COMPANY RESEARCH AND ANALYSIS REPORT

WILLPLUS Holdings Corporation

3538

Tokyo Stock Exchange First Section

26-Oct.-2020

FISCO Ltd. Analyst

Ken Segawa

FISCO Ltd.

http://www.fisco.co.jp

Index

Summary

Sales and profits increased in FY6/20, even with the impact of the novel coronavirus pandemic

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, including in Fukuoka Prefecture, where its business originated, and also in Tokyo and Kanagawa Prefecture, Yamaguchi Prefecture, and the Tohoku area.

1. Overview of FY6/20

In the FY6/20 results, net sales increased 17.4% year on year (YoY) to ¥35,068mn and operating profit rose 3.8% to ¥1,160mn. Sales and profits increased significantly in the 1H results, net sales by 31.5% YoY and operating profit by 32.4%, which exceeded the initial forecasts. But in the 4Q, results were affected by the impact of the novel coronavirus pandemic.

The Company implemented measures at an early stage to respond to the novel coronavirus pandemic to prevent infections among related parties, such as customers and employees. As well as preventing the spread of the virus within dealerships, the Company made sales consultations available only by appointment to reduce amount of time taken with consultations and is moving consultations online. During the declaration of a state of emergency in April and May 2020, through avoiding "the three Cs" and the self-restraint on going out, business obstacles occurred, such as for vehicle deliveries and test drives. But on an existing dealership basis, the number of visitors to dealerships compared to the same months in the previous year increased 2.6% in June after declining by 11.8% in March, 28.4% in April, and 14.4% in May.

2. FY6/21 results outlook

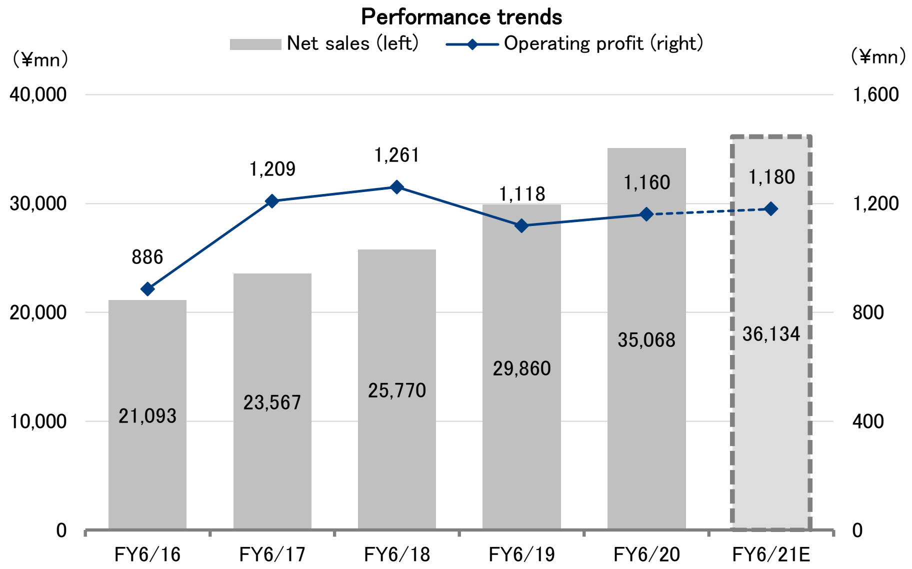
The FY6/21 consolidated results forecasts are for net sales to increase 3.0% YoY to ¥36,134mn and operating profit to rise 1.7% to ¥1,180mn. The forecasts were set assuming that the impact of the novel coronavirus pandemic will continue to a certain extent until the end of the period.

3. Growth strategies

As its growth strategies, the Company is progressing a multi-brand strategy, a dominant strategy, and an M&A strategy. By adopting a multi-brand strategy of handling 10 brands, it aims to eliminate and even-out the differences in the timing of launches of new models during the sales-cycle wave due to model changes. In addition, its policy is to increase the potential of dealerships through renovations that are compliant with the latest CI (corporate identity) and relocating to favorable locations offering excellent convenience. In FY6/20, the round of dealership renovations was basically completed, so it is looking toward recovering this investment from FY6/21 onwards.

Key Points

- Sales and profits increased in FY6/20, even with the impact of the novel coronavirus pandemic
- The FY6/21 forecasts were set assuming that the impact of the novel coronavirus pandemic would continue through the full fiscal year
- Developing a multi-brand strategy, a dominant strategy, and an M&A strategy as its growth strategies



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. 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)."

In the 4our fiscal years from FY6/17 to FY6/20, the Company newly opened 8 dealerships, acquired 4 dealerships through business takeovers, rebuilt and reopened 5 dealerships from existing dealerships, and renovated 11 dealerships. For the compound annual growth rate (CAGR), net sales increased 14.2% and operating profit 1.4%, while EBITDA rose 10.0%. Operating profit fell in FY6/19 due to an increase in the burden of upfront investment, but this investment is expected to be recovered from FY6/20 onwards, and while the initial forecast was for operating profit to increase 24.6% YoY, it increased only 3.8% due to the impact of the novel coronavirus pandemic.

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 Tokyo. After that, he established WILLPLUS Holdings Corporation in 2007.

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 Second Section in September 2017, and then upgraded to the TSE First Section in February 2018.

Through actively conducting M&A, the Company acquired imported car sales rights and commercial areas for 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, started handling FIAT and Alfa Romeo, and made a full-fledged entry into the Kanto area. In 2009, it acquired 2 JEEP dealerships in the Tokyo metropolitan 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. Furthermore, in 2017, it established Willplus Eins Corporation, which took over the business of Porsche Center Sendai in 2018, thereby handling Porsche and entering the Tohoku area for the first time. In November 2019, the Company newly opened CHECKER MOTORS Approved Munakata, its first dealership specializing in approved imported used cars.

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	Full-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/MINI vehicles	
April 2014	Converted Teio Auto Corporation into a wholly owned subsidiary	Began handling VOLVO vehicles	
November 2017	Established Willplus Eins Corporation		
March 2018	Newly opened Jaguar/Land Rover Kitakyushu	Began handling Jaguar/Land Rover vehicles	
April 2018	Took over the Jaguar/Land Rover Shonan business		
December 2018	Took over the Porsche Center Sendai business	Began handling Porsche vehicles	Entered 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		
November 2019	Newly opened CHECKER MOTORS Approved Munakata, its first dealership specializing in approved imported used cars		

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

As of the end of 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, 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 June 30, 2020)	17 dealerships	9 dealerships	4 dealerships	2 dealerships
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

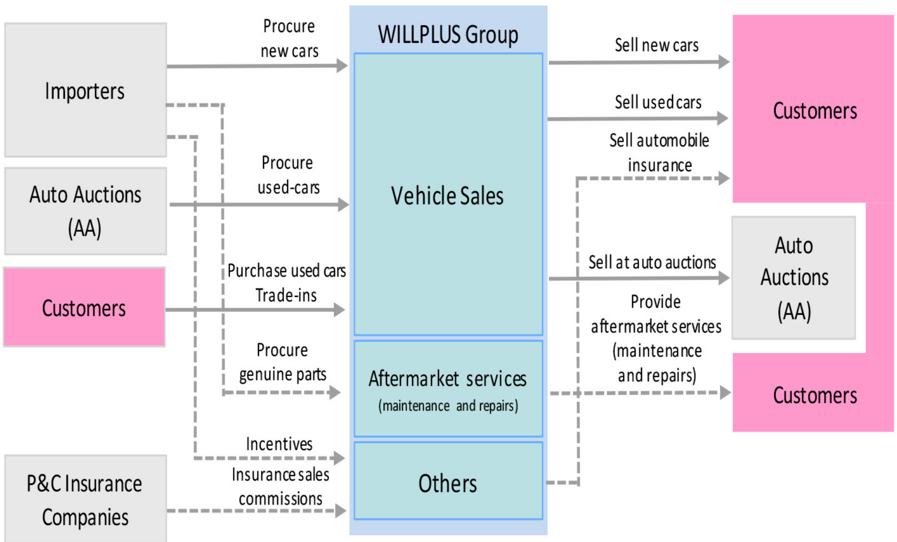
3. Description of business

(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 Group (Fiat Chrysler Automobiles N.V.), 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 Corporation handles BMW and MINI. VOLVO is handled by Volvo Car Japan Limited and Porsche is handled by Porsche Japan KK.

The Company purchases used cars at auto auctions and through 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

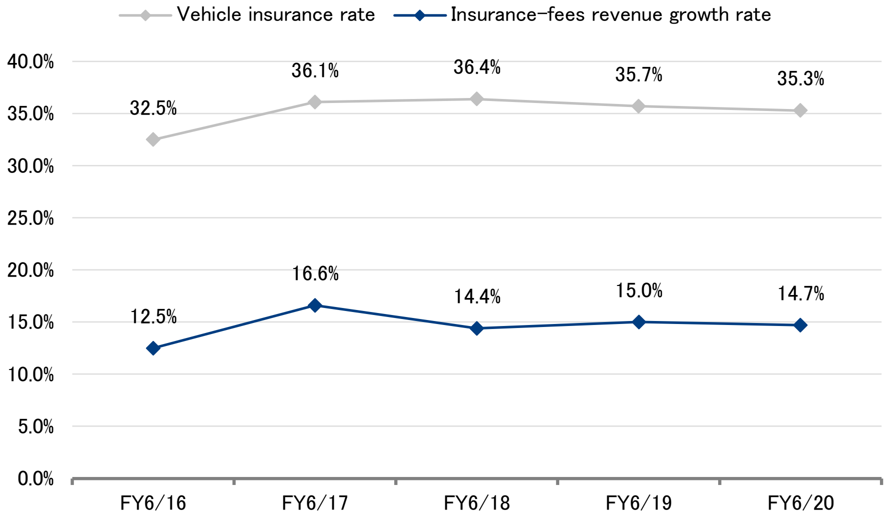


Source: Prepared by FISCO from the Company's results briefing materials

(2) Composition of total net sales

In FY6/20, the composition of total net sales by business were that new cars provided 50.6%, used cars 22.5%, auto auction sales 9.5%, vehicle maintenance 12.6%, and others (insurance, etc.) 4.7%. 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. In the last four fiscal periods, insurance fees have trended at around an annual growth rate of 15% and have become a stable source of revenue. Auto auction sales are sales of traded-in cars of brands not handled by the Company Group.

The vehicle insurance rate and insurance-fees revenue growth rate



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

Business strategies

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

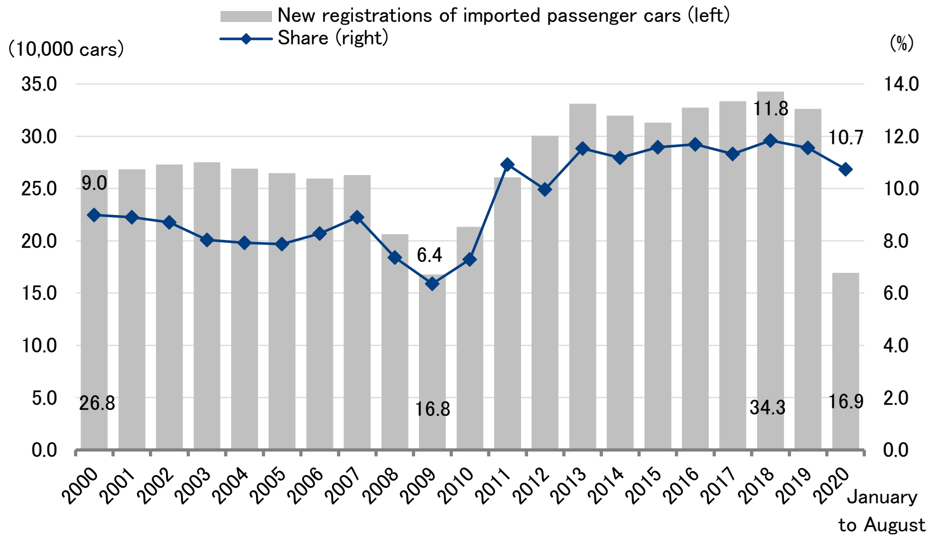
1. Trends in the automotive market in Japan

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 August 2020, the population had declined by slightly more than 2.15mn people from its peak to 125.93mn 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 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 61.81mn, the highest level ever. The number of passenger cars owned at the end of March 2020 had increased by 3.9mn compared to the end of 2010, and on breaking this down, standard-size cars increased by 2.91mn, small-size cars decreased by 4.05mn, and kei minicars increased by 5.04mn. In terms of the changes in the composition ratio, standard-size cars had changed from 28.8% to 31.7%, small-size cars from 41.0% to 31.8%, and kei minicars from 30.2% to 36.5%. In short, 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.

New car sales are affected by factors including the economy, interest rates, and the launch dates of new models. FISCO found that 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. This number fell to 3.525mn registrations following the Great East Japan Earthquake in March 2011, but subsequently it recovered to 4.301mn registrations in 2019.

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. Incidentally, according to the Company, sales of imported new cars in Japan in 2019 were worth approximately ¥1.53tn, and in the market, the consolidation of medium- and small-sized dealers is progressing. The Company's market share is less than 3%, but it is aiming to increase this share in the future through M&A.

Trends in the number of new registrations of imported passenger cars



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 adopts a multi-brand strategy, handling 10 brands. The pattern of car model changes in Europe and the US is around 7–8 years, while full model changes for domestic cars are around every 5–7 years. Although the sales-volume wave is small, it is affected by the slump in sales during a model's end period and the introductions of new models of competitor cars. By adopting a multi-brand strategy, the Company is aiming to eliminate and even-out differences in the timing of launches of new models during the sales-cycle wave due to model changes.

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, give 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.

New registrations of cars of overseas manufacturers (calendar year)

(unit: cars)

Ranking		Brand name	2010	2015	2019	Share
1		Mercedes-Benz	30,920	65,159	66,523	22.29%
2	*	BMW	32,426	46,229	46,814	15.69%
3		VW	46,704	54,765	46,791	15.68%
4		Audi	16,854	29,414	24,222	8.12%
5	*	BMW MINI	11,338	21,083	23,813	7.98%
6	*	Volvo	7,767	13,510	18,583	6.23%
7	*	Jeep	1,877	7,129	13,354	4.48%
8		Peugeot	6,021	5,906	10,626	3.56%
9	*	Porsche	3,335	6,690	7,192	2.41%
10		Renault	2,536	5,082	6,803	2.28%

Ranking		Brand name	2010	2015	2019	Share
11	*	Fiat	5,562	6,032	5,987	2.01%
12	*	Land Rover	727	2,979	4,549	1.52%
13		Citroën	2,402	1,978	4,113	1.38%
14	*	Jaguar	1,138	1,349	3,259	1.09%
15	*	ABARTH		1,472	2,628	0.88%
16	*	Alfa Romeo	1,816	2,321	2,370	0.79%
17		smart	1,101	1,012	1,990	0.67%
18		Maserati	287	1,449	1,260	0.42%
19		DS		925	904	0.30%
20		Ferrari	493	720	870	0.29%
		Overseas manufacturers, total	180,255	284,471	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. This method responds to 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: Jaguar/Land Rover Shonan (Approved Hiratsuka used car 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 has been 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 corporate identity (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 the Chugoku area for the first time, choosing Yamaguchi Prefecture for its close proximity to Fukuoka Prefecture, an existing sales base in the 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 those areas. In November 2019, the Company opened CHECKER MOTORS Approved Munakata (Munakata City, Fukuoka Prefecture), its first dealership specializing in approved imported used cars. As it is a used car dealership, it handles multiple brands.

The Company Group's dealership network by region

Miyagi Prefecture				
Sendai				[PS] New and used car sales and after-sales services
Fukuoka Prefecture				
Koriyama				[PS] New and used car sales and after-sales services
Tokyo				
Shinjuku		[MINI] New and used car sales and after-sales services		
Ikebukuro			[FT/AB] New and used car sales and after-sales services	
Meguro	[JP] New and used car sales			
Ota		[AR] New and used car sales and after-sales services	[FT/AB] After-sales services	
Setagaya	[JP] New and used car sales and after-sales services	[AR] New and used car sales and after-sales services	[FT/AB] New and used car sales and after-sales services	
Denenchofu			[FT/AB] New and used car sales	
Mitaka				[JG/LR] New and used car sales and after-sales services
Kanagawa Prefecture				
Shonan	[JP] New and used car sales and after-sales services	[AR] New and used car sales and after-sales services	[FT/AB] New and used car sales and after-sales services	[JG/LR] New and used car sales
Hiratsuka				[JG/LR] Used car sales and after-sales services
Yamaguchi Prefecture				
Yamaguchi		[MINI] New and used car sales and after-sales services		
Shunan		[MINI] Used car sales		
Fukuoka Prefecture				
Kokura		[MINI] New and used car sales	[BMW] New and used car sales and after-sales services	
Yahata		[MINI] Used car sales	[BMW] New and used car sales and after-sales services	
Kitakyushu	[JP] New and used car sales and after-sales services			[VC] New and used car sales and after-sales services [JG/LR] New and used car sales and after-sales services
Fukuoka-Nishi	[JP] New and used car sales and after-sales services	[MINI] New and used car sales and after-sales services		
Fukuoka	[JP] New and used car sales and after-sales services	[MINI] New and used car sales and after-sales services		[VC] New and used car sales and after-sales services
Fukuoka-Minami				[VC] New and used car sales and after-sales services
Kurume	[JP] New and used car sales and after-sales services			[VC] New and used car sales and after-sales services
Munakata	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 new areas, 2) acquire new brands (multi-brand strategy), and 3) increase the shares of existing brands. Areas that are candidates for entry include government-designated cities* with a population of more than 1mn people and core regional cities with a population of more than 400,000 people.

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

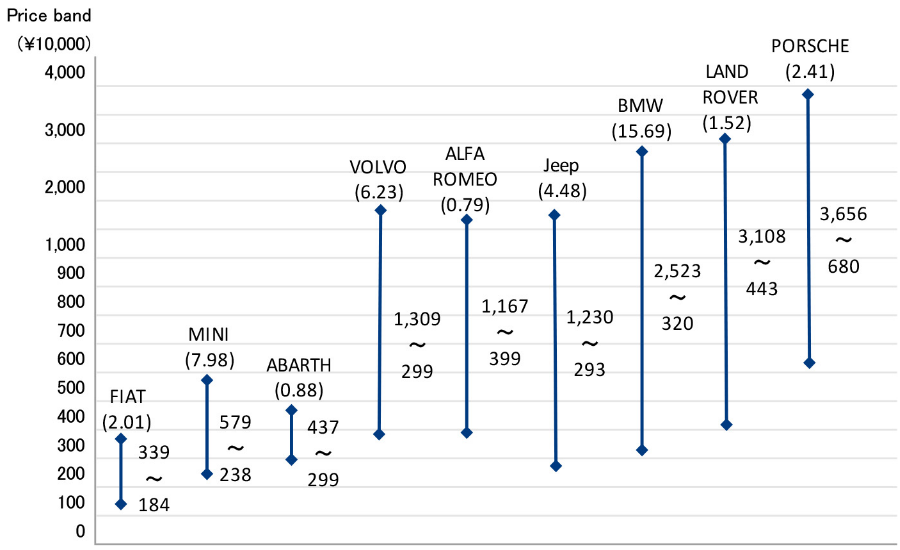
In December 2018, Willplus Eins took over the business of Porsche Center Sendai, thereby entering Tohoku for the first time. This case is an entry into a new area and at the same time, the acquisition of a new brand. In order to cover all the commercial areas in the Tohoku area, it opened Porsche Center Koriyama as the second dealership in Fukushima Prefecture in January 2019. Normally, when entering 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 ranked 9th in the top 10 for new registrations of cars of overseas manufacturers in 2019, so this could be said to be an attempt to strategically capture 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. Specifically. In the Japanese domestic market, the numbers of bases for new cars, used cars, and services are 280 for BMW, 207 for MINI, and 122 VOLVO new car dealers.

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 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.

Moreover, 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.

Sales price bands of brands handled by the Company

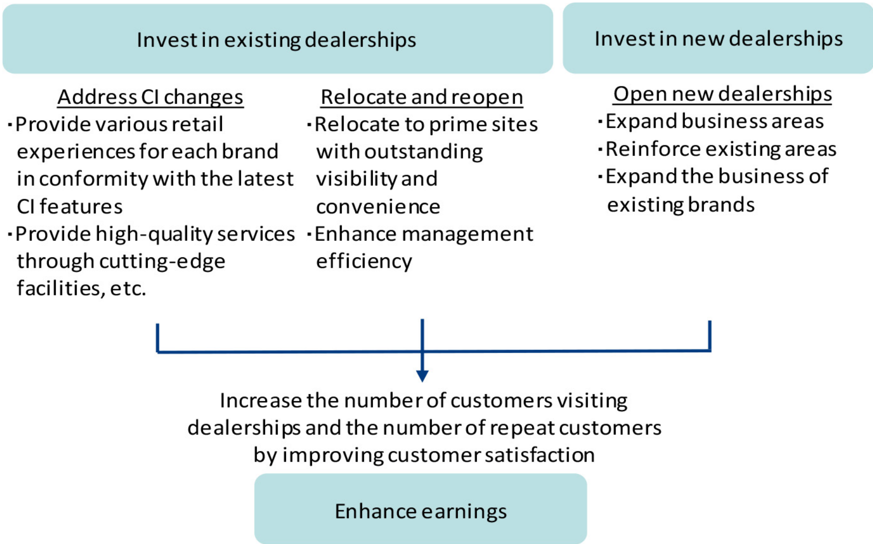


Note: Percentages in parentheses are the shares of the number of new registrations of passenger cars of overseas manufacturers in 2019. Domestic shares are between the cars of overseas manufacturers.
Source: Prepared by FISCO from the Company’s materials

(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 progressing relocations to locations where management efficiency can be expected to improve. Importers seek improvements, such as investment in the latest CI to expand sales and the holding of ample dealer inventory to shorten delivery times. Cases of business transfers involving small-scale dealers with sales rights in existing areas are appearing 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 and supplement existing areas and to expand the business scope of existing brands. This is because continuously increasing the number of dealerships through new dealership openings and business takeovers is essential in order to realize sustainable growth. The timings of company acquisitions and business takeovers cannot be determined in advanced, and it is not advisable to miss the investment timing. Therefore, a wave is generated for investment, including for M&A. From FY6/17 to FY6/20, the Company actively invested in dealerships. As a result, CAGR for operating profit decreased 1.4% during this period, but EBITDA increased 10.0%. The dealership renovations have basically been completed, so going forward the Company expects to enter an investment-recovery period.

Performance trends

Sales and profits increased in FY6/20, even with the impact of the novel coronavirus pandemic

1. Overview of FY6/20

In the FY6/20 results, net sales increased 17.4% YoY to ¥35,068mn, operating profit rose 3.8% to ¥1,160mn, ordinary profit grew 7.3% to ¥1,196mn, and profit attributable to owners of parent climbed 9.9% to ¥802mn. Compared to the initial forecasts, net sales increased 1.2%, but operating profit decreased 16.7%, ordinary profit declined 13.5%, and profit attributable to owners of parent fell 7.9%.

Looking at how results trended by fiscal quarter, in the 1Q, results grew explosively compared to in the same period in the previous fiscal year, with net sales rising 55.0% and operating profit increasing 66.9%. However, YOY changes by quarter from the 2Q to the 4Q showed net sales increased 9.6% in the 2Q, increased 17.2% in the 3Q, and decreased 4.4% in the 4Q, while operating profit decreased 5.3% in the 2Q, decreased 14.5% in the 3Q, and decreased 36.0% in the 4Q. The decline in profits from the 2Q was mainly due to the occurrence of and reaction to a surge in demand before the consumption tax hike, and also the impacts of natural disasters and the novel coronavirus pandemic.

FY6/20 consolidated financial results

(¥mn)

	FY6/19		FY6/20				YoY change			vs. forecast % change
	Full fiscal year	vs. net sales	1H	2H	Full fiscal year	vs. net sales	1H	2H	Full fiscal year	
Net sales	29,860	100.0%	17,981	17,086	35,068	100.0%	31.5%	5.6%	17.4%	1.2%
New cars	15,432	51.7%	9,350	8,408	17,758	50.6%	30.5%	1.7%	15.1%	-5.8%
Used cars	5,962	20.0%	3,881	3,992	7,873	22.5%	47.8%	19.6%	32.0%	18.7%
Auto auction sales	3,192	10.7%	1,631	1,714	3,345	9.5%	10.2%	0.1%	4.8%	-0.8%
Vehicle maintenance	3,868	13.0%	2,253	2,172	4,425	12.6%	25.6%	4.7%	14.4%	2.0%
Others	1,403	4.7%	865	800	1,665	4.7%	41.3%	1.1%	18.6%	14.6%
Gross profit	6,028	20.2%	3,560	3,275	6,835	19.5%	26.2%	2.1%	13.4%	-
SG&A expenses	4,909	16.4%	2,812	2,862	5,675	16.2%	24.7%	7.9%	15.6%	-
Operating profit	1,118	3.7%	748	412	1,160	3.3%	32.4%	-25.5%	3.8%	-16.7%
Ordinary profit	1,115	3.7%	754	441	1,196	3.4%	34.8%	-20.4%	7.3%	-13.5%
Profit attributable to owners of parent	730	2.4%	490	311	802	2.3%	45.7%	-20.7%	9.9%	-7.9%

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

(1) The occurrence of and reaction to a surge in demand before the consumption tax hike

Regarding YoY changes in the number of new registrations of passenger cars, major variation occurred before (September 2019) and after (October 2019) the consumption tax hike. YoY changes for those months show standard-size cars increased 16.9% in September and then decreased 25.3% in October; small-size cars increased 8.5% and then decreased 30.2%; four-wheeled kei minicars decreased 14.1% and then decreased 20.4%; and cars of overseas manufacturers increased 8.8% and then decreased 22.0%.

Changes of new registrations of passenger cars compared to same month in previous fiscal year

Date	Standard-size car	Small-size car	Four-wheeled kei minicar	Cars of overseas manufacturers
January 2019	4.0%	-2.0%	0.2%	4.3%
February 2019	3.3%	-2.9%	-1.2%	-0.4%
March 2019	-5.6%	-5.8%	-4.6%	-6.0%
April 2019	10.9%	-4.7%	3.5%	1.6%
May 2019	10.1%	-0.4%	8.6%	-3.1%
June 2019	1.4%	-5.5%	-3.2%	-1.7%
July 2019	10.3%	-0.1%	-2.1%	2.6%
August 2019	3.9%	-3.0%	13.0%	0.7%
September 2019	16.9%	8.5%	14.1%	8.8%
October 2019	-25.3%	-30.2%	-20.4%	-22.0%
November 2019	-14.9%	-14.1%	-5.6%	-5.9%
December 2019	-7.4%	-12.1%	-14.4%	-13.8%
January 2020	-10.8%	-12.2%	-13.1%	-3.3%
February 2020	-14.9%	-5.4%	-8.2%	-9.2%
March 2020	-17.4%	0.2%	-6.8%	-13.6%
April 2020	-37.7%	-15.7%	-35.4%	-37.2%
May 2020	-50.0%	-31.4%	-55.9%	-46.6%
June 2020	-29.9%	-22.4%	-14.4%	-32.3%
July 2020	-21.5%	-17.4%	1.7%	-17.9%
August 2020	-20.7%	-10.1%	-12.4%	-15.7%

Source: Prepared by FISCO from data provided by the Japan Automobile Dealers Association, Japan Mini Vehicles Association, and Japan Automobile Importers Association

On comparing the results of the three major imported car dealership companies, including the Company, quarterly YoY changes in net sales and operating profit for July to September (surge in demand in advance of the consumption tax hike ("before the hike")) and October to December (reaction to the consumption tax hike ("after the hike")) were as follows. For the Company, net sales increased 55.0% before the hike and then increased 9.6% after the hike, and operating profit increased 66.9% and then decreased 5.3%. For Family, net sales decreased 0.9% before the hike and then decreased 18.6% after the hike, and operating profit decreased 8.1% and then decreased 62.3%. For KU HOLDINGS, net sales increased 8.2% before the hike and then decreased 1.8% after the hike, and operating income increased 10.7% and then decreased 9.2%. So the Company's results grew significantly in the period from July to September, and the extent to which its profits declined in the period from October to December was small. So it can be said that compared to the automotive industry as a whole, it was able to minimize the impact of the consumption tax hike.

Trends in net sales and operating profit of the three major imported car dealership companies (by fiscal quarter)

(¥mn)

	2019			2020		Forecast
	April–June	July–September	October–December	January–March	April–June	
The Company						FY6/21 E
Net sales	8,707	10,221	7,760	8,764	8,322	36,134
YoY change	25.3%	55.0%	9.6%	17.2%	-4.4%	3.0%
Operating profit	280	492	255	232	179	1,180
YoY change	-2.5%	66.9%	-5.3%	-14.5%	-36.0%	1.7%
Operating profit margin	3.2%	4.8%	3.3%	2.7%	2.2%	3.3%
Family <8298>						FY3/21 E
Net sales	3,591	3,633	2,840	3,295	2,460	Undetermined
YoY change	3.9%	-0.9%	-18.6%	-12.4%	-31.5%	
Operating profit	156	196	74	145	74	Undetermined
YoY change	-19.4%	-8.1%	-62.3%	-24.1%	-52.3%	
Operating profit margin	4.4%	5.4%	2.6%	4.4%	3.0%	
KU HOLDINGS <9856>						FY3/21 E
Net sales	23,259	26,103	24,617	26,005	21,900	95,000
YoY change	2.8%	8.2%	-1.8%	2.1%	-5.8%	-5.0%
Operating profit margin	1,026	1,634	1,420	1,350	226	3,300
YoY change	-13.3%	10.7%	-9.2%	-12.5%	-78.0%	-39.2%
Operating profit margin	4.4%	6.3%	5.8%	5.2%	1.0%	3.5%

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

(2) Impact of the novel coronavirus pandemic

Since April 2020, the full-scale impact of the novel coronavirus pandemic has emerged. Specifically, in May, the number of new registrations of standard-size cars decreased by half, down 50.0% compared to the same month in the previous year, while it decreased 31.4% for small-size cars, despite seeing new-car effects from Toyota Motor <7203> and Honda <7267>. Registrations decreased by 55.9% for four-wheeled kei minicars and by 46.6% for cars of overseas manufacturers. Due to the impact of the novel coronavirus pandemic, the Japanese government issued a declaration of a state of emergency on April 7, 2020 for seven prefectures: Saitama, Chiba, Tokyo, Kanagawa, Osaka, Hyogo, and Fukuoka. The declaration was expanded to the entire country on April 16, and subsequently extended until May 25.

To control the spread of the novel coronavirus, social distancing was added to the previous methods of hand washing and gargling, and moreover, it became required to avoid “the three Cs” (closed spaces, crowded places, and close contact), “reduce contact with people by 80%” and “restrict the movement of people.” In addition, during the declaration of a state of emergency, self-restraint for going out was required. To prevent the spread of the virus among its related parties, such as customers and employees, the Company has been implementing various measures from an early stage in response to the novel coronavirus pandemic, including reducing business hours, requiring the wearing of masks in dealerships, disinfecting, and partitioning. For sales consultations, the Company made sales consultations available only by appointment to reduce amount of time taken with consultations and is moving consultations online. In the online consultations, video is recorded and sent on smartphones of car parts that the customer is most interested in. But differences in the communication environments of individual customers has been a problem, and sluggish growth in April was linked to slower-than-expected vehicle deliveries and the inability to perform test drives during sales. Incidentally, the Company uses vehicle deliveries as the standard for sales, so it has postponed recording them. On the other hand, on an existing dealerships basis, the number of visitors to dealerships compared to the same month in the previous year decreased 11.8% in March, 28.4% in April, and 14.4% in May, but then recovered and increased 2.6% in June. In order to avoid “the three Cs,” it seems that consumers’ awareness has changed, including increasing the frequency of driving and rising interest in car purchases.

Looking at the YoY changes in net sales and operating profit during April to June 2020, which is when results were impacted by the novel coronavirus pandemic, the Company’s net sales decreased 4.4% and operating profit decreased 36.0%, Family’s net sales decreased 31.5% and operating profit decreased 52.3%, and KU HOLDINGS’ net sales decreased 5.8% and operating profit decreased 78.0%. It appears that each company struggled with the business conditions during the declaration of a state of emergency.

(3) Timing of dealership openings and impact of natural disasters

The Company adopts a recurring revenue-based business, in which revenue increases after a new dealership is opened. Specifically, in its first year, the dealership mainly sells cars, then from the second year onwards, it adds services such as vehicle maintenance and insurance and its profitability increases. For dealership openings in FY6/20, the Company newly opened 1 dealership, newly constructed and relocated 2 dealerships, and renovated 3 dealerships, for a total of 6 dealerships.

The burden of dealership openings is large. For new constructions and relocations, in addition to the usual dealership costs, there is a period in which new construction costs are also incurred. Also, for renovation openings, the dealership is affected by restrictions on sales caused by areas being under construction during the renovation period. In FY6/20, in addition to the normal burden of dealership openings, the burden increased due to the effects of natural disasters.

Performance trends

Dealership openings

FY6/17	FY6/18	FY6/19	FY6/20
New dealership openings			
1 dealership	2 dealerships	4 dealerships	1 dealership
JEEP Fukuoka-Nishi (October 2016)	Alfa Romeo Ota (January 2018) Jaguar/Land Rover Kitakyushu (March 2018)	JEEP Meguro (November 2018) Porsche Center Koriyama (January 2019) MINI Yamaguchi (March 2019) MINI NEXT Shunan (March 2019)	CHECKER MOTORS Approved Munakata (November 2019)
Business takeovers			
1 dealership	1 dealership	2 dealerships	
VOLVO Cars Odawara (May 2017)	Jaguar/Land Rover Shonan (April 2018)	Porsche Center Sendai (December 2018) Jaguar/Land Rover Mitaka (April 2019)	
Dealership renovations and renovations and relocations			
4 dealerships	3 dealerships	4 dealerships	5 dealerships
MINI Fukuoka-Nishi (July 2016) VOLVO Car Fukuoka* (January 2017) JEEP Setagaya (March 2017) JEEP Fukuoka (April 2017)	Alfa Romeo Setagaya (September 2017) FIAT/ABARTH Setagaya (September 2017) VOLVO Car Fukuoka-Minami (September 2017) JEEP Kurume (January 2018)	JEEP Kitakyushu (January 2019) FIAT/ABARTH Denenchofu (January 2019) VOLVO Car Kurume* (January 2019) VOLVO Car Kitakyushu* (January 2019)	MINI Hakata/MINI NEXT Hakata (November 2019) MINI Yamaguchi/MINI NEXT Yamaguchi* (January 2020) Jaguar/Land Rover Kitakyushu* (May 2020) MINI Kokura/MINI NEXT Kokura (May 2020) Porsche Center Sendai (June 2020)
No. of dealerships at end of period			
24 dealerships	27 dealerships	32 dealerships	32 dealerships

* Relocation to a newly constructed dealership
Source: Prepared by FISCO from the Company's materials

2. Financial condition and performance indicators

At the end of FY6/20, total assets were up ¥1,971mn compared to the end of the previous fiscal year to ¥16,645mn. Current assets increased ¥1,021mn to ¥9,269mn, because cash and deposits rose ¥1,109mn due to an increase in borrowings. Product increased ¥153mn, but inventories were controlled to an appropriate level. Also, property, plant and equipment increased ¥969mn alongside the new dealership openings, relocation to a newly constructed dealership, and renovations, such as due to CI changes. Conversely, to respond to the diversification of engines, the number of demo cars per dealership had been trending upward, but this has settled down. Total liabilities were up ¥1,269mn to ¥10,522mn, of which interest-bearing debt increased ¥696mn to ¥5,126mn. The ratio of short-term borrowings rose, and therefore the current ratio declined 10 percentage points (pp) compared to the end of the previous fiscal year to 100.1%. Also, the equity ratio, which is a ratio of long-term financial stability, decreased 0.1pp to 36.8%.

Consolidated balance sheet and performance indicators

(¥mn)

	End-FY6/17	End-FY6/18	End-FY6/19	End-FY6/20	Change
Current assets	5,889	7,212	8,247	9,269	1,021
Cash and time deposits	1,416	1,463	1,412	2,522	1,109
Accounts receivable - trade	121	148	217	177	-39
Inventories	3,733	4,974	5,751	5,853	102
Non-current assets	3,464	4,100	6,425	7,376	950
Property, plant and equipment	2,558	3,121	5,228	6,197	969
Intangible assets	483	390	428	342	-85
Investments and other assets	422	588	768	835	66
Total assets	9,354	11,312	14,673	16,645	1,971
Current liabilities	4,399	5,215	7,492	9,261	1,768
Non-current liabilities	812	1,302	1,759	1,261	-498
Total liabilities	5,211	6,518	9,252	10,522	1,269
(Interest-bearing debt)	1,724	2,552	4,429	5,126	696
Shareholders' equity	4,142	4,793	5,421	6,123	701
Total net assets	4,142	4,793	5,421	6,123	701
Total liabilities and net assets	9,354	11,312	14,673	16,645	1,971
[Stability]					
Current ratio	133.9%	138.3%	110.1%	100.1%	-10.0pt
Equity ratio	44.3%	42.4%	36.9%	36.8%	-0.1pt

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

Cash flow from operating activities increased ¥1,717mn. The main increase factors were profit before income taxes of ¥1,206mn and depreciation of ¥1,073mn, while the main decrease factors were an increase in inventories of ¥952mn and income taxes paid of ¥418mn. Cash flow from investing activities decreased ¥1,201mn. This was mainly due to spending of ¥1,136mn to acquire non-current assets alongside the relocations and dealership renovations due to CI changes. Cash flow from financing activities increased ¥594mn, with the main factors being ¥1,300mn in proceeds from short-term borrowings and ¥603mn in repayments of long-term borrowings. As a result, cash and cash equivalents at the end of the period was ¥2,522mn, up ¥1,109mn compared to the end of the previous fiscal year.

Consolidated statement of cash flows

(¥mn)

	FY6/17	FY6/18	FY6/19	FY6/20	Change
Cash flow from operating activities	441	-161	57	1,717	1,660
Cash flow from investing activities	-672	-454	-1,881	-1,201	679
Cash flow from financing activities	267	663	1,772	594	-1,178
Cash and cash equivalents at end of period	1,416	1,463	1,412	2,522	1,110

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

Outlook

The FY6/21 forecasts were set assuming that the impact of the novel coronavirus pandemic would continue through the full fiscal year

● FY6/21 outlook

The FY6/21 consolidated results forecasts are for net sales to increase 3.0% YoY to ¥36,134mn, operating profit to rise 1.7% to ¥1,180mn, ordinary profit to decrease 2.2% to ¥1,170mn, and profit attributable to owners of parent to decline 8.1% to ¥737mn. Normally, the Company initially discloses forecasts for 1H and the full fiscal year, but due to the impact of the novel coronavirus pandemic, it is only disclosing forecasts for the full fiscal year. It set the FY6/21 results forecasts assuming that the impact of the novel coronavirus pandemic would continue to a certain extent until the end of the period.

Specifically, on the one hand, the Company will continue to progress its basic growth strategies of a multi-brand strategy, a dominant strategy, and an M&A strategy, while on the other hand, it is aiming to increase the product turnover rate and to conduct business with higher capital efficiency to further solidify its business foundation. Each dealership will work to improve profitability by supplementing after-sales services following a car sale, leading to the expansion of recurring revenue-based business, which includes vehicle maintenance and insurance services.

FY6/21 forecasts

(¥mn)

	FY6/20		FY6/21		YoY	
	Results	vs. net sales	Forecast	vs. net sales	Progress rate	% change
Net sales	35,068	-	36,134	-	1,066	3.0%
Operating profit	1,160	3.3%	1,180	3.3%	20	1.7%
Ordinary profit	1,196	3.4%	1,170	3.2%	-26	-2.2%
Profit attributable to owner of parent	802	2.3%	737	2.0%	-65	-8.1%

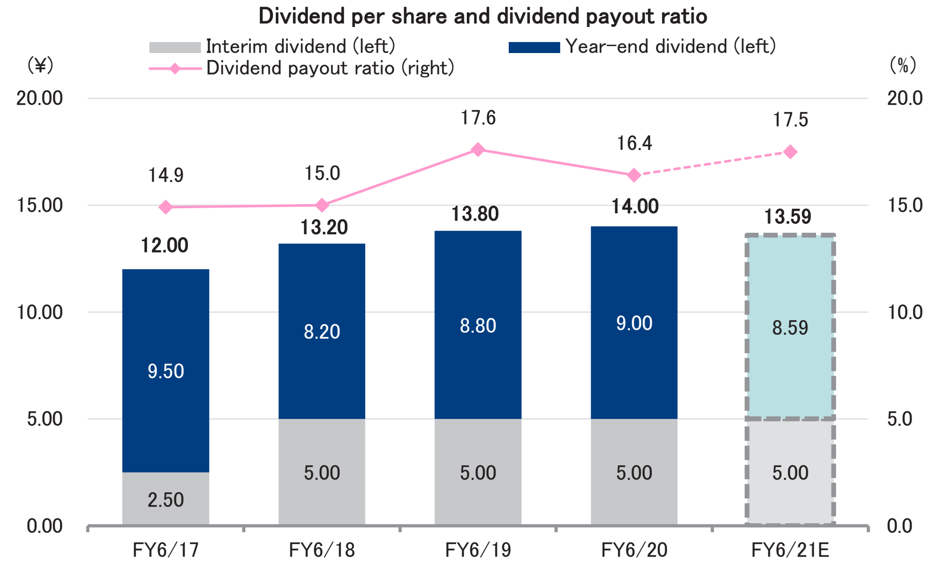
Source: Prepared by FISCO from the Company's financial results

Shareholder returns

The FY6/21 dividend forecast is ¥13.59 per share for a dividend payout ratio of 17.5%

1. Dividend policy

The Company has positioned returning profits to shareholders as a priority business issue, and its basic policy is to stably and continuously pay dividends while maintaining a balance with securing internal reserves to improve enterprise value. Also, up until recently it targeted a dividend payout ratio of around 15%, but from FY6/21, it has raised the dividend payout ratio target to 17.5%. In FY6/20, it paid a dividend per share of ¥14.0 (interim dividend of ¥5.0, year-end dividend of ¥9.0) for a dividend payout ratio of 16.4%. For FY6/21, it is forecasting a dividend per share of ¥13.59 (interim dividend of ¥5.0, year-end dividend of ¥8.59) for a forecast dividend payout ratio of 17.5%.



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

FISCO Ltd. ("FISCO") offer stock price and index information for use under the approval of the Tokyo Stock Exchange, the Osaka Stock Exchange and Nikkei Inc.

This report is provided solely for the purpose of offering information, and is not a solicitation of investment nor any other act or action.

FISCO prepared and published this report based on information which it considered reliable; however, FISCO does not warrant the accuracy, completeness, fitness nor reliability of the contents of this report or the said information.

The issuers' securities, currencies, commodities, securities and other financial instruments mentioned in this report may increase or decrease in value or lose their value due to influence from corporate activities, economic policies, world affairs and other factors. This report does not make any promises regarding any future outcomes. If you use this report or any information mentioned herein, regardless of the purpose therefor, such use shall be made based on your judgment and responsibility, and FISCO shall not be liable for any damage incurred by you as a result of such use, irrespective of the reason.

This report has been prepared at the request of the company subject hereto based on the provision of information by such company through telephone interviews and the like. However, the hypotheses, conclusions and all other contents contained herein are based on analysis by FISCO. The contents of this report are as of the time of the preparation hereof, and are subject to change without notice. FISCO is not obligated to update this report.

FISCO and its affiliated companies, as well as the directors, officers and employees thereof, may currently or in the future trade or hold the financial instruments or the securities of issuers that are mentioned in this report.

Please use the information in this report upon accepting the above points.

■ For inquiry, please contact: ■
FISCO Ltd.
5-11-9 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062
Phone: 03-5774-2443 (Financial information Dept.)
Email: support@fisco.co.jp