-to-face operations, and avoiding the 3Cs, will enable the Company to demonstrate its great strength, of the expertise it has accumulated up to the present time as the financial services company of the NEC Group.

At FISCO, we think that in the Leasing and Installment Sales Business, although the scale of the special demand from the GIGA school concept will decrease, it can still be expected to stably contribute to profits, and also that teleworking demand can be expected to continue to grow. In addition, through the collaboration with NEC, whose strengths include contactless technologies, it seems possible for the Company to capture social needs during the new normal. Moreover, toward the launch of the Digital Agency on September 1, 2021, we are seeing a fully-fledged movement for Digital Transformation (DX) conducted jointly by the government and the private sector, and at FISCO, we think that this will support the profit growth of the Company, whose strengths include projects for government agencies.

FY3/22 forecasts

(¥mn)

	FY3/21 Results	FY3/22	
		Forecast	YoY
Revenues	221,255	230,000	4.0%
Operating income	5,965	10,000	67.6%
Ordinary income	6,089	10,000	64.2%
Profit attributable to owners of parent	4,118	5,500	33.5%

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

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.

Management goals in the Medium-Term Plan 2020

(¥mn)

	FY3/21 results	FY3/22 forecasts	FY3/23 Medium-Term Plan goals
Operating income	5,965	10,000	11,000
Ordinary income	6,089	10,000	12,000
Profit attributable to owners of parent	4,118	5,500	7,500
ROA	0.7%	1.0%	1.3%

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

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.

In the Medium-Term Plan 2020, the Company steadily ascertains solving new social problems in the with- and after-coronavirus periods to be business opportunities, and it is taking the lead in social reforms in the finance and ICT areas. Through progressing various measures while prioritizing profitability, in FY3/23 it is targeting new record highs, of operating income of ¥11,000mn, ordinary income of ¥12,000mn, and profit attributable to owners of parent of ¥7,500mn.

3. Progress made in the Medium-Term Plan 2020

In “Expand core areas,” toward establishing new services with vendors, the Company acquired NEC Financial Services, LLC, a US company, and obtained a new business opportunity in North America. By securing a base in North America, it is expected to conduct measures toward business growth in the future. Through strengthening collaborations in the NEC Group, measures for GIGA schools and fire-fighting projects grew significantly. Even after peaking out, GIGA school projects will contribute a certain level of profits, while in the fire-fighting field, the Company expects horizontal development for new transactions. Other than these, it has started new measures with foreign-owned ICT vendors, while it is also progressing measures to establish a services model for medical care and ICT devices. To accelerate specialist businesses in growth fields, it steadily captured teleworking demand, and results grew more than forecast due to special demand in the previous year for the Windows10 upgrade, including for PC rental services. To expand the customer base and utilize the sales planning and promotion functions, the Company collected and analyzed information, such as on customer needs and market trends, while also improved profitability through actively utilizing cross-sales activities and developing activities to deepen and widen the customer base. As a result, private sector new transactions increased by 20% compared to the previous year in the Leasing and Installment Sales Business.

In “Harvest new businesses,” the Company has progressed regional revitalization measures in various regions, but their contribution to earnings has been limited, including due to the impact of the coronavirus. The healthcare business is contributing to earnings, such as from the steady development of the warehousing business and the new acquisitions of five properties in the period under review. In the energy business, toward the launch of new PPA services, it has concluded an agreement with NEC Platforms, Ltd. To strengthen the management foundation that will support the business strategy, it has established a teleworking environment for all employees and conducted a review of workstyles. It is further progressing the establishment of a work environment for the with-coronavirus period. Also, in the Environmental Rating Financing of the Development Bank of Japan (DBJ), it was awarded the highest ranking for the 17th consecutive year. This is financing by companies selected by the DBJ as those it evaluates to be superior for non-financial information through a screening system that it itself developed. The Company also acquired the AAA rating for SMBC ESG/SDGs (positive impact-type) evaluated financing. This is for financing products that conform to the positive impact financing principles and that have been selected by the United Nations Environment Programme Finance Initiative.

Targeting realization of CSV management

Like two halves of the whole, necessary to both improve profits and improve CSR

The Company is aiming to conduct CSV management in which it can both solve social problems and generate profits as a company. It has been progressing eco-friendly business activities since the past, but following the formulation of the Group Vision in 2013, it placed a CSV management approach of creating value both for society and for the Company at the core of its activities, and it is progressing initiatives toward realizing this Group Vision. On the twin axes of the existing businesses, which are the core areas, and the new businesses, it is working on establishing social and ICT infrastructure, revitalizing local communities and economies, preventing global warming, and responding to the aging population. Like two halves of the whole, it is necessary to improve both earnings and CSR, and the progress towards materiality measures (expanding the earnings base, strengthening the management foundation, and reforming the corporate culture) and other important issues relating to CSR are discussed every month at the PDCA Meeting chaired by the Company's President and Representative Director, and whose members are all the executive officers.

(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. It is supporting various types of initiatives from a finance aspect, acting as lead arranger for syndicated loan as the lead arranger (managing financial institution) for a project in which NEC is taking part to build a high-capacity optical undersea cable system with a total length of about 3,900km connecting Hong Kong and Guam. 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 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.

(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 municipalities in regional areas and is accelerating initiatives in various energy areas.

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."

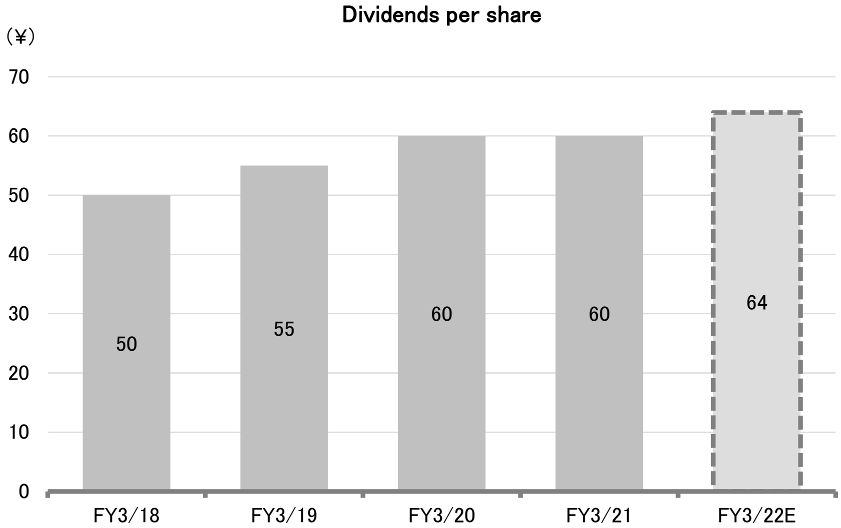
In agriculture, the Company implements initiatives to solve social issues that surround agriculture, such as the aging farmer population, lack of successors and increase in abandoned farming land due to acreage reduction policy as well as other factors. In August 2016, it founded Mirai Kyousou Farm Akita 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 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.

Shareholder returns

Plans to pay a ¥64 dividend, up ¥4 YoY, in FY3/22

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 FY3/22, the Company plans to pay a ¥64 dividend (including a ¥32 interim dividend), ¥4 per share more than the previous fiscal year.



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

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.

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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