COMPANY RESEARCH AND ANALYSIS REPORT

WILLPLUS Holdings Corporation

3538

Tokyo Stock Exchange First Section

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Summary

Focusing on securing footholds in FY6/20 to respond to changes in the business environment. No change to the growth story through the three growth strategies, including the M&A strategy.

WILLPLUS Holdings Corporation (hereafter, also “the Company”) <3538> is a pure holding company. The Group is engaged in sales of imported cars and sells 10 automobile brands, including JEEP, FIAT, BMW, MINI, VOLVO, and Porsche through authorized dealerships. In addition to dominant dealership expansion in the Fukuoka area and the Tokyo/Kanagawa area, for Porsche, it is focusing on all of the Tohoku region as its commercial area. For MINI, it has also entered-into the Chugoku region.

1. While net sales were a new record high, profits decreased YoY, including due to increases in depreciation expenses and personnel expenses

In the Company’s FY6/19 results, sales increased but profits decreased, with net sales of ¥29,860mn (up 15.9% year-on-year (YoY)) and operating profit of ¥1,118mn (down 11.4%). The main reasons for the increase in net sales were that sales of Jaguar/Land Rover vehicles, which it started handling from March 2018, were strong; the net increase in sales of Porsche vehicles, which it started handling from December 2018; and the steady growth of recurring revenue-based earnings, such as from vehicle maintenance and non-life insurance sales. In profits, the main factors behind the lower profits were the increase in depreciation expenses due to the rise in demo cars and new acquisitions, including dealership equipment; higher personnel expenses alongside the expansion of the dealership network; and increases in various other costs, mainly those associated with new dealership openings and renovations.

2. No change to the policy of achieving medium- to long-term growth through the three strategies. Expectations are rising for the M&A strategy.

Toward growth in the medium- to long-term, the Company will increase the profitability of dealerships recently acquired through M&A and newly opened. In addition, there has been no change to its policy of continuing the Group growth strategies of a multi-brand strategy, a dominant strategy, and an M&A strategy.

3. When conducting M&A, an important point is adjustments between ROE and the balance sheet

The Company has set realizing high ROE as a management target (a target value of at least 10%). It is trending downward at the current time, but that said, it is still 14.3% (FY6/19 result), which is above 10% and also above the levels of its industry peers. It seems possible that the Company’s implementation of an M&A strategy will have a positive effect on ROE (depending on the conditions). On the other hand, the deterioration of the balance sheet due to the fund procurement for M&A will require attention. At FISCO, we think that the financial leverage is currently at an appropriate level, while toward conducting M&A projects in the future, we will need to examine considering also the viewpoint of whether it will contribute to a rise in ROE, while avoiding unrealistic fund procurement at the same time.

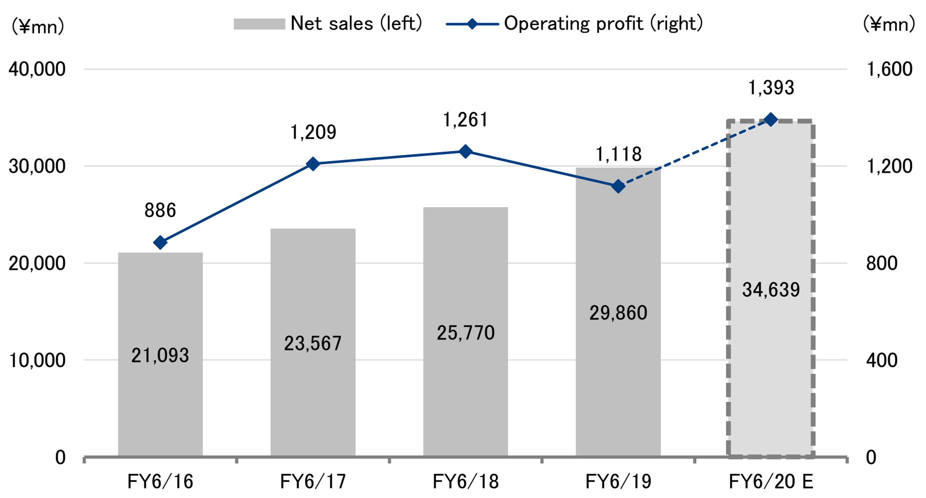
4. In FY6/20, the number of dealerships is not expected to increase, but the forecasts are still for higher sales and profits. Aiming to maintain the growth trend through conducting M&A in the medium-term

The Company is forecasting higher sales and profits in FY6/20, with net sales of ¥34,639mn (up 16.0% YoY) and operating profit of ¥1,393mn (up 24.6%). The net sales forecast does not incorporate an increase in the number of dealerships, and higher sales are expected from the full fiscal year contributions of the dealerships opened in FY6/19 and the rise in sales of new vehicles, mainly new models. Conversely, it seems that the main reason for the forecast of higher profits is that the rise in costs will be kept down because the number of dealerships will not increase. On the other hand, if the increase in the number of dealerships in FY6/20 is zero, this might raise concerns about a slowdown in the sales-increase rate in FY6/21. However, one of the Company's growth strategies is to pursue an M&A strategy and it satisfies the conditions necessary for it, so at FISCO we think that it is fully possible that it can maintain the growth trend in the medium- to long-term.

Key Points

- Utilizing its strengths, there are expectations for the growth strategies with a focus on the M&A strategy
- In FY6/19, ROE was 14.3% and was maintained at a level above the management target (10%)
- Fully possible to achieve high ROE management even while adopting an M&A strategy

Performance trends



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

Company profile

The Company's current president launched the business immediately after acquiring a family business Utilizing strong corporate management to grow through M&A

1. History

In 1997, the father of Takaaki Naruse, the current President established Sunflower CJ in Kitakyushu City, Fukuoka Prefecture. Soon thereafter, the Sunflower CJ acquired a Chrysler (U.S.) dealership, changed its name to Fukuoka Chrysler Co., Ltd., and began operating as an official Chrysler dealer.

After engaging in new and used car sales as Fukuoka Chrysler, Takaaki Naruse acquired all the shares of Fukuoka Chrysler in October 2004, and became independent, upon which he launched the business that has led to the present day. In 2005, the Company entered the Tokyo market by opening a dealership in Ota-ku, Tokyo. In 2007, the Company acquired the shares of Four Pillars Co., Ltd. from Quinland Cars Ltd., which was listed on OSE Hercules, and converted the company into a subsidiary. With this as a springboard, WILLPLUS Holdings Corporation was established in October 2007, completing the holding company structure which has been maintained through the present day, with Fukuoka Chrysler and Four Pillars as the two wholly-owned subsidiaries at the time.

WILLPLUS Holdings then reached a major turning point in the 2008-2009 period. During this time, in rapid succession the Company made CHECKER MOTORS CORPORATION, currently the core operating company, a subsidiary, and took over the business of a number of authorized BMW/MINI dealerships. At the time, the imported car market was plummeting due to the impact of the Lehman Brothers bankruptcy. Amid this challenging environment, the Company leveraged its strong management foundation to enter the M&A market as a buyer and succeeded in acquiring the large platform that has enabled its growth through the present day. Even today, this strong management foundation remains the Company's greatest strength.

In 2014, the Company made authorized VOLVO dealership Teio Auto Corporation a subsidiary, and with this move the current lineup was mostly in place. Most recently, in April 2018, CHECKER MOTORS acquired the Jaguar/ Land Rover Shonan business, and WILLPLUS Holdings itself established its fourth operating company, Willplus Eins Corporation (established November 2017), took over Porsche Center Sendai in December 2018, thereby acquiring Porsche as the Company's tenth brand and also entering the Tohoku market. Also, in March 2019 it opened two new MINI dealerships in Yamaguchi Prefecture and entered-into the Chugoku area for the first time.

WILLPLUS Holdings Corporation listed its shares on the TSE's JASDAQ (Standard) market in March 2016. In September 2017, its shares move to the Second Section of the TSE and were then reassigned to the First Section of the TSE in February 2018.

History

January 1997	Establishment of Sunflower CJ in Kitakyushu City, Fukuoka Prefecture
January 1997	Trade name changed to Fukuoka Chrysler Co., Ltd. The company establishes a new office in Fukuoka City, and begins new car sales as the first official Chrysler dealership in western Japan
October 2004	Current President Takaaki Naruse acquires all of the company's shares with his personal funds and begins business
July 2005	Dealership opened in Ota-ku, Tokyo
July 2007	Acquires 90% of the issued shares of Four Pillars Co., Ltd., a wholly-owned subsidiary of Quinland Cars Co., Ltd., through a third-party allotment. The Company begins operating a Ford dealership, starts an imported car business, the PDI business, and the parts wholesale business
October 2007	WILLPLUS Holdings Corporation established in Ota-ku, Tokyo, through a share transfer. Fukuoka Chrysler Co., Ltd. and Four Pillars Co., Ltd. are converted into wholly-owned subsidiaries
July 2008	Converted authorized FIAT/Alfa Romeo dealer CHECKER MOTORS CORPORATION into a wholly-owned subsidiary
July 2009	Chrysler Japan Co., Ltd. transfers the business of Chrysler/JEEP/Dodge Setagaya and Chrysler/JEEP/Dodge Yokohama to the Company
September 2009	Willplus Motoren Corporation (established in May 2009) takes over the businesses of BMW and MINI, and begins carrying BMW and MINI vehicles
July 2010	Merger of Fukuoka Chrysler Co., Ltd., Four Pillars Co., Ltd., and CHECKER MOTORS CORPORATION. The trade name is changed to CHECKER MOTORS CORPORATION
April 2014	Authorized VOLVO dealer Teio Auto Corporation and its subsidiary Teio Auto Service Co., Ltd., engaged in the Jaguar vehicle maintenance business, are converted into wholly-owned subsidiaries
March 2016	Listing on the Tokyo Stock Exchange JASDAQ (Standard)
May 2017	Teio Auto Corporation takes over the business of VOLVO Cars Odawara
September 2017	Listing changed to the TSE Second Section
November 2017	Willplus Eins Corporation established for the purpose of being an authorized Porsche dealer
February 2018	Listing changed to the TSE First Section
April 2018	CHECKER MOTORS CORPORATION takes over the business of Jaguar/Land Rover Shonan from Ivy Auto Corporation and starts business as an authorized dealer
December 2018	Subsidiary Willplus Eins Corporation (established in November 2017) took over Porsche Center Sendai and launched operations as an authorized Porsche dealer. This was also the Company's first entry into the Tohoku market

Source: Prepared by FISCO from Company materials

With four operating companies under the pure holding company, WILLPLUS Holdings operates a total of 32 authorized import car dealerships

2. Business overview

(1) Status of the Corporate Group

WILLPLUS Holdings is engaged in business related to imported car sales. The Company itself is a pure holding company and has four operating companies (all are wholly-owned subsidiaries) under its umbrella, and each operating company is an authorized dealer for imported cars. It is structured in this way because in many cases, contracts with importers (exclusive import agencies, an automaker's Japanese subsidiary in many cases) prohibit a single operating company from being an authorized dealer for another automaker. As of June 30, 2019, there were a total of 32 dealerships.

CHECKER MOTORS was originally an official dealer for FIAT and Alfa Romeo, but it currently also handles ABARTH, JEEP, Jaguar, and Land Rover, for a total of six brands. Six brands is an exceptionally large number for a single company to handle, but in the background to this are two factors; that Chrysler and FIAT integrated their businesses to become FCA (Fiat Chrysler Automobiles N.V.), and that both the importers of FCA and Jaguar/Land Rover Japan have accepted sales auctions with other brands. There were 16 dealerships as of the end of June 2019. In April 2019, it took over the Jaguar/Land Rover Mitaka business.

Willplus Motoren Corporation operates authorized dealerships for BMW and MINI. Previously, it operated 5 dealerships in Fukuoka Prefecture and 2 dealerships in Tokyo. But in March 2019, it opened 2 dealerships, MINI Yamaguchi and MINI NEXT Shunan, in Yamaguchi Prefecture, thereby entering-into the Chugoku area for the first time. As of June 30, 2019, Willplus Motoren operates a total of nine dealerships.

Teio Auto Corporation was engaged in the authorized dealer business for VOLVO in Fukuoka Prefecture and was added to the Group in April 2014. Thereafter in May 2017, the company acquired VOLVO Cars Odawara through a business takeover in May 2017. As of June 30, 2019, Teio Auto Corporation operates a total of five dealerships. Four of these are located in Fukuoka Prefecture and one is in Kanagawa Prefecture.

Willplus Eins Corporation was established in November 2017 with the aim of launching Porsche business. In December 2018, the Company acquired its first dealership, Porsche Center Sendai, in a business take-over, and with this the company entered the Tohoku area market for the first time. Following this, in January 2019, Willplus Eins newly opened Porsche Center Koriyama, and with this the two dealerships cover the entire Tohoku commercial area. As of June 30, 2019, Willplus Eins operates two dealerships.

List of Operating Companies

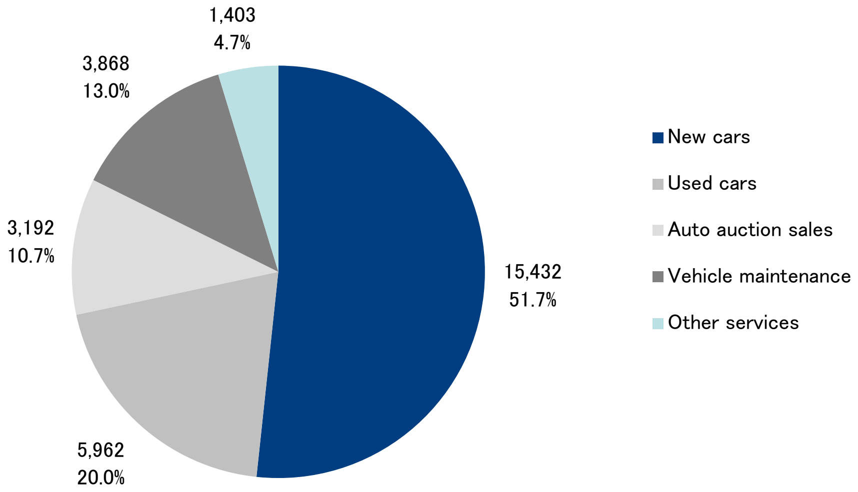
Name	CHECKER MOTORS CORPORATION	Willplus Motoren Corporation	Teio Auto Corporation	Willplus Eins Corporation
Capital	¥50mn	¥50mn	¥30mn	¥10mn
Number of dealerships (as of June 30, 2019)	16	9	5	2
Importers	FCA JAPAN Limited Jaguar Land Rover Japan Limited	BMW Japan Corporation	Volvo Car Japan Limited	Porsche Japan KK
Brands carried	JEEP Alfa Romeo FIAT ABARTH Jaguar Land Rover	BMW MINI	VOLVO	PORSCHE

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

(2) The business model for the imported car dealer business

The businesses that the dealerships engage in include purchases and new car sales, purchases and trade-ins of used cars, maintenance, repairs and other after-services, and an automobile insurance agency business. Reflecting these circumstances, in its full fiscal year results the Company discloses net sales according to category. Although it changes depending on the year, in the Company's case, approximately 50% of net sales are from new car sales, around 20% from used car sales, and about 10% from auto auction sales. What each of these have in common is vehicle sales. The remaining 20% is from vehicle maintenance and other services. Other services include agency commissions from insurance subscriptions and incentives paid by manufacturers according to the number of new vehicles sold.

Net sales by category (FY6/19)



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

It goes without saying that new car sales are positioned as the core in the Company's import car authorized dealer business, but the Company also frequently purchase used cars that customers had owned in the course of selling a new car in replacement. Used car sales are an important part of the Company's business, with sales to both individual and corporate customers, centered on certified, late-model used cars with low mileage (accounted for as used car sales). Meanwhile, the Company uses automobile auctions and other means to sell used cars of other brands acquired through trade-ins (domestic cars, for example) and other vehicles that do not meet the standards for classification as a certified used car (accounted for as auto auction sales). These three types within vehicles sales are linked to each other, centered on new car sales, and the structure is that if new car sales grow, used car sales and auto auction sales will also grow.

With regards to used cars, in addition to the certified used cars handled by the Company, there are also cases of purchases and sales of certified used cars from dealers of other companies of the same brand. It utilizes this approach to focus on sales of affordable used cars in order to quickly establish a customer base in the period immediately after a dealership is opened.

Looking next at profits, as the cost rate of new car sales is high, the profitability of a new car sale alone is low compared to that of a used car sales. However, in many cases, the new car sales is followed by vehicle maintenance and voluntary insurance sales. Moreover, manufacturers pay incentives according to the number of new cars sold. So when considering the total amount, including these other sources of earnings incidental to a new car sales, it can be said that the imported car dealer business is able to secure sufficient earnings.

One of the Company's management strategies is to focus on expanding its recurring revenue-based businesses. As a dealer of imported cars, the Company's recurring revenue-based businesses are vehicle maintenance and agency commissions from insurance subscriptions, which is included in other services. There are two factors in the background to its decision to strengthen its recurring revenue-based businesses; that they contribute to the stabilization of management from the continuous and stable generation of earnings over a long period after a new car sale, and that they have high profit margins.

With regards to the Company's strategy of aiming to expand its recurring revenue-based businesses, at FISCO we think it will make steady progress particularly for vehicle maintenance. An inherent trend is that customers who purchase new cars are highly loyal to a dealership and brand, so in many cases they bring their car to the dealership they purchased it at for repairs, inspections, and other services. In addition to this, automakers are strengthening locking-in customers by keeping diagnostic equipment and software out of the hands of outside technicians while vehicles are increasing the use of electronics. Therefore, the reality is that we are headed in the direction of dealer maintenance becoming the standard. As a result of this, at FISCO we think that vehicle maintenance sales will grow alongside the increase in the number of new cars sold.

For insurance sales also, the Company is focusing on the new voluntary automobile insurance attachment rate (the percentage of new car buyers who simultaneously subscribe to voluntary insurance), which it has positioned as a KPI (Key Performance Indicator). In FY6/19, its new voluntary automobile insurance attachment rate declined slightly to 35.7% compared to 36.4% in the previous fiscal period. But it still maintained it at a level of around 1.3 times the rate of 26.9%, which is the new automobile insurance attachment rate for imported car dealers nationwide.

Performance trends

New car sales are strong and net sales were a new record high. But profits declined, mainly due to increases in depreciation expenses and dealership-opening costs

1. Overview of FY6/19 results

(1) Overview of the results

In FY6/19, the Company posted lower profit on higher sales, as net sales totaled ¥29,860mn (up 15.9% YoY), operating profit was ¥1,118mn (down 11.4%), ordinary profit was ¥1,115mn (down 11.2%), while profit attributable to owners of parent was ¥730mn (down 10.5%).

Compared to the initial forecasts, net sales were above the initial forecast by 1.2% (¥350mn) for a new record high. However, in profits, operating profit was 16.8% (¥225mn) below forecast, and this trend was the same for every item from ordinary profit down.

Overview of FY6/19 results

(¥mn)

	FY6/18 Results	FY6/19			
		Forecast	Results	YoY	vs. forecast
Net sales	25,770	29,510	29,860	15.9%	1.2%
Gross profit	5,435	-	6,028	10.9%	-
SG&A expenses	4,174	-	4,909	17.6%	-
Operating profit	1,261	1,344	1,118	-11.4%	-16.8%
Operating profit margin	4.9%	4.6%	3.7%	-	-
Ordinary profit	1,255	1,331	1,115	-11.2%	-16.2%
Profit attributable to owner of parent	815	850	730	-10.5%	-14.1%

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

The increase in net sales was because in vehicle sales, new car sales steadily grew. This was mainly due to the strong sales of Jaguar/Land Rover vehicles, which the Company began handling from March 2018 (including from the contribution of the Mitaka business acquired in April 2019), and from the net increase in Porsche sales, which it began handling from December 2018. Recurring revenue-based earnings, such as vehicle maintenance and other-services sales, also steadily grew, which pushed up net sales. The net increase in the number of dealerships was 6, rising from 26 dealerships at the end of June 2018 to 32 dealerships at the end of the fiscal period.

In profits, there were several overlapping cost-increase factors, including an increase in depreciation expenses due to the rise in demo cars and new acquisitions, including dealership equipment; higher personnel expenses alongside the expansion of the dealership network; and increases in various other costs, mainly those associated with new dealership openings and renovations. As the cost rate of new car sales is high, the gross profit increase rate was only 10.9% YoY. In contrast to this, due to the above-described factors, the SG&A expenses increase rate was 17.6%, exceeding the gross profit increase rate, so the operating profit margin was pushed down from 4.9% in FY6/18 to 3.7% in FY6/19. As a result, operating profit declined 11.4% to ¥1,118mn.

Profits were below the initial forecasts, but this was due to the increase in dealership-opening costs, which was not initially included in the forecasts, and the increase in costs associated with M&A (business takeovers), which was also not incorporated into the initial budget.

Net sales by category

(¥mn)

	FY6/18		FY6/19		
	Results	Composition ratio	Results	YoY	Composition ratio
New cars	12,955	50.3%	15,432	19.1%	51.7%
Used cars	5,209	20.2%	5,962	14.4%	20.0%
Auto auction sales	2,814	10.9%	3,192	13.4%	10.7%
Vehicle maintenance	3,481	13.5%	3,868	11.1%	13.0%
Other services	1,308	5.1%	1,403	7.3%	4.7%
Total net sales	25,770	100.0%	29,860	15.9%	100.0%

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

Simplified statements of income and key indicators

(¥mn)

	FY6/16	FY6/17	FY6/18	FY6/19	FY6/20	
					1H forecast	Full year forecast
Net sales	21,093	23,567	25,770	29,860	16,731	34,639
YoY	10.6%	11.7%	9.3%	15.9%	22.3%	16.0%
Gross profit	4,608	4,984	5,435	6,028	-	-
Gross profit margin	21.8%	21.1%	21.1%	20.2%	-	-
SG&A expenses	3,721	3,774	4,174	4,909	-	-
SG&A margin	17.6%	16.0%	16.2%	16.4%	-	-
Operating profit	886	1,209	1,261	1,118	660	1,393
YoY	25.6%	36.5%	4.3%	-11.4%	16.9%	24.6%
Operating profit margin	4.2%	5.1%	4.9%	3.7%	3.9%	4.0%
Ordinary profit	866	1,197	1,255	1,115	656	1,384
YoY	28.7%	38.2%	4.8%	-11.2%	17.2%	24.2%
Profit attributable to owner of parent	492	743	815	730	426	871
YoY	18.4%	50.9%	9.6%	-10.5%	26.6%	19.4%
EPS after adjustment for stock split (¥)	61.20	80.71	88.01	78.36	45.65	93.35
Dividend after adjustment for stock split (¥)	10.75	12.00	13.20	13.80	5.00	14.00
BPS after adjustment for stock split (¥)	381.91	449.40	516.28	580.47	-	-

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

Simplified balance sheets

(¥mn)

	End-FY6/15	End-FY6/16	End-FY6/17	End-FY6/18	End-FY6/19
Current assets	4,134	4,912	5,889	7,212	8,247
Cash and time deposits	974	1,380	1,416	1,463	1,412
Accounts receivable - trade	207	155	121	148	217
Non-current assets	2,819	3,002	3,464	4,100	6,425
Property, plant and equipment	1,791	2,030	2,558	3,121	5,228
Intangible assets	638	561	483	390	428
Investments and other assets	389	410	422	588	768
Total assets	6,954	7,914	9,354	11,312	14,673
Current liabilities	3,792	3,849	4,399	5,215	7,492
Accounts payable - trade	1,531	1,595	1,927	2,143	2,532
Short-term loans payable	1,180	880	1,051	1,439	2,986
Non-current liabilities	826	545	812	1,302	1,759
Long-term loans payable	732	452	672	1,113	1,442
Shareholders' equity	2,335	3,520	4,142	4,793	5,421
Capital stock	168	168	168	193	203
Capital surplus	689	1,101	1,101	1,126	1,136
Retained earnings	1,812	2,305	2,927	3,608	4,215
Total net assets	2,335	3,519	4,142	4,793	5,421
Total liabilities and net assets	6,954	7,914	9,354	11,312	14,673

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

Statements of cash flows

(¥mn)

	FY6/15	FY6/16	FY6/17	FY6/18	FY6/19
Cash flows from operating activities	-115	562	441	-161	57
Cash flows from investing activities	-178	-266	-672	-454	-1,881
Cash flows from financing activities	292	109	267	663	1,772
Net increase (decrease) in cash and cash equivalents	-1	405	36	47	-51
Cash and cash equivalents at beginning of period	976	974	1,380	1,416	1,463
Cash and cash equivalents at end of period	974	1,380	1,416	1,463	1,412

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

(2) Status of dealership changes

In FY6/19, the Company opened 4 new dealerships (organic openings by the Company) and acquired 2 dealerships through a business takeover. Therefore, at the end of the period, it had 32 dealerships, an increase of 6 from the 26 dealerships at the end of June 2018. It also renovated, and relocated and renovated, 4 existing dealerships.

List of Dealerships (as of June 30, 2019)

Operating Company Name		Dealership Name	Changes in FY6/19
CHECKER MOTORS CORPORATION	1	FIAT/ABARTH Den-en-chofu	Renovated in January 2019
	2	FIAT/ABARTH Ikebukuro	
	3	Alfa Romeo Setagaya, FIAT/ABARTH Setagaya	
	4	Alfa Romeo/FIAT/ABARTH Fujisawa Shonan, JEEP Fujisawa Shonan	
	5	Alfa Romeo Ota, Alfa Romeo/FIAT/ABARTH Den-en-chofu Service	
	6	JEEP Setagaya	
	7	JEEP Fukuoka	
	8	JEEP Fukuoka-Nishi	
	9	JEEP Kurume	
	10	JEEP Kitakyushu	Renovated in January 2019
	11	JEEP Meguro	Newly opened in November 2018
	12	Jaguar/Land Rover Shonan Shonan Showroom	
	13	Jaguar/Land Rover Shonan Approved Hiratsuka	
	14	Jaguar/Land Rover Shonan Service center	
	15	Jaguar/Land Rover Kitakyushu	
	16	Jaguar/Land Rover Mitaka	Acquired in April 2019
Willplus Motoren Corporation	17	Willplus BMW Kokura, BMW Premium Selection Kokura, Willplus BMW Kokura Service center, MINI Kokura Service center	
	18	Willplus BMW Yahata, BMW Premium Selection Yahata, Willplus BMW Yahata Service center, MINI NEXT Yahata	
	19	MINI Kokura, MINI NEXT Kokura	
	20	MINI Fukuoka-Nishi, MINI NEXT Fukuoka-Nishi, MINI Fukuoka-Nishi Service center	
	21	MINI Hakata, MINI NEXT Hakata, MINI Hakata Service center	
	22	MINI Shinjuku	
	23	MINI Shinjuku Service center	
	24	MINI Yamaguchi	Newly opened in March 2019
	25	MINI NEXT Shunan	Newly opened in March 2019
Teio Auto Corporation	26	VOLVO Car Fukuoka	
	27	VOLVO Car Fukuoka-Minami	
	28	VOLVO Cars Kurume	Relocated and renovated in January 2019
	29	VOLVO Cars Kitakyushu	Relocated and renovated in January 2019
	30	VOLVO Cars Odawara	
Willplus Eins Corporation	31	Porsche Center Sendai	Acquired in December 2018
	32	Porsche Center Koriyama	Newly opened in January 2019

Source: Prepared by FISCO from Company materials

In the dealership changes in FY6/19, the main points to focus on are as follows.

The subsidiary Willplus Eins started an authorized dealership business for Porsche of Germany in the Tohoku region. In December 2018, it took over the management of Porsche Center Sendai through a business takeover. After that, in January 2019 it newly opened Porsche Center Koriyama (Fukushima Prefecture). Through these two dealerships, the Company’s commercial area now covers all of the six Tohoku prefectures.

The subsidiary Willplus Motoren newly opened two dealerships, MINI Yamaguchi and MINI NEXT Shunan, in Yamaguchi Prefecture in March 2019. This was the Company’s first entry into the Chugoku region.

At the subsidiary CHECKER MOTORS, sales continue to be strong for the Jaguar/Land Rover brand, which it began handling in March 2018, while it took over the Jaguar/Land Rover Mitaka business in April 2019. Through this, it has a structure in place for the management of five Jaguar/Land Rover dealerships in one metropolitan area and two prefectures.

Net sales are forecast to increase, including due to the rise in new car sales at the existing dealerships. Profits are expected to rise significantly YoY as dealership opening costs and other costs will be kept down.

2. FY6/20 outlook

(1) Overview of the results forecasts

For FY6/20, the Company forecasts double-digit increase in both sales and profits, with net sales at ¥34,639mn (up 16.0% YoY), operating profit at ¥1,393mn (up 24.6%), ordinary profit at ¥1,384mn (up 24.2%), and profit attributable to owners of parent at ¥871mn (up 19.4%).

Overview of FY6/20 forecast

(¥mn)

	FY6/19		FY6/20		
	1H	Full year	1H forecast	Full-year forecast	YoY
Net sales	13,677	29,860	16,731	34,639	16.0%
Operating profit	565	1,118	660	1,393	24.6%
Operating profit margin	4.1%	3.7%	3.9%	4.0%	-
Ordinary profit	559	1,115	656	1,384	24.2%
Profit attributable to owner of parent	336	730	426	871	19.4%

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

Net sales are forecast to increase 16.0% YoY (¥4,779mn). The Company does not disclose a detailed breakdown, but it has not incorporated an increase in the number of dealerships during FY6/20 (including openings of new dealership and business takeovers). It expects to achieve the above-described sales increase from the rise in new car sales, mainly of new models, the full fiscal year contributions of the dealerships opened during FY6/19 (including newly opened dealerships and business takeovers) and the steady accumulation of earnings in the recurring revenue-based businesses.

On the other hand, in profits, operating profit is forecast to increase 24.6% YoY (¥274mn). As described above, one main factor will be the growth of new car sales that have a high cost ratio in net sales, so the gross profit margin may further decrease compared to FY6/19. However, for FY6/20, neither newly opened dealerships nor business takeovers have been incorporated into the forecasts, and therefore the outlook is that the items including various costs associated with dealership openings and acquisitions, personnel expenses alongside the rise in the number of dealerships, and depreciation expenses of dealership equipment posted in FY6/19, will be kept down. It seems that this forms the basis for the forecast of an increase in profits.

(2) Investment in dealerships

The Company does not currently plan to open new dealerships in FY6/20 (including both its own openings and business takeovers), but its policy is to actively invest in the existing dealerships. In terms of the specific details, this will include CI (corporate identity) changes and relocations. For the CI changes, the Company manages 10 brands and the likelihood that any of these brands will undergo CI has become much higher. Costs will increase to respond to the CI changes, but the Company is aiming to be compliant with the latest CI and to provide consumers with a variety of retail experiences for each brand. For relocations also, it will mainly focus on relocations to prime locations with excellent visibility and convenience. Alongside these measures, it is aiming to increase the numbers of new customers and repeaters through improving customer satisfaction, which it intends will lead to earnings growth and improved management efficiency.

Active investment in dealerships

Source: The Company's results briefing materials

New car sales, which are expected to play the driving role behind the higher sales in FY6/20, is itself a business with a high cost rate. But there is also no doubt that it is a highly appealing business when viewed comprehensively to include sources of earnings such as vehicle maintenance and insurance subscriptions. Imported cars have high prices, so when purchasing a new car, in many cases the consumer additionally purchases voluntary insurance and ancillary services. For vehicle maintenance, as previously explained we are heading in the direction of dealer maintenance becoming the standard. From this situation, at FISCO we think that if the Company can grow new car sales, it will also steadily generate profits.

New car sales also lead to the growth of used car sales and auto auction sales through the trade-ins of the cars owned by the customer, so expectations are also rising for increases in profits from these businesses.

(3) New models

There are two types of new models that will affect new car sales in FY6/20; the models launched in FY6/19 and the models scheduled to be launched during FY6/20.

The models launched during FY6/19 and whose sales are expected to grow in FY6/20 are Wrangler by JEEP and the BMW 3 Series. Wrangler was introduced into Japan in the fall of 2018 and there was an overwhelming rush of orders in Japan. However, it was also very popular in its home country (the United States), so shipments to Japan were delayed, which meant that there was a very large number of backlog orders at the stage of the spring of 2019. The situation is the same in the Company itself, with many orders made in the previous fiscal period remaining undelivered. These cars are expected to be delivered (to be recorded as sales from the Company's perspective) in FY6/20. The 3 Series was launched in March 2019, so FY6/20 substantially corresponds to its first year and its sales are expected to increase.

The new models expected to be launched in FY6/20 include Land Rover's EVOQUE, BMW's 1 Series and X7, Volvo's S60, and Porsche's 911. Many are their respective brand's flagship models, and in terms of timing also, they will mainly be launched during the Company's 1H, so they are expected to contribute to an increase in new car sales in FY6/20.

Medium- to long-term growth strategy

Pursuing medium- to long-term growth with three growth strategies: the multi-brand strategy, the dominant strategy, and the M&A strategy

1. Overview of the growth strategies

Toward realizing sustainable growth, the Company is working on the axes of three growth strategies; 1) the multi-brand strategy, 2) the dominant strategy, and 3) the M&A strategy. It has consistently implemented this approach since the past. The details and the strengths of the Company's strategies are described in the report dated April 24, 2019, although an overview is provided below.

The multi-brand strategy aims to achieve stable growth by carrying multiple brands to level out the fluctuations in earnings caused by the differences in the timing of the launches of models and the end periods of models.

The dominant strategy refers to the strategy of opening dealerships in a concentrated manner in specific areas. However, this is not easy for an imported car dealer to do because of the expansive size of the commercial area per dealership and the existence of the area franchise system. The Company is combining this with its multi-brand strategy to realize dominance as a corporate group that covers multiple brands. Currently, it is opening dealerships in a dominant manner in the Fukuoka area and the Tokyo/Kanagawa area, which is creating effects on the points of follow-ups with customers and the mobilization and the optimal allocation of human resources.

The M&A strategy involves actively utilizing M&A (acquiring dealerships and businesses) as a method to expand business scope. Expanding business scope entails entering-into new areas, acquiring newly handled brands (progressing the multi-brand strategy), and increasing the number of dealerships.

The hurdles to opening one's own dealerships become higher each year and increasing the number of dealerships is an issue.

2. Issues faced

At the current time, the Company is also faced with the issue of the difficulty in increasing the number of dealerships. There are two major patterns for increasing dealerships; openings by the Company itself and M&A (acquisitions of businesses and dealerships). Their respective situations are different, but the FY6/20 results forecasts do not incorporate an increase in dealerships by either method.

When the number of dealerships does not increase in an certain period (period X), looking only at that period (period X), the various costs of opening dealerships will decrease compared to in the previous period (X-1 period), which can be expected to push-up profits. However, in the next period (X+1 period), an increase in sales will depend only on the existing dealerships, weakening the foundations for earnings growth. If new dealerships are opened in the X+1 period, dealership-openings costs will be incurred in advance, which may put downward pressure on profits. In other words, profit fluctuations become larger in each year. As previously mentioned, it is possible that FY6/20 corresponds to this X period.

Among the two forms of opening dealerships, opening new dealerships (the Company's own openings) and acquiring them through M&A, the Company is only able to control those it opens itself. But currently, the situation for these openings is extremely severe.

In terms of the reasons why opening one's own dealerships is difficult, there are several overlapping elements. The first element is the area franchise system for the imported car dealer business managed by the Company. Due to this area franchise system, it cannot freely open dealerships.

The second element is that, even supposing that the Company has found an area in which an opening is possible, it is difficult to secure a site suitable for opening a dealership. As it is a business in which consumers are the other party, having excellent visibility and convenience are important elements, and naturally such locations are sought after not only by auto-dealers (regardless of whether for domestically produced or imported cars), but also by businesses in other industries (such as restaurants), and competition for them is intense.

The third element is the increase in dealership opening costs. After its foundation, for a while the Company leased dealership sites as is (furnished buildings) from dealers of domestically produced cars, and in this way, it expanded its dealership network while keeping down dealership-opening costs to a low level. But whether in the past or currently, there have not been many dealership openings for which it was able to lease sites as is. Previously, when its business scope was small and also before its shares were listed, the sense of speed of management and growth were different than they are today. Today, as a listed company whose business scope has also grown to another level, it is difficult for the Company to continue to wait for the appearance of buildings it can lease as is, so it mainly leases the land and then constructs the buildings itself.

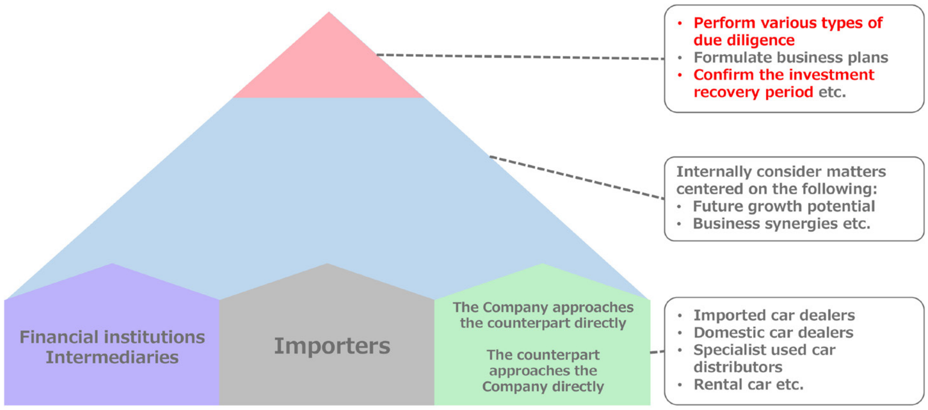
The Company is expected to utilize its strengths to realize its growth strategies, centered on the M&A strategy

3. Growth through the M&A strategy and differentiation

Looking at the current situation in which, as previously explained, the hurdles to opening one's own dealerships are high, there may be the sense that the Company's growth scenario is not proceeding according to plan and that its growth story has reached a turning point. But at FISCO, we absolutely do not think that this is the case.

In view of the circumstances surrounding openings of one's own dealerships, it is considered that increasing the number of the Company's dealerships in the future, or in other words, realizing earnings growth, will be mainly focused on M&A. Sourcing M&A proposals (discovering candidates for M&A) is the most important and the most difficult task. On this point, the Company has the advantages of reliability as a listed company, a track record of earnings growth, thorough implementation of governance and compliance management, experience of conducting M&A in the past (such as dealing with the issue of employing the employees of the acquired company, and post-acquisition management performance). Therefore, it has established high levels of trust with financial companies, M&A brokerage companies, industry peers, and others. Due to this trust, the situation is that the Company is constantly brought M&A proposals from these related parties.

Image of the process, from finding the M&A proposal to its completion



Source: The Company's results briefing materials

In terms of profitability after the dealership openings also, at FISCO we think that currently M&A is the more advantageous approach. In the case of own-dealership openings, there are the usual opening costs, such as for vehicle inventory investment and demo cars, and the depreciation expenses of the dealership's equipment. But in addition, there are also other burdens, like constructing buildings (compared to an opening in which buildings are leased as is), so in terms of the dealership's profit or loss, it is highly likely that it will record a loss in its first year of opening. In contrast to this, in the case of an opening from an M&A, it is possible to secure profits in the first year, depending on the amount of money involved. Speaking further, in an own-dealership opening, the relevant dealership must build its customer base from zero, but an acquisition through an M&A has the advantage of being able to continue with the existing customers.

In this way, M&A is one growth strategy, and the Company has firmly established the foundation of "trust" on which to implement it. Therefore, at FISCO we think that progressing an M&A strategy based on the current business environment is a shortcut to realizing growth.

Conversely, there are some points to be aware of. First is the point that M&A are difficult to control as they require a partner. The second point to be aware of is that it is a financial strategy. Questions the Company must answer are how to raise the funds for the M&A, how far can it expand through M&A, and how to achieve a balance with realizing a high level of ROE, which it has positioned as an important management target.

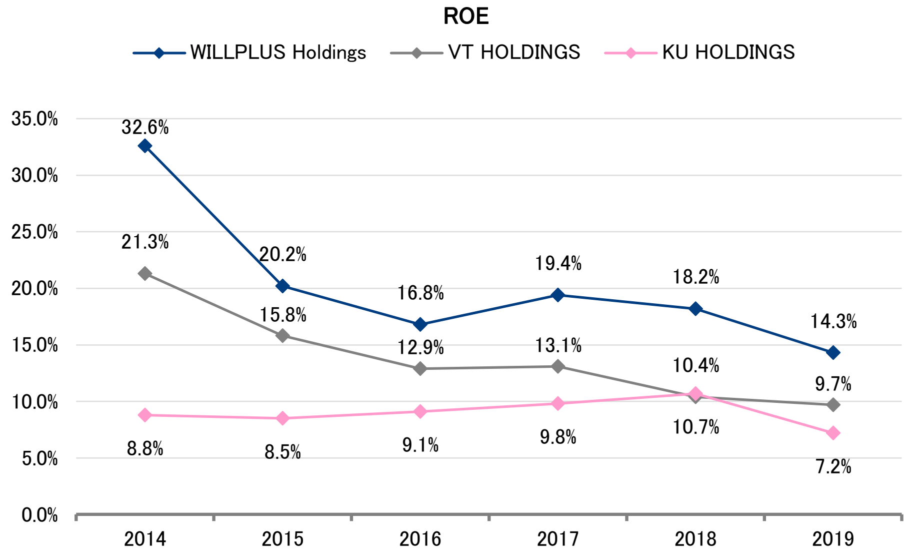
On the second point, there are no "correct answers" and rather they are issues in the area of management judgments. Also, what is the best management judgment will change depending on the details of the M&A facing it. Therefore, to ensure the Company steadily obtains opportunities in the future, it is enhancing the quality of management on a daily basis and cultivating a strong corporate constitution. At the current time, it is not planning any own-dealership openings or M&A in FY6/20, and instead it is positioning it as year to further strengthen footholds. As previously stated, the results forecasts indicate that sales and profits will increase, but rather than these surface-level numerical values, what would seem to be the more important points to ascertain include the Company's existing dealerships' ability to grow sales, its ability to expand the recurring revenue-based businesses, and above all, the potential strength of the operating profit margin when there are no dealership-openings costs.

Maintaining ROE at a level above the 10% management target. Fully capable of achieving high ROE management even when adopting an M&A strategy, but it will be necessary to pay attention to excessive financial leverage.

4. ROE Analysis

(1) The current situation

The Company employs ROE as a management assessment indicator, and as discussed above, the Company aims to achieve a high ROE along with growth in operating performance (net sales, profits). In terms of an ROE target, the Company aims for the highest ROE possible, while setting 10% as the absolute lowest acceptable value. In the FY6/19 results, the Company's ROE was 14.3%. This is down from 18.2% in FY6/18, but it is still maintaining it at a high level above the levels of VT HOLDINGS <7593> and KU HOLDINGS CO <9856>, both of which are engaged in an authorized dealer business for imported cars the same as the Company.



Note: The fiscal year ends in June for WILLPLUS Holding and in March for other two companies
Source: Prepared by FISCO from the Company's financial results

The Company is maintaining its previous superiority in the comparison of ROE with other companies, but on looking at the Company's trend, we find ROE is trending downward. We will attempt to analyze the factors behind this decline.

ROE is comprised of ROA (the ratio of ordinary profit to total assets) and financial leverage (total assets divided by shareholders' equity). (Strictly speaking, a third element of "net income/ordinary profit" is added in order to convert from ordinary profit to net income.) Looking at performance in FY6/19, the ROE of 14.3% was made up of ROA of 8.6%, financial leverage of 2.54x, and a net income to ordinary profit ratio of 65.5%.

The point to focus on is ROA. It declined from 12.1% in FY6/18 to 29%. On the other hand, financial leverage rose from 2.31x to 2.54x (it is a factor pushing-up ROE), but the structure is that ROE, which is greatly affected by a decline in ROA, declined to 22% from the previous fiscal period.

ROA can be broken down into the ordinary profit margin and the total asset turnover ratio. Looking at how they changed from FY6/18 to FY6/19, the ordinary profit margin fell from 4.9% to 3.7% and the total asset turnover ratio declined from 2.49x to 2.30x. In terms of the degree, the impact of the decline in the ordinary profit margin is larger.

Looking back again on FY6/19, net sales were above the Company's initial forecast. So in this sense, it seems that we can evaluate that there are no problems with net sales. On the other hand, on looking at the factors causing total assets to increase, the increase in tangible non-current assets (up 67.5%, or ¥2,107mn, from the end of the previous fiscal period) constituted 63% of the increase in total assets (up 29.7%, or ¥3,361mn, on the end of the previous fiscal period), and it was clearly the main reason for the increase in total assets. On looking at the details of this increase in tangible non-current assets, we see that the increases in "buildings and structures" and "machinery and transportation equipment" were large. This indicates changes to the opening format when the Company opens its own dealerships, shifting from leasing buildings as-is to newly constructed dealership buildings.

The decline in the ordinary profit margin was mainly due to the factors keeping down profits previously explained in the results trends section; namely, the rise in depreciation expenses alongside the increase in demo cars and new acquisitions, such as dealership equipment; the higher personnel expenses alongside the increase in the number of dealerships; and the increase in various costs associated with the openings of new dealerships and renovations.

ROE Analysis Table

			WILLPLUS Holdings		VT HOLDINGS		KU HOLDINGS	
			FY6/17	FY6/18	FY3/17	FY3/18	FY3/17	FY3/18
Key values	Net sales	¥mn	25,770	29,860	202,133	218,634	88,068	97,297
	SG&A expenses	¥mn	4,174	4,909	26,992	28,587	11,063	12,318
	Operating profit	¥mn	1,261	1,118	6,780	6,130	5,821	5,767
	Ordinary profit	¥mn	1,255	1,115	7,173	6,385	5,927	5,923
	Profit attributable to owners of parent	¥mn	815	730	3,765	2,674	4,116	3,989
	Total assets	¥mn	11,312	14,673	136,757	133,680	59,513	64,478
	Equity	¥mn	4,793	5,421	37,426	37,370	39,951	42,681
	Interest-bearing debt	¥mn	2,552	4,429	29,649	29,649	8,957	8,957
	Depreciation expense	¥mn	634	894	6,591	7,323	1,465	1,738
	EBITDA	¥mn	1,910	2,013	13,371	13,453	7,286	7,505
Profitability / efficiency	ROE	%	18.2%	14.3%	10.4%	7.2%	10.7%	9.7%
	ROA	%	12.1%	8.6%	5.6%	4.7%	10.4%	9.6%
	Financial leverage	(Times)	2.31	2.54	3.57	3.61	1.48	1.5
	Net profit/ordinary profit ratio	%	65.0%	65.5%	52.5%	41.9%	69.4%	67.3%
	Asset turnover ratio (Times/year)	Times/year	2.49	2.30	1.57	1.62	1.55	1.57
	Ordinary profit margin	%	4.9%	3.7%	3.5%	2.9%	6.7%	6.1%
	Gross profit margin	%	21.1%	20.2%	16.7%	15.9%	19.2%	18.6%
	SG&A margin	%	16.2%	16.4%	13.4%	13.1%	12.6%	12.7%
	Operating profit margin	%	4.9%	3.7%	3.4%	2.8%	6.6%	5.9%
	EBITDA margin	%	7.4%	6.7%	6.6%	6.2%	8.3%	7.7%

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

(2) M&A strategy and high ROE management

As explained above, it is considered that the relative weight of M&A will grow larger for openings of dealerships in the future. It is not possible to generalize about whether acquiring dealerships through M&A or opening one's own dealerships is preferable toward realizing high ROE. But as previously mentioned, profits can be obtained from the first year when acquiring dealerships through M&A, depending on the amount of money involved. So at FISCO, we think that acquiring dealerships through M&A will for the time being have positive effects in terms of realizing high ROE (as previously mentioned, it was noted that currently in the Company's case, the flow of "rise in the ordinary profit margin improvement in ROA → improvement in ROE" has the largest impact).

Fund raising is also an important point for conducting M&A. The demand for funds also occurs when opening one's own dealerships, but in this case, the Company can control the pace of dealership openings and the investment amount. In contrast, in the case of an M&A (regardless of whether undervalued or overvalued), it is possible that demand for funds required for it will instantly swell temporarily, depending on the scale of the other party.

In FY6/19, the Company's financial leverage (total assets divided by shareholders' equity, with the average of the period-start and period-end values being used) increased from 2.31x in FY6/18 to 2.54x. In the relationship with ROE, an increase in the financial leverage works in the direction of pushing-up ROE and is not necessarily a bad thing. However, when we remember that financial leverage is the reciprocal value of the equity ratio, we understand that it should not be increased in an unregulated manner. Compared to other companies. the level of the Company's financial leverage is right in the middle of those of VT HOLDINGS and KU HOLDINGS.

To conclude from the above, as part of its growth strategy, the Company is shifting to an M&A strategy that can be expected to have a positive effect on ROE (although ultimately it will depend on the price of the proposal). However, it is necessary to be aware of scale. Proposals that invite excessive financial leverage (in other words, a rapid deterioration in the equity ratio) should be avoided, and one standard is for it to maintain its current position, placing in the middle in the comparison with other companies. At FISCO, we think it is reasonable for the Company to search for M&A proposals that can be realized within this range.

Shareholder returns

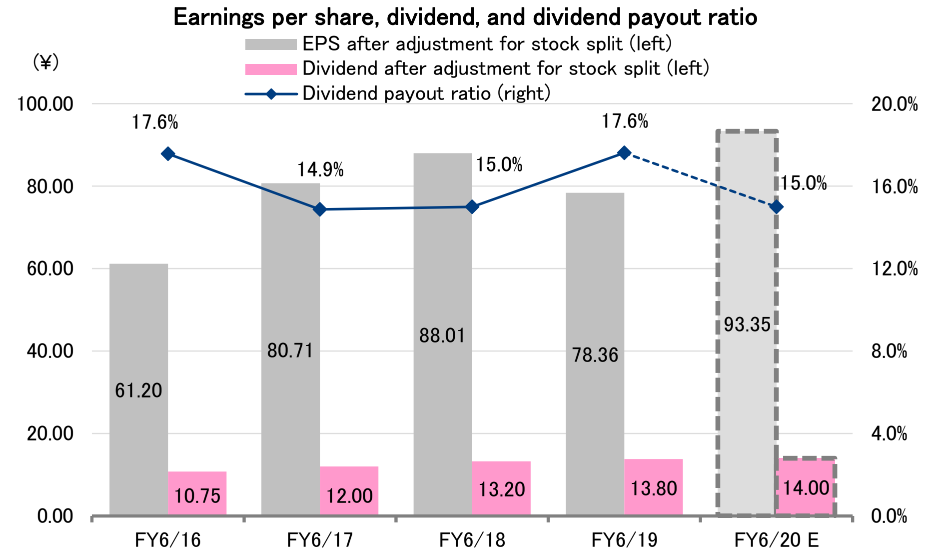
Plans to increase dividend by ¥0.2 YoY to ¥14.0 in FY6/20

The Company has positioned shareholder returns as important management issue, and the basic policy is to maintain stable dividends while keeping a balance with internal reserves targeting increased corporate value. The Company has a target dividend payout ratio of around 15%.

For FY6/19, the Company paid an annual dividend of ¥13.8 per share (interim dividend = ¥5.0; year-end dividend = ¥8.8), an increase of ¥0.6 per share from ¥13.2 per share in FY6/18 and the dividend payout ratio was 17.6%.

The Company has announced that its forecast annual dividend for FY6/20 is ¥14.0 per share (interim dividend = ¥5.0; year-end dividend = ¥9.0), an increase of ¥0.2 YoY. This would result in a dividend payout ratio of 15.0%, based on net income of ¥93.35 per share.

Shareholder returns



Note: The Company conducted a 2-for-1 stock split of common shares with an effective date of April 1, 2017 and November 1. 2017.
Dividends per share in the past have been retroactively adjusted.
Source: Prepared by FISCO from the Company's financial results

Disclaimer

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