COMPANY RESEARCH AND ANALYSIS REPORT

WILLPLUS Holdings Corporation

3538

Tokyo Stock Exchange First Section

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Index

Summary

Achieved major increases in sales and profits in 1H FY6/20 as the investment-recovery period

1. Company profile

WILLPLUS Holdings Corporation <3538> (hereafter, also "the Company") is a pure holding company with four consolidated subsidiaries that are engaged in sales of imported cars. They sell 10 brands, including JEEP, FIAT, BMW, MINI, VOLVO, and Porsche, through authorized dealerships. The Company manages 32 dealerships, starting with in Fukuoka Prefecture, where its business originated, as well as in areas including Tokyo and Kanagawa Prefecture. Also, as its growth strategies, it is developing a multi-brand strategy, a dominant strategy, and an M&A strategy.

The Company is investing in existing dealerships to respond to corporate identify (CI) changes, to relocate to prime locations, and to improve management efficiency, while at the same time, it is investing in new dealerships to expand commercial areas, to complement existing areas, and to expand the business scope of existing brands. Moreover, through M&A, it intends to enter-into new areas, acquire new brands, and increase its market shares of existing brands. As the M&A take the form of acquiring the businesses of other authorized dealers, it is difficult to incorporate the numerical values related to them in advance into business plans. To respond in an agile manner at the time an M&A proposal occurs, investment waves can occur that affect the Company's short-term earnings, but at FISCO, we think that it can maintain its medium- to long-term growth trend.

In FY6/18 dealership investment, for the year there was 1 dealership from a new opening, 1 dealership from a business takeover, and 3 dealerships from renovations, and renovations and relocations. But in FY6/19, this was expanded to 4 dealerships from new openings, 2 dealerships from business transfers, and 4 dealerships from renovations, and renovations and relocations. The number of dealerships in this fiscal year increased by 6, compared to an increase of 2 dealerships in FY6/18.

2. Overview of 1H FY6/20

In 1H FY6/20, sales and profits increased significantly, with net sales rising 31.5% year-on-year (YoY) and operating profit growing 32.4% due to full contribution of the dealerships added in the previous fiscal year. The results were also strong compared to the initial forecasts, with net sales 7.5% above forecast and operating profit 13.3% above forecast. Dealership openings in FY6/20 are as follows; in the 1H, 1 dealership from the opening of a renovated MINI dealership, and 1 dealership from a new opening specializing in used imported cars, which is the Company Group's first dealership; and in 3Q, 1 dealership from a newly constructed and relocated MINI dealership opening. Also, in the Fukuoka and neighboring area, it is implementing a MINI dominant strategy and has increased its presence in this area.

3. FY6/20 outlook

For the FY6/20 full fiscal year outlook, the Company has left the initial forecasts unchanged, of net sales to increase 16.0% YoY and operating profit to rise 24.6%.To a certain extent the forecasts incorporate the impact of the consumption tax hike implemented in October 2019, but there have been unexpected factors, like the spread of the new coronavirus infection. However, if the initial forecasts unchanged, other revenue from vehicle maintenance and automobile insurance fees, which is a recurring revenue-based business in which revenue accumulates according to car sales, will decline more in the 2H than the 1H. The product inventory accumulated up to the end of 1H will become delivered vehicles in the 2H, so it might be said that the full fiscal year forecasts are conservative.

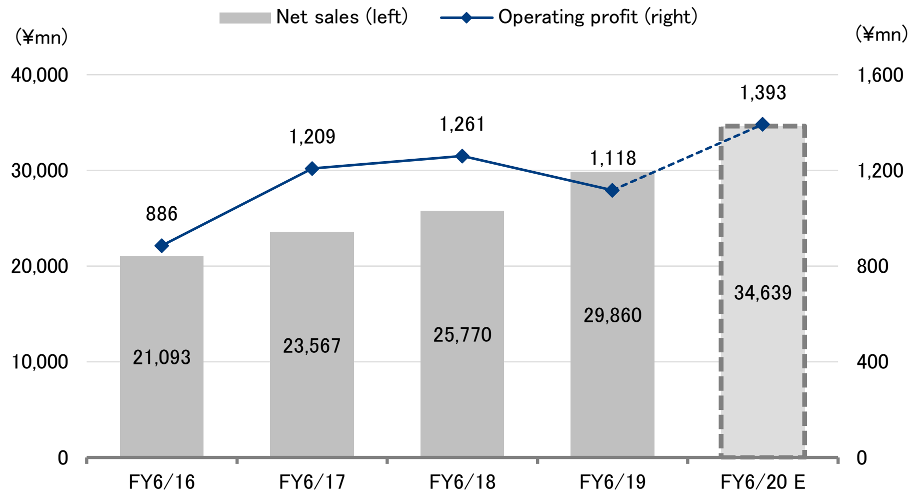
4. Business strategies

As new car sales are not expected to increase significantly, consolidation into the major companies is expected in the automotive-sales industry. The burden placed on authorized dealers is becoming heavier, such as for dealership renovations to comply with new CI, relocations to prime locations, the increase in demo cars, and the rise in stock on hand to realize shorter delivery times. It is becoming increasingly difficult to manage a small-scale business with only one brand that is affected by the wave of model cycles. Therefore, as the buyer side, the Company is adopting a strategy of continuing to conduct M&A in the future to realize medium- to long-term growth.

Key Points

- Developing a multi-brand strategy, a dominant strategy, and an M&A strategy as its growth strategies
- In 1H FY6/20, operating profit increased 32.4% YoY and was 13.3% above forecast
- Based on the 1H FY6/20 results, the FY6/20 full fiscal year forecasts are slightly conservative

Performance trends



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

Company profile

Handles 10 brands of overseas vehicle manufacturers at 32 dealerships

1. Company profile

The Company is a pure holding company with four consolidated subsidiaries engaged in sales of imported cars sales. Its 32 dealerships within Japan sell the 10 main brands of Alfa Romeo, FIAT, ABARTH, JEEP, Jaguar, Land Rover, BMW, MINI, VOLVO, and Porsche. Also, its dealerships are located in Miyagi Prefecture, Fukushima Prefecture, Tokyo, Kanagawa Prefecture, Yamaguchi Prefecture, and Fukuoka Prefecture.

From its corporate philosophy of “The joy of + in the future,” the Company’s name is derived from “providing the future together with imported cars (=WILL) and continuing to take on the challenge of being able to propose a ‘joyful life’ to everyone involved (=PLUS).”

The Company actively opened dealerships in the three-year period from FY6/17 to FY6/19, with 6 dealerships from new openings, 11 dealerships from renovations, and renovations and relocations, and 4 dealerships from business takeovers. The compound annual growth rates (CAGR) in the three-year period from FY6/16 to FY6/19 were 12.3% for net sales and 8.0% for operating profit. Operating profit fell in FY6/19 due to the increase in upfront investment, but it is forecast to increase 24.6% YoY in FY6/20.

2. History

In 1997, the father of Takaaki Naruse, the current President, established Sunflower CJ in Kitakyushu City, Fukuoka Prefecture. Soon thereafter, Sunflower CJ acquired a Chrysler (U.S.) dealership and began operating as an official Chrysler dealer. After engaging in new and used car sales, Takaaki Naruse acquired all the shares of Fukuoka Chrysler in October 2004 and became independent. He then opened a dealership in Ota Ward, Tokyo in 2005, and entered-into Tokyo. After that, in 2007 he established WILLPLUS Holdings Corporation.

For its stock-market listing, the Company was listed on the Tokyo Stock Exchange (TSE) JASDAQ (standard) market in March 2016, which was changed to the TSE 2nd Section in September 2017, and then upgraded to the TSE 1st Section in February 2018.

Through actively conducting M&A, the Company acquired imported cars sales rights and commercial areas for the leading brands, and at the same time, it rapidly expanded its dealership network through new dealership openings. In 2008, it made CHECKER MOTORS CORPORATION a wholly owned subsidiary, starting handling FIAT and Alfa Romeo, and made a fully-fledged entry into the Kanto area. In 2009, it acquired 2 JEEP dealerships in the Metropolitan Tokyo area and 5 BMW and MINI dealerships through business takeovers, and in 2014, it made a wholly owned subsidiary of Teio Auto Corporation, which sells VOLVO vehicles. Also in 2017, it established Willplus Eins Corporation, which took over the business of Porsche Center Sendai in 2018, thereby handling Porsche and entering-into the Tohoku area for the first time.

History

Date	Business change	Brand development	Commercial area expansion
October 2007	Established WILLPLUS Holdings Corporation		
July 2008	Converted CHECKER MOTORS CORPORATION into a wholly-owned subsidiary	Began handling FIAT/ Alfa Romeo vehicles	Fully fledged entry into the Kanto area
July 2009	Took over 2 directly managed dealerships from Chrysler Japan Co., Ltd.		
September 2009	Willplus Motoren Corporation took over the businesses of 5 dealerships	Began handling BMW and MINI vehicles	
April 2014	Converted Teio Auto Corporation into a wholly-owned subsidiary	Began handling VOLVO vehicles	
November 2017	Established Willplus Eins Corporation		
April 2018	Took over the Jaguar/Land Rover Shonan business	Began handling Jaguar/ Land Rover vehicles	
December 2018	Took over the Porsche Center Sendai business	Began handling the Porsche brand	Entered-into the Tohoku area for the first time
March 2019	Opened the new MINI Yamaguchi and MINI NEXT Shunan dealerships		Entered the Chugoku area for the first time
April 2019	Took over the Jaguar/Land Rover Mitaka business		

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

As of the end of 1H FY6/20, the Company Group is managing 32 dealerships. Breaking them down according to the consolidated subsidiary managing them, CHECKER MOTORS, which handles Alfa Romeo, FIAT, ABARTH, JEEP, Jaguar, and Land Rover, is managing 17 dealerships; Willplus Motoren Corporation, which handles BMW and MINI, is managing 9 dealerships; Teio Auto, which handles VOLVO, is managing 4 dealerships; and Willplus Eins, which handles Porsche, is managing 2 dealerships.

List of Operating Companies

Name	CHECKER MOTORS CORPORATION	Willplus Motoren Corporation	Teio Auto Corporation	Willplus Eins Corporation
Number of dealerships (as of December 31, 2019)	17	9	4	2
Importers	FCA Japan Limited Jaguar Land Rover Japan Limited	BMW Japan Corporation	Volvo Car Japan Limited	Porsche Japan KK
Brands handled	JEEP Alfa Romeo FIAT ABARTH Jaguar Land Rover	BMW MINI	VOLVO	Porsche

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

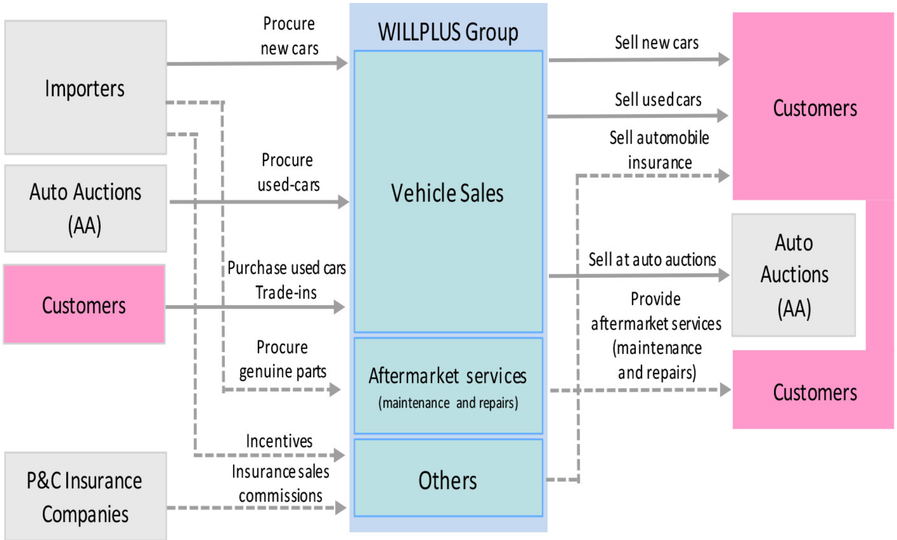
3. Description of business

(1) Business models

As an authorized dealer for the sales of imported cars, the Company purchases new cars from importers (the Japanese subsidiaries of overseas auto manufacturers), which it then sells. In terms of the details of the importers, FCA Japan Limited, which is the Japanese subsidiary of the FCA (Fiat Chrysler Automobiles N.V.) Group, handles the Alfa Romeo, FIAT, and ABARTH brands of Italy and the JEEP brand of the United States. Jaguar Land Rover Japan Limited handles Jaguar and Land Rover, and BMW Japan Corp. handles BMW and MINI. VOLVO are handled by Volvo Car Japan Limited and Porsche by Porsche Japan.

The Company purchases used cars at auto auctions and by trade-ins. Also, trade-ins of brands not handled by the Company are sold at auto auctions. In addition, alongside sales of cars, it sells automobile insurance and provides after-sales services (maintenance and repairs).

Schematic diagram of the Company Group's businesses



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

(2) Percentages of total net sales

In 1H FY6/20, the percentages of total net sales by business were that new cars provided 52.0%, used cars 21.6%, auto auction sales 9.1%, vehicle maintenance 12.5%, and others (insurance, etc.) 4.8%. In terms of profitability, the most profitable is agency commissions, which is mainly from "others." For vehicles, due to their high cost of sales ratio, the profitability of new cars is lower than that of used cars. Auto auction sales are sales of traded-in cars with brands not handled by the Company Group, and it is working to realize the maximum trade-ins to secure profits.

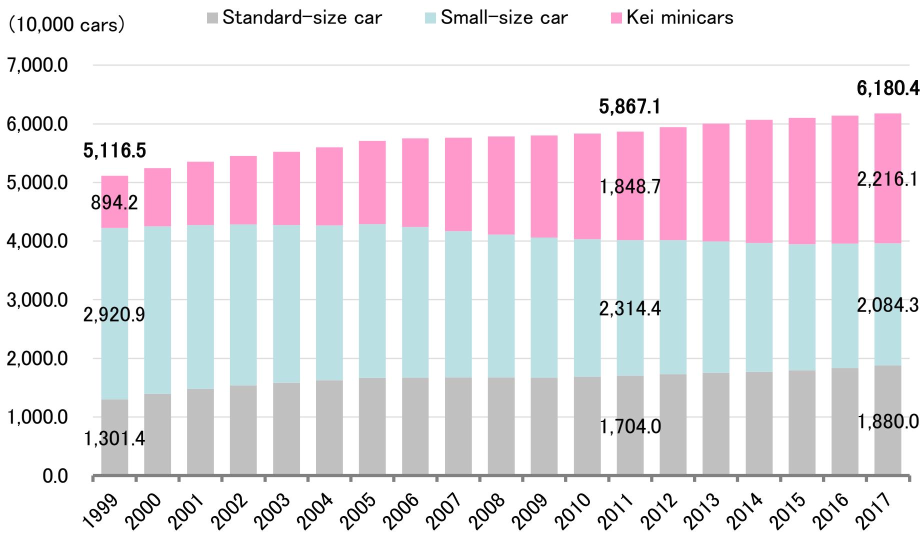
Business strategies

The Company's growth strategies are a multi-brand strategy, a dominant strategy, and an M&A strategy

1. Trends in the automotive market in Japan

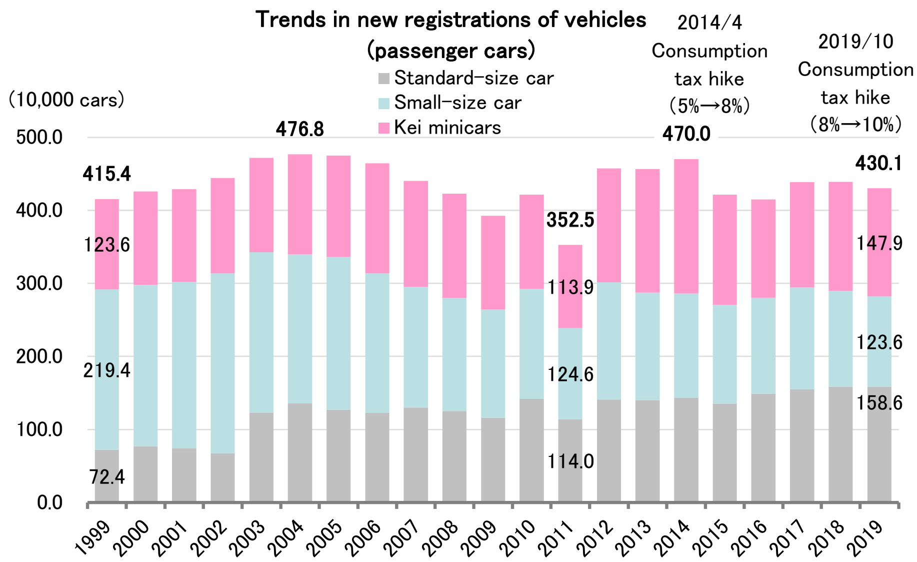
Due to the declining birthrate and aging population, the population of Japan peaked in 2008 at 128.08mn people and is now trending downward. In the estimate for February 2020, the population had declined by slightly more than 2mn people from its peak to 126.01mn people. It is considered that young people are tending not to buy a car and elderly people are giving up their driving licenses, but according to the statistics of the Japan Automobile Manufacturers Association, Inc., at the end of 2017, the number of owned passenger cars, which is the total of standard-size, small-size, and kei minicars , was 61.804mn, the highest level ever. The number of passenger cars owned at the end of 2017 had increased by 10.639mn compared to the end of 1999, and on breaking this down, standard-size cars increased by 5.786mn, small-size cars decreased by 8.366mn, and kei minicars increased by 13.219mn. In terms of the changes in the composition ratio from the end of 1999 to 2017, standard-size cars had changed from 25.4% to 30.4%, small-size cars from 57.1% to 33.7%, and kei minicars from 17.5% to 35.9%. It can be said that the purchasing behavior of consumers is polarizing and small-size cars have lost share. Also, for the kei minicar standards, the engine capacity was increased from 360cc to 550cc, and furthermore to 660cc, while the total body length was increased from 3 meters to 3.4 meters, and the total width increased from 1.3 meters to 1.48 meters. So pragmatic consumers are tending toward owning kei minicars, while people who prioritize hobbies, lifestyle, and values are tending toward owning standard-size cars.

Changes in vehicles (passenger cars) and ownership at end of period



Source: prepared by FISCO from "Automobile Statistics Monthly" (Japan Automobile Manufacturers Association, Inc.)

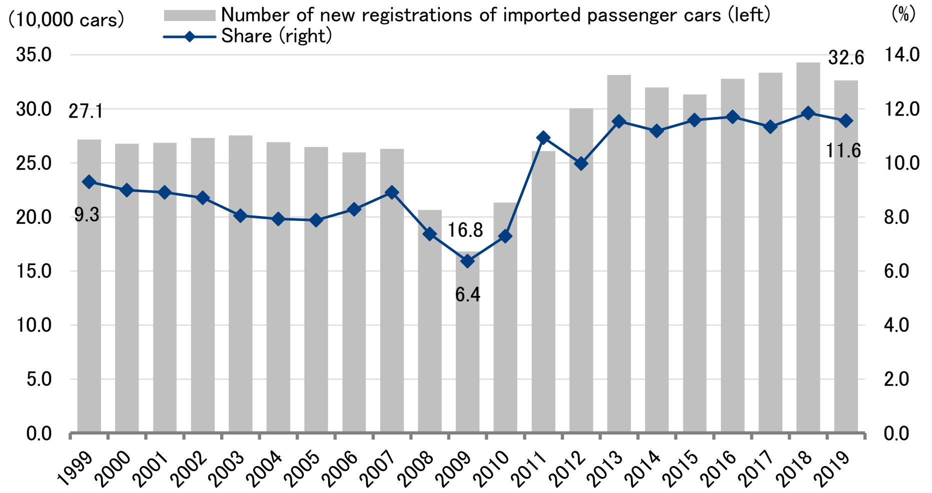
New car sales are affected by factors including the economy, interest rates, and the launch dates of new models. The number of new registrations of passenger cars peaked at 4.768mn in 2004, and registrations fell below 4mn to 3.924mn due to the impact of the Lehman Shock in 2009. In 2011 when the Great East Japan Earthquake occurred, registrations declined to as low as 3.525mn. Subsequently, they recovered to the 4mn level and were 4.301mn in 2019. Breaking down the new registrations of passenger cars, on comparing 1999 and 2019, standard-size cars trended from 17.4% to 36.9%, small-size cars from 52.8% to 28.7%, and kei minicars from 29.8% to 34.4%, so it would appear that the share of small-size cars has fallen significantly.



Source: prepared by FISCO from "Automobile Statistics Monthly" (Japan Automobile Manufacturers Association, Inc.)

The number of newly registered imported cars (overseas manufacturers) declined from 271,000 in 1999 to 168,000 in 2009 after the Lehman Shock, but subsequently recovered to 326,000 in 2019. The share of imported passenger cars of all registered cars (standard- and small-size passenger cars) not including Japan's proprietary kei minicar standard, was 9.3% in 1999, 6.4% in 2009, and 11.6% in 2019. The share of imported cars in Germany, which has the world's largest auto manufacturer VW, the luxury car brand Mercedes-Benz, and BMW, which is also a popular brand in Japan, is high at 39.2%, while in the US it is 23.2% and in Italy 73.5%. Therefore, the Company Group considers there is considerable room for the share of imported cars in Japan to grow.

Trends in the number of new registrations of imported passenger cars and their share



Note : the share of imported cars is the percentage of imported passenger cars of all registered passenger cars (not including kei minicars).
Source: prepared by FISCO from the data of the Japan Automobile Importers Association and the Japan Automobile Dealers Association

2. Growth strategies

The Company's growth strategies are (1) a multi-brand strategy, (2) a dominant strategy, and (3) an M&A strategy.

(1) Multi-brand strategy

The Company Group is adopting a multi-brand strategy and it handles 10 brands. In the past, the pattern for vehicle-model changes was a minor change after 2 years and a full model change after 4 years. But recently, the time for a full model change has lengthened to 6 to 7 years. This is because new car development has become mainly focused on exhaust gas standards and installing safety equipment, such as ADAS (Advanced Driver Assistance Systems), rather than on driving performance, and also as the interests of consumers has shifted to design, comfort, and safety, rather than fuel-efficiency competitiveness on catalogs. Although the sales-volume wave has become smaller due to this lengthening of the cycle, sales are affected by the decline in sales at the end of a model's period and the launches of new competing models. By handling 10 brands, the Company is aiming to level out the fluctuations in sales cycles caused by model changes by cancelling out the differences in the timing of the launches of new models between the brands.

In the ranking of the number of new registrations of cars of overseas manufacturers in 2019 (calendar year), all of the 10 brands that the Company handles were in the top 20. Its standards for selecting a brand are 1) the potential to become a major dealer among the brands and 2) strong brand power that can be expected to realize constant sales. The Company is targeting more than 9 brands which it does not handle. Generally, importers, which are the Japanese subsidiaries of overseas manufacturers, gives sales rights to the dealers in each area based on the dealer contract and conduct sales. However, as many areas are already filled, an M&A strategy of acquiring or taking over the businesses of existing dealers is important.

The number of new registrations of cars of overseas manufacturers (calendar year)

(unit: cars)

Ranking		Brand name	2005	2010	2015	2016	2017	2018	2019	Share
1		Mercedes-Benz	45,852	30,920	65,159	67,378	68,215	67,531	66,523	22.29%
2	*	BMW	44,980	32,426	46,229	50,571	52,527	50,982	46,814	15.69%
3		VW	53,441	46,704	54,765	47,233	49,036	51,958	46,791	15.68%
4		Audi	15,420	16,854	29,414	28,502	28,336	26,473	24,222	8.12%
5	*	BMW MINI	13,602	11,338	21,083	24,548	25,427	25,984	23,813	7.98%
6	*	Volvo	13,447	7,767	13,510	14,553	15,764	17,392	18,583	6.23%
7	*	JEEP	2,136	1,877	7,129	9,388	10,101	11,438	13,354	4.48%
8		Peugeot	10,354	6,021	5,906	7,403	8,242	9,881	10,626	3.56%
9	*	Porsche	3,572	3,335	6,690	6,887	6,923	7,166	7,192	2.41%
10		Renault	3,532	2,536	5,082	5,303	7,119	7,252	6,803	2.28%
11	*	FIAT	1,453	5,562	6,032	6,717	6,522	6,013	5,987	2.01%
12	*	Land Rover	2,069	727	2,979	3,165	3,597	3,964	4,549	1.52%
13		Citroen	2,299	2,402	1,978	2,009	3,152	3,560	4,113	1.38%
14	*	Jaguar	3,461	1,138	1,349	2,883	2,614	3,260	3,259	1.09%
15	*	ABARTH			1,472	1,857	2,286	2,352	2,628	0.88%
16	*	Alfa Romeo	4,541	1,816	2,321	1,767	1,838	2,510	2,370	0.79%
17		smart	2,812	1,101	1,012	4,508	4,638	2,465	1,990	0.67%
18		Maserati	402	287	1,449	1,323	1,824	1,453	1,260	0.42%
19		DS			925	1,129	799	749	904	0.30%
20		Ferrari	391	493	720	678	775	767	870	0.29%
		Overseas manufacturers, total	244,908	180,255	284,471	294,060	305,043	308,389	298,378	100.00%

Note: rankings and shares are from 2019 data
*Brands handled by the Company
Source: prepared by FISCO from "Automobile Statistics Monthly" (Japan Automobile Manufacturers Association, Inc.)

(2) Dominant strategy

A dominant strategy refers to a strategy of opening dealerships in a concentrated manner in a specific region. The Company utilizes a multi-brand strategy to conduct this dominant strategy. The aims of the dominant strategy are to capture customers by offering them multiple choices and increase efficiency through making the human resources within the Group mobile and optimizing their allocation. It is to meet the needs of customers who want to change to another brand during a model-cycle valley, or who want to try a model of another brand (for example, an SUV). Of course, in order to maintain dealer rights, it is necessary to increase sales volume to above a certain level for each of the brands.

Some specific examples of the Company Group's dominant strategy include its dealership networks in the Kanagawa area and the Kitakyushu area. In the Kanagawa area, it manages 6 dealerships, and breaking them down, they are Jaguar/Land Rover Shonan (Approved Hiratsuka used cars sales), Jaguar/Land Rover Shonan (Shonan showroom new car sales), Jaguar/Land Rover Shonan (Service center), JEEP Fujisawa Shonan, Alfa Romeo Fujisawa Shonan, and FIAT/ ABARTH Fujisawa Shonan. In the Kitakyushu area, it manages 6 dealerships: VOLVO Cars Kitakyushu, JEEP Kitakyushu, BMW Kokura, BMW Yahata, MINI Kokura, and Jaguar/Land Rover Kitakyushu.

By brand, the Company is actively investing in MINI in FY6/20. In November 2019, it reopened the renovated MINI Hakata /MINI NEXT Hakata dealership, which is compliant with the latest CI. In January 2020, it relocated the MINI Yamaguchi /MINI NEXT Yamaguchi dealership to a more prime location and opened a newly constructed dealership compliant with the latest CI. Also, in March 2019, it entered-into the Chugoku area for the first time, choosing Yamaguchi Prefecture as a location as it is comparatively close to Fukuoka Prefecture, its existing Kyushu area. Currently, it has 2 MINI dealerships in Yamaguchi Prefecture and 3 in Fukuoka Prefecture and it is the major authorized dealer of this brand in this area.

The Company Group's dealership network by region

Miyagi Prefecture					
	Sendai				[PS] New and used car sales and aftermarket services
Fukuoka Prefecture					
	Koriyama				[PS] New and used car sales and aftermarket services
Tokyo					
	Shinjuku		[MINI] New and used car sales and aftermarket services		
	Ikebukuro			[FT/AB] New and used car sales and aftermarket services	
	Meguro	[JP] New and used car sales			
	Ota		[AR] New and used car sales and aftermarket services		
	Setagaya	[JP] New and used car sales and aftermarket services	[AR] New and used car sales and aftermarket services	[FT/AB] New and used car sales and aftermarket services	
	Denenchofu			[FT/AB] New and used car sales and aftermarket services	
	Mitaka				[JG/LR] New and used car sales and aftermarket services
Kanagawa Prefecture					
	Shonan	[JP] New and used car sales and aftermarket services	[AR] New and used car sales and aftermarket services	[FT/AB] New and used car sales and aftermarket services	[JG/LR] New and used car sales
	Hiratsuka				[JG/LR] Used car sales and aftermarket services
Yamaguchi Prefecture					
	Yamaguchi		[MINI] New and used car sales and aftermarket services		
	Shunan		[MINI] Used car sales		
Fukuoka Prefecture					
	Kokura		[MINI] New and used car sales	[BMW] New and used car sales and aftermarket services	
	Yahata		[MINI] Used car sales	[BMW] New and used car sales and aftermarket services	
	Kitakyushu	[JP] New and used car sales and aftermarket services			[VC] New and used car sales and aftermarket services [JG/LR] New and used car sales and aftermarket services
	Fukuoka-nishi	[JP] New and used car sales and aftermarket services	[MINI] New and used car sales and aftermarket services		
	Fukuoka	[JP] New and used car sales and aftermarket services	[MINI] New and used car sales and aftermarket services		[VC] New and used car sales and aftermarket services
	Fukuoka-Minami				[VC] New and used car sales and aftermarket services
	Kurume	[JP] New and used car sales and aftermarket services			[VC] New and used car sales and aftermarket services
	Munakata	[JP/BMW/VL] Used car sales			

Note: JP: JEEP, AR: Alfa Romeo, FT: FIAT, AB: ABARTH, JG: Jaguar, LR: Land Rover, VC: VOLVO, PS: Porsche
Source: Prepared by FISCO from the Company's results briefing materials

(3) M&A strategy

The M&A strategy is to 1) enter-into new areas, 2) acquire new brands (multi-brand strategy), and 3) increase the shares of existing brands. The areas that are the candidates to enter-into are government-designated cities* with a population of more than 1mn people and core regional cities with a population of more than 400,000 people.

* The designated cities with a population of more than 1mn people are Sapporo, Sendai, Saitama, Yokohama, Kawasaki, Nagoya, Kyoto, Osaka, Kobe, Hiroshima, and Fukuoka.

In December 2018, Willplus Eins took over the business of Porsche Center Sendai, thereby entering-into Tohoku for the first time. This case is an entry into a new area and at the same time, the acquisition of a new brand. In order to cover all the commercial areas in the Tohoku area, it opened Porsche Center Koriyama as the second dealership in Fukushima Prefecture in January 2019. Normally, when entering into a new area, the Company choses locations adjacent to existing bases as the success rate of locations that are not adjacent to an existing base tends to be low. Porsche, which is synonymous with luxury sports cars, has a stable sales track record and was in the top 10 for the number of new registered cars of overseas manufacturers in 2019, ranking the 9th. Through this takeover, the Company strategically acquired a new brand.

The nationwide network of authorized dealers of imported cars is not as large as that for domestically produced cars, but there is considerable room for growth for the Company. The numbers of bases for new cars, used cars, and services are 279 for BMW, 203 for MINI, and 105 VOLVO new car dealers.

The number of bases by region for BMW, MINI, VOLVO

(bases)

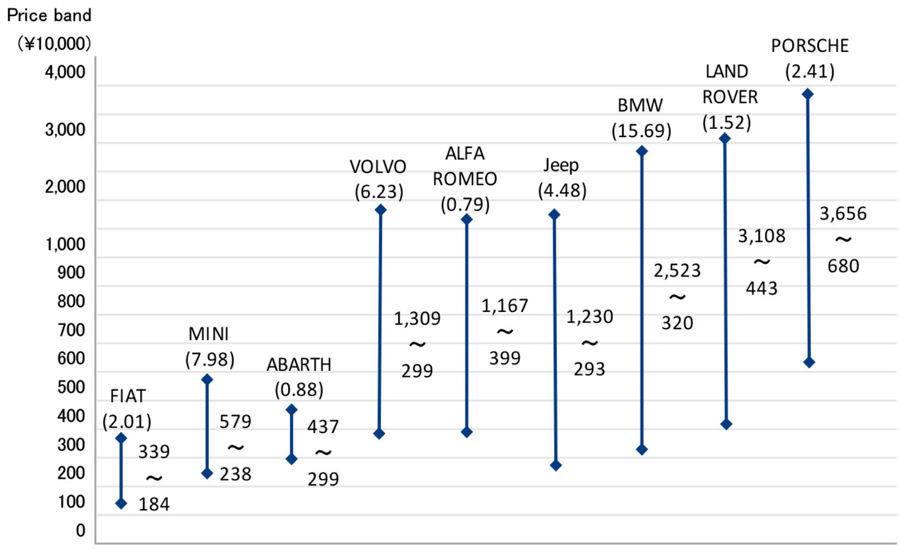
Region	BMW					MINI					VOLVO
	Total	New and used car sales	New car sales	Used car sales	Aftermarket services	Total	New and used car sales	New car sales	Used car sales	Aftermarket services	New cars
Hokkaido	19	2	5	4	0	8	5	0	1	2	3
Tohoku	15	3	5	6	1	13	4	4	5	0	7
Kanto	109	16	54	29	10	80	12	35	21	12	38
Chubu	52	10	27	14	1	35	9	14	9	3	21
Kinki	47	7	23	12	5	31	7	12	9	3	20
Chugoku	16	9	3	4	0	11	6	1	3	1	4
Shikoku	5	3	1	1	0	6	4	1	1	0	3
Kyushu and Okinawa	24	5	11	7	1	19	9	2	5	3	9
Total	279	55	129	77	18	203	56	69	54	24	105

Source: Prepared by FISCO from Company materials

For introductions of M&A proposals, the Company directly approaches importers, financial institutions, or brokerage firms, or the other party approaches it. It examines aspects including future growth potential and business synergies, and after completing the various types of due diligence, formulates a business plan and confirms elements such as the investment-recovery period. In order to be preferentially introduced to proposals, the Company works on building good relations with importers. On the other hand, in the case of financial institutions and brokerage firms, there is often competitive bidding. In this case, the Company Group bids in accordance with factors such as its internal investment-recovery standard.

The models and price bands of the brands handled by the Company Group are rich in variety. The sales prices are ¥1.84mn to ¥3.39mn for FIAT, ¥2.38mn to ¥5.79mn for MINI, and ¥6.80mn to ¥36.56mn for Porsche. Previously, the image was that “owners of imported cars are wealthy” and “imported cars break down easily,” but the price difference between imported cars and domestically produced cars has narrowed and their quality has also improved. In terms of price, they have become more affordable and their user groups are expanding.

The sales price bands of the brands handled by the Company

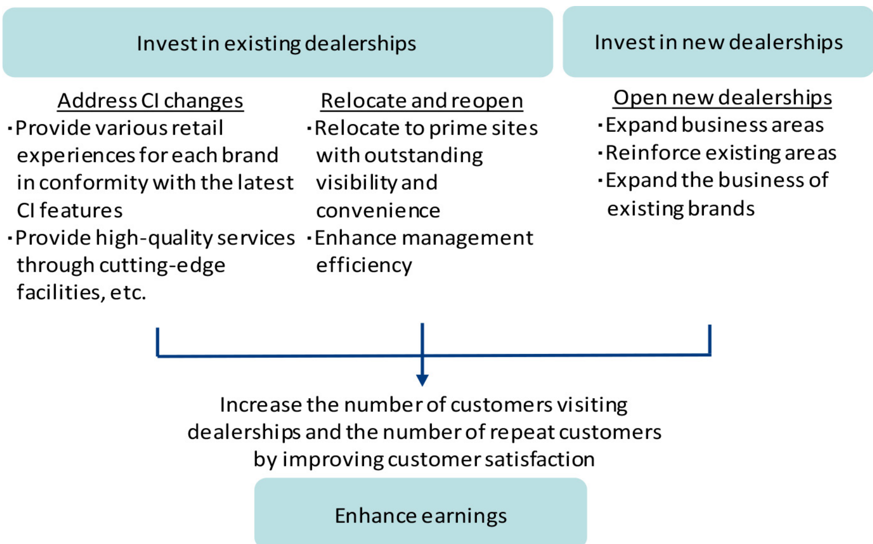


Note: The percentages in parentheses are the shares of the number of new registrations of overseas manufacturers' passenger cars in 2019. Domestic shares are between the cars of overseas manufacturers.
Source: Prepared by FISCO from Company materials

(4) Investment in dealerships

Investment in dealerships leads to an increase in the number of repeaters through improving the number of visitors to dealerships and customer satisfaction (CS). Therefore, the Company Group is investing in existing dealerships in order to comply with the latest CI and to improve the quality of services, and at the same time, is it progressing relocations to locations where management efficiency can be expected to improve as prime locations. Importers seek improvements, such as investment in the latest CI to expand sales and the holding of ample dealer inventory to shorten delivery times. There are appearing cases of business transfers from among the dealers who were content with sales rights in small-scale in existing areas due to the burden placed on them of investing in dealerships, the increase in demo cars, having to respond to new CI, and the issue of business succession.

Aims of investing in dealerships



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

The aims of new dealership openings are to expand commercial areas, to complement existing areas, and to expand the scope of the business for existing brands. This is because it is necessary to continuously increase the number of dealerships through new openings and business takeovers in order to realize sustainable growth. The timings of corporate acquisitions and business takeovers cannot be determined in advance, and it is not a good idea to miss the investment timing. Therefore, investment, including in M&A, tends to occur in waves. In FY6/17, dealership development for the year was 1 dealership from a new opening, 1 dealership from a business takeover, and 4 dealerships from renovations, and renovations and relocations. Also, in FY6/18, it was 1 dealership from a new opening, 1 dealership from a business takeover, and 3 dealerships from renovations, and renovations and relocations. In contrast to this, it was 4 dealerships from new openings, 2 dealerships from business takeovers, and 4 dealerships from renovations, and renovations and relocations in FY6/19. The increase in the number of dealerships during this period was 6, compared to 2 in the previous fiscal period, and there were 32 dealerships at the end of the period. Purchases to acquire property, plant and equipment increased sharply, from ¥254mn in the previous fiscal period to ¥828mn, and depreciation rose from ¥553mn to ¥982mn. Although EBITDA increased from ¥1,910mn in the previous fiscal period to ¥2,013mn, operating profit declined from ¥1,261mn to ¥1,118mn. FY6/19 was an investment period which kept down profits, but FY6/20 is the investment-recovery period and a high profit-increase rate is expected. In the short term, a wave can occur in the Company's results due to the timing of investment, but at FISCO, we think results are on a growth track in the medium- to long-term.

Dealership development by fiscal quarter

(dealerships)

	FY6/17					FY6/18					FY6/19				
	1Q	1H	3Q	4Q	FY	1Q	1H	3Q	4Q	FY	1Q	1H	3Q	4Q	FY
New dealership openings		1			1			1		1		1	3		4
Business takeovers				1	1			1		1		1		1	2
Dealerships renovations, and renovations and relocations	1		2	1	4	2		1		3			4		4
No. of dealerships at end of period					24					26					32
Financial data (¥mn)															
Purchase of property, plant and equipment					-575					-254					-982
Depreciation					419					553					828
Operating profit					1,209					1,261					1,118
EBITDA					1,724					1,910					2,013

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

Performance trends

In 1H FY6/20, operating profit increased 32.4% YoY and was 13.3% above forecast

1. Overview of 1H FY6/20

In the 1H FY6/20 results, net sales increased 31.5% YoY to ¥17,981mn, operating profit rose 32.4% to ¥748mn, ordinary profit grew 34.8% to ¥754mn, and profit attributable to owners of parent climbed 45.7% to ¥490mn. Compared to the initial forecasts, net sales was 7.5% above forecast, operating profit 13.3% above forecast, ordinary profit 15.0% above forecast, and profit attributable to owners of parent 15.0% above forecast.

1H FY6/20 consolidated financial results

(¥mn)

	1H FY6/19		1H FY6/20			YoY		vs. forecast	
	Amount	vs. net sales	Forecast	Results	vs. net sales	Change	% change	Change	% change
Net sales	13,677	-	16,731	17,981	-	4,304	31.5%	1,250	7.5%
New cars	7,165	52.4%	-	9,350	52.0%	2,185	30.5%	-	-
Used cars	2,625	19.2%	-	3,881	21.6%	1,256	47.8%	-	-
Auto auction sales	1,480	10.8%	-	1,631	9.1%	151	10.2%	-	-
Vehicle maintenance	1,793	13.1%	-	2,253	12.5%	460	25.6%	-	-
Others	612	4.5%	-	865	4.8%	253	41.3%	-	-
Gross profit	2,821	20.6%	-	3,560	19.8%	739	26.2%	-	-
SG&A expenses	2,255	16.5%	-	2,812	15.6%	556	24.7%	-	-
Operating profit	565	4.1%	660	748	4.2%	183	32.4%	87	13.3%
Ordinary profit	559	4.1%	656	754	4.2%	194	34.8%	98	15.0%
Profit attributable to owners of parent	336	2.5%	426	490	2.7%	153	45.7%	64	15.0%

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

In net sales by business, sales in all businesses particularly new cars increased. New car sales increased 30.5% YoY and constituted 52.0% of net sales. The percentage of total net sales from used cars sales was 21.6% and they increased significantly, up 47.8%. The other sales-increase rates were up 10.2% for auto auctions, up 25.6% for vehicle maintenance, and up 41.3% for others, including insurance.

In FY6/19, the Company actively invested in dealerships and conducted business takeovers, so the number of demo cars increased. Therefore, the total amount of depreciation and the amortization of goodwill increased 41.5% YoY (¥159mn) to ¥544mn. The increase in operating profit was only ¥183mn, but EBITDA increased ¥342mn.

Product inventory has accumulated, but vehicle deliveries are scheduled for the 2H FY6/20

2. Financial condition and performance indicators

At the end of 1H FY6/20, total assets were up ¥1,625mn on the end of the previous fiscal period to ¥16,299mn. In non-current assets, cash and deposits decreased ¥569mn, but inventory products increased ¥1,590mn. Although the number of inventory turnover days has lengthened to 82 days, there are already reserved products, and vehicles are scheduled to be delivered in 2H FY6/20. Property, plant, and equipment, which had increased ¥2,107mn in the previous fiscal period, increased only ¥527mn in 1H FY6/20.

The funds for vehicle procurement are dependent on cash and deposits and short-term borrowing, so the current ratio was down by 5.7 percentage points (pp) on the end of the previous fiscal period to 104.3%. Also, the equity ratio, which is a ratio of long-term financial stability, was down 1.1pp to 35.8%.

Consolidated balance sheet and performance indicators

(¥mn)

	End-FY6/17	End-FY6/18	End-FY6/19	End-1H FY6/20	Change
Current assets	5,889	7,212	8,247	9,337	1,089
Cash and time deposits	1,416	1,463	1,412	842	-569
Accounts receivable - trade	121	148	217	134	-83
Inventories	3,733	4,974	5,751	7,317	1,565
Non-current assets	3,464	4,100	6,425	6,962	536
Property, plant and equipment	2,558	3,121	5,228	5,756	527
Intangible assets	483	390	428	388	-40
Investments and other assets	422	588	768	817	48
Total assets	9,354	11,312	14,673	16,299	1,625
Current liabilities	4,399	5,215	7,492	8,948	1,456
Non-current liabilities	812	1,302	1,759	1,510	-249
Total liabilities	5,211	6,518	9,252	10,459	1,206
(Interest-bearing debt)	1,724	2,552	4,429	5,028	598
Shareholders' equity	4,142	4,793	5,421	5,840	418
Total net assets	4,142	4,793	5,421	5,840	418
Total liabilities and net assets	9,354	11,312	14,673	16,299	1,625
[Stability]					
Current ratio	133.9%	138.3%	110.1%	104.3%	-5.8pt
Equity ratio	44.3%	42.4%	36.9%	35.8%	-1.1pt

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

On the Statement of Cash Flows, cash flows from financing activities increased, but not enough to cover the decreases in cash flows from operating activities and cash flows from investing activities, so at the end of the fiscal quarter, the balance of cash and cash equivalents was ¥842mn, down ¥266mn on the end of the same period in the previous fiscal year and down ¥569mn on the end of the previous fiscal period. The main reason for the decrease in cash flows from operating activities was the increase in inventories. As previously explained, this was due to advanced purchases of products scheduled to be sold in the 2H. The main factor for cash flows from investing activities was purchases to acquire property, plant, and equipment (¥609mn) for dealership renovations.

Consolidated Statement of Cash Flows

(¥mn)

	1H FY6/19	1H FY6/20	Change
Cash flows from operating activities	-33	-447	-413
Cash flows from investing activities	-747	-648	98
Cash flows from financing activities	425	526	100
Cash and cash equivalents at end of period	1,109	842	-266

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

Outlook

Based on the 1H results, the FY6/20 full fiscal year forecasts are slightly conservative

● **FY6/20 outlook**

For the FY6/20 full fiscal year outlook, the Company has left the initial forecasts unchanged, of net sales to increase 16.0% YoY to ¥34,639mn, operating profit to rise 24.6% to ¥1,393mn, ordinary profit to grow 24.2% to ¥1,384mn, and profit attributable to owners of parent to increase 19.4% to ¥871mn. FY6/19 was an investment period, so while sales increased significantly in this period by 15.9%, operating profit declined 11.4% due to the burden of upfront investment. But FY6/20 is the period to obtain the return on this investment, so the profit-increase rate is expected to be higher than the sales-increase rate.

By business, the sales-increase rates on the previous fiscal period will be 22.1% for new cars, 11.2% for used cars, 5.7% for auto auction sales, 12.1% for vehicle maintenance, and 3.5% for others, so all the businesses are expected to grow. Wrangler by JEEP was launched in FY6/19 and considerable stock was obtained for it in 1H FY6/20, and it will contribute to sales in the 2H. The new models scheduled to be launched during FY6/20 are Land Rover's EVOQUE, BMW's X7 and 1 Series, VOLVO's S60, and Porsche's 911.

Also, the dealerships newly opened and acquired from business takeovers in FY6/19 will contribute for the full fiscal year in FY6/20. In FY6/19, there was 1 dealership from a new opening and 1 dealership from a business takeover in the 1H, 3 dealerships from new openings in the 3Q, and 1 dealership from a business takeover in the 4Q, so the increase in dealerships was concentrated in the 2H. For FY6/20, the Company opened the renovated MINI Hakata / MINI NEXT Hakata (Hakata Ward, Fukuoka City, Fukuoka Prefecture) dealership that is compliant with the latest CI in November 2019. Also, in the same month, it newly opened CHECKER MOTORS Approved Munakata (Munakata City, Fukuoka Prefecture), which is the Company Group's first dealership specializing in imported used cars. This dealership mainly handles JEEP, but also brands including BMW and VOLVO.

FY6/20 forecasts

(¥mn)

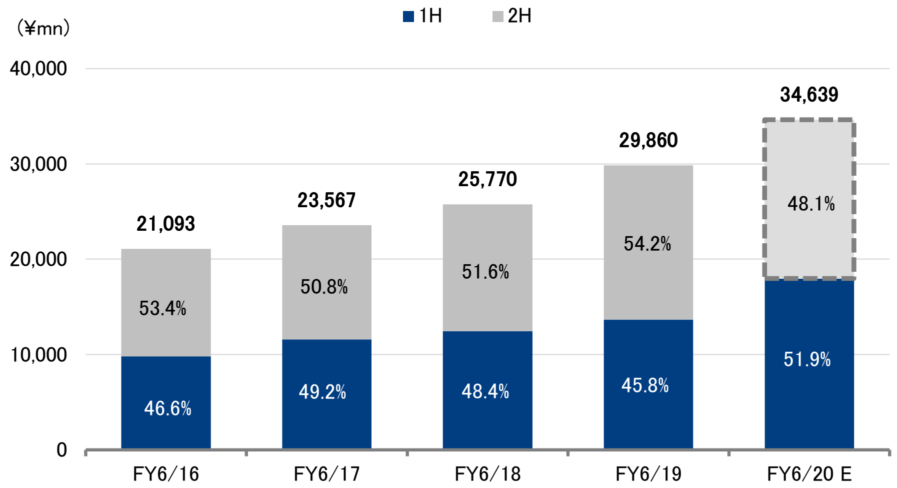
	FY6/19 Results	FY6/20 Forecast	1H progress rate	% change
Net sales	29,860	34,639	51.9%	16.0%
New cars	15,432	18,845	49.6%	22.1%
Used cars	5,962	6,630	58.5%	11.2%
Auto auction sales	3,192	3,372	48.4%	5.7%
Vehicle maintenance	3,868	4,337	51.9%	12.1%
Others	1,403	1,453	59.5%	3.5%
Operating profit	1,118	1,393	53.7%	24.6%
Ordinary profit	1,115	1,384	54.5%	24.2%
Profit attributable to owner of parent	730	871	56.3%	19.4%

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

In FY6/20, results in the 1H exceed the initial forecasts, of net sales increasing 7.5% (¥1,250mn) and operating profit rising 13.3% (¥87mn), but the Company has left the full fiscal year forecasts unchanged. Therefore, the 2H Company forecasts seem somewhat conservative. The impact of the consumption tax hike in October 2019 was incorporated into the initial forecasts, but a negative factor that was not expected initially is the spread of the coronavirus infection. In consideration of this, it decided to leave the initial forecasts unchanged.

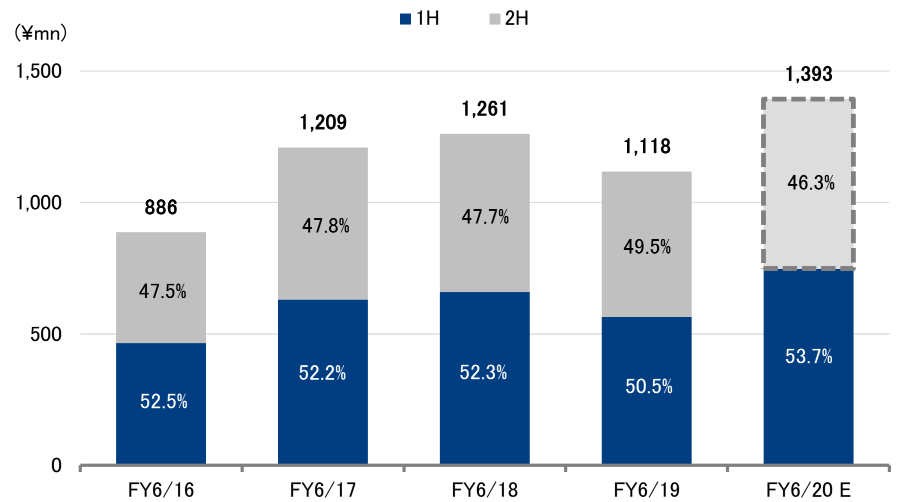
The rates of progress up to 1H FY6/20 for the full fiscal year forecasts were 51.9% for net sales and 53.7% for operating profit. The rates of progress in the previous 4 fiscal periods were less than 50% for net sales, so for FY6/20 also, the initial forecast was set as 48.3%. As a result, the net sales forecasts in the 2H of FY6/20 for vehicle maintenance and others (optional automobile insurance, etc.) are below the levels of the previous 6 months. Fundamentally, these highly profitable, recurring revenue-based businesses stably grow accordingly to the increase in the number of car sales, so it might be said that the FY6/20 full year results forecasts are conservative.

Trend in net sales and percentages in the 1H and the 2H



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

Trend in operating profit and percentages in the 1H and the 2H



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

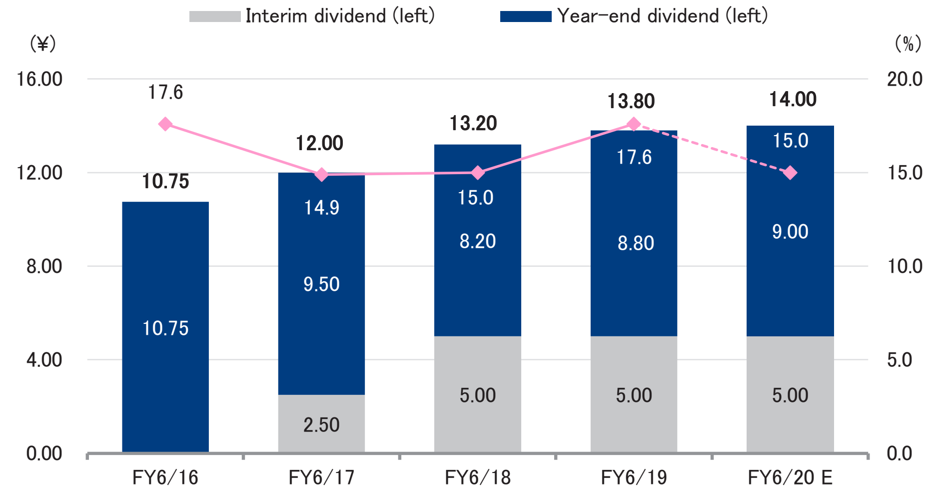
Shareholder returns

The FY6/20 dividend forecast is ¥14 per share for a dividend payout ratio of 15.0%

1. Dividend policy

The Company has positioned shareholder returns as an important management issue, and its basic policy is to maintain stable dividends while keeping a balance with internal reserves in order to increase corporate value. It targets a dividend payout ratio of around 15%. In FY6/19, it paid a dividend per share of ¥13.8 (interim dividend ¥5.0, period-end dividend ¥8.8) as initially forecast with an increase of ¥0.6 YoY per share and the dividend payout ratio of 17.6%. For FY6/20, it is forecasting that the dividend will increase ¥0.2 to ¥14.0 (interim dividend ¥5.0, year-end dividend ¥9.0) for a forecast dividend payout ratio of 15.0%.

Dividend per share and dividend payout ratio



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

2. Shareholder Benefits Program

As part of its measures to return profits to shareholders, the Company has introduced a shareholder benefits program in order to increase the appeal of investing in its shares and so that more people will own its shares. Shareholders registered in the shareholders' register at the end of June in each year and who own 1 unit (100 shares) or more of shares will be given a QUO card worth ¥1,000.

Disclaimer

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