COMPANY RESEARCH AND ANALYSIS REPORT

WILLPLUS Holdings Corporation

3538

TSE Prime Market

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FISCO Ltd. Analyst

Ken Segawa

FISCO Ltd.

https://www.fisco.co.jp

Index

Summary

In 1H FY6/22, both net sales and operating profit reached their highest levels since the Company's listing, and progress toward the full-year forecast is on track

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. As of the end of December 2021, the Company manages 34 dealerships, including in Fukuoka Prefecture, where its business originated, and also in Tokyo and Kanagawa Prefecture, Yamaguchi Prefecture, and the Tohoku area.

1. Market conditions

In April 2021, the Japanese government announced that, in order to achieve the "realization of a decarbonized society," one with zero greenhouse gas emissions in actual terms, by 2050, it had raised the 2030 target to reduce CO_2 emissions compared to FY2013 from 26% to 46%. Also, in the Green Growth Strategy Through Achieving Carbon Neutrality in 2050 that it announced in June of the same year, it is enacting comprehensive measures for the electrification of vehicles for sales of all new passenger cars by the mid-2030s at the latest. In Europe, which has taken the lead in decarbonization, various vehicle manufacturers have been transitioning to EVs*1 ahead of Japan. But this can actually be said to be an advantage for the Company, as it handles an extensive lineup of EV brands. The policy of the Company, which is conducting offensive management, is to pursue the first-mover advantage for the accelerating transition to EVs, so it is making capital investments aimed at this transition. Meanwhile, the new trend beyond EVs is CASE*2, of which vehicle maintenance through connectedness will be important. The Company aims to strengthen the foundation of its vehicle maintenance business by increasing the percentage of vehicles serviced through maintenance packages, new car warranties and other means. Note that in Europe, EV maintenance work is considered the handling of high-voltage systems, and it is important to acquire qualifications to handle these systems. Based on this, the Company's policy is to work on developing human resources not only for sales, but also for maintenance.

*1 Acronym for "electric vehicle."
*2 Acronym for "connected, autonomous, shared, electric."

2. Performance trends

In 1H FY6/22 consolidated results, net sales reached ¥19,968mn*, and operating profit rose 13.0% to ¥1,362mn, both new highs for the Company since its listing. Despite the impact of delays in product arrival and other factors, vehicle deliveries progressed—particularly in high-priced vehicles—and dealerships newly opened in FY6/21 contributed to sales. In addition, the recurring revenue-based businesses, including vehicle maintenance and insurance, performed well accompanying strong new car sales. In terms of profit, gross profit increased on sales growth, primarily in new cars, with the high-margin recurring revenue-based businesses also contributing.

* At the start of FY6/22, the Company adopted the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29). Therefore, the consolidated results forecasts are the monetary amounts after the adoption of this accounting standard, so the YoY rate of change for net sales is not shown.

For the FY6/22 consolidated results, the Company is maintaining its initial forecast for net sales of ¥41,067mn*, with operating profit down 6.1% YoY to ¥2,149mn. Although the Company has achieved 48.6% of its full-year forecast for net sales, 63.4% for operating profit and 64.1% for ordinary profit, it has left its forecast unchanged in light of the still-uncertain supply of new vehicles due to the novel coronavirus pandemic (hereafter, COVID-19). In 2H FY6/22, new dealerships opened in the previous period are expected to contribute to sales, and orders are also expected to grow steadily at existing dealerships. The Company plans to continue to improve operational efficiency through the effective use of resources in management and the promotion of a shift to the use of IT.

* At the start of FY6/22, the Company adopted the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29). Therefore, the YoY rate of change for net sales is not shown.

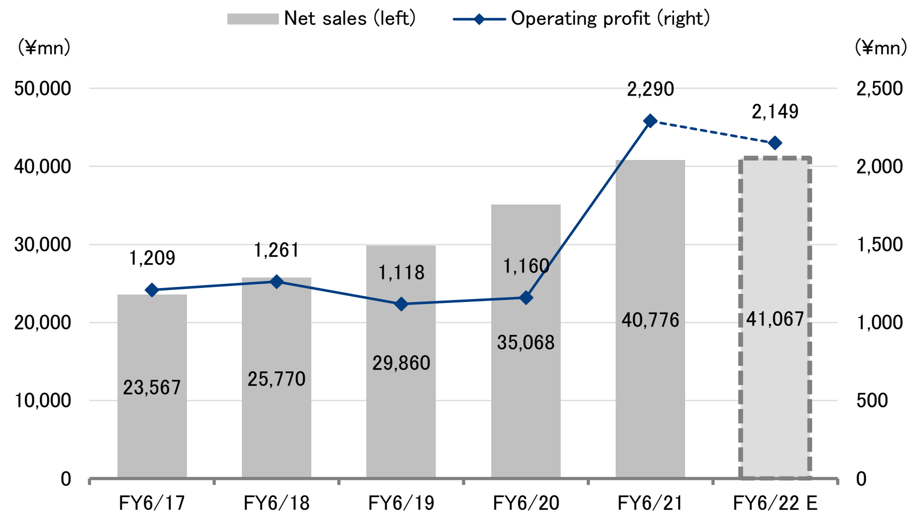
3. Shareholder returns

Until recently, the Company targeted a dividend payout ratio of around 15%, but raised it to 17.5% from FY6/21 and again to 20% from FY6/22. Based on this policy, and given that it had raised the targeted dividend payout ratio, the Company's plan at the beginning of the period called for a per-share dividend of ¥29.13 (interim dividend ¥5.0, period-end dividend ¥24.13), but in February 2022, it announced a revision to its dividend forecast. This was due to the decision to pay a special dividend of ¥1.12 per share in conjunction with the abolishment of its shareholder benefits program from the perspective of a fair return of profits to shareholders. As a result, it plans to pay an annual dividend per share of ¥30.25 (interim dividend ¥5.0, period-end dividend ¥25.25), for a dividend payout ratio of 20.8%. Note that the Company intends to maintain a more stable return on profits through dividends and other means.

Key Points

- Is pursuing the first-mover advantage by actively responding to the accelerating transition to EVs
- In 1H FY6/22, recorded the highest net sales and operating profit since its listing, and made steady progress toward the full-year forecast
- Plans to increase dividend in FY6/22 for the fourth consecutive fiscal year

Performance trends



Note: At the start of FY6/22, the Company adopted the Accounting Standard for Revenue Recognition
Source: Prepared by FISCO from the Company's financial results

Company profile

Handles 10 brands of overseas vehicle manufacturers at 34 dealerships

1. Company profile

The Company is a pure holding company with four consolidated subsidiaries engaged in sales of imported cars. Its 34 dealerships (as of the end of December 2021) within Japan sell 10 main brands, including Alfa Romeo, FIAT, ABARTH, Jeep, Jaguar, Land Rover, BMW, MINI, Volvo and Porsche. Among the brands it carries, the Company offers a rich variety of models and price bands, with sales prices ranging between ¥2.21mn and ¥2.80mn for FIAT, ¥2.89mn to ¥6.15mn for MINI, and ¥7.29mn to ¥32.35mn for Porsche (as of March 2022). The previous 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 improved, expanding the user base. The Company has dealerships in Miyagi, Fukushima, Tokyo, Kanagawa, Yamaguchi and Fukuoka prefectures.

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).”

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 (US) 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, and then upgraded to the TSE Second Section in September 2017 and the TSE First Section in February 2018. It then transferred to the Prime Market, a new market segment that began in April 2022.

3. Group Companies

As of the end of December 2021, the Company Group is managing 34 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 18 dealerships; Willplus Motoren, which handles BMW and MINI, is managing 10 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 (End of December 2021)	18 dealerships	10 dealerships	4 dealerships	2 dealerships
Importers	Stellantis Japan Ltd. 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

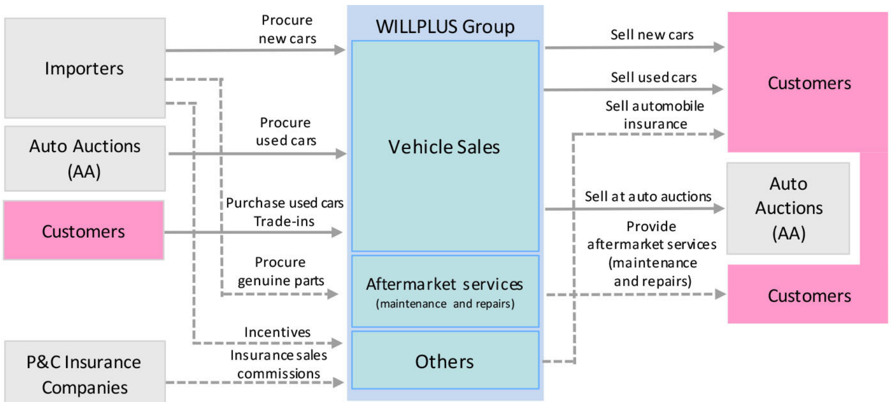
4. Description of business

(1) Business models

As an authorized dealer for the sales of imported cars, the Company purchases new cars from importers (Japanese subsidiaries of overseas auto manufacturers), which it then sells. In terms of the details of the importers, Stellantis Japan Ltd., which is the Japanese subsidiary of the Stellantis Group, handles the Alfa Romeo, FIAT, and ABARTH brands of Italy and the Jeep brand of the US, etc. 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

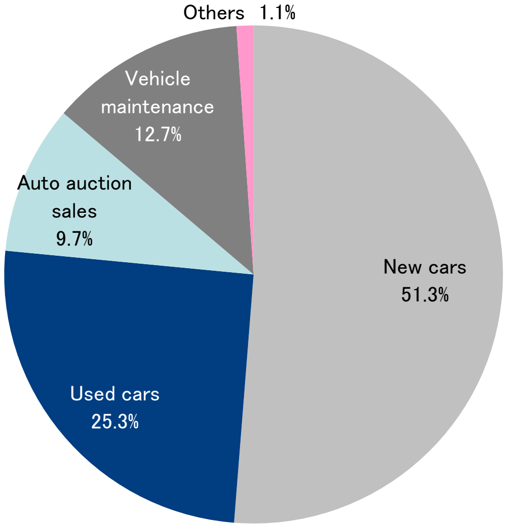


Source: Prepared by FISCO from the Company's results briefing materials

(2) Composition of total net sales

In 1H FY6/22, the composition of total net sales by business were that new cars provided 51.3%, used cars 25.3%, auto auction sales 9.7%, vehicle maintenance 12.7%, and others 1.1%. Meanwhile, in terms of profitability, the cost-of-sales ratio for new vehicles is high, so profitability of new cars is lower than that of used cars. With regards to other services, in addition to the fact that agency commissions are the main source of revenue, insurance fees have become a stable source of revenue, so the profit margin has increased. Auto auction sales are sales of traded-in cars of brands not handled by the Company Group.

Sales mix (1H FY6/22 net sales: ¥19,968mn)



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

Business strategies

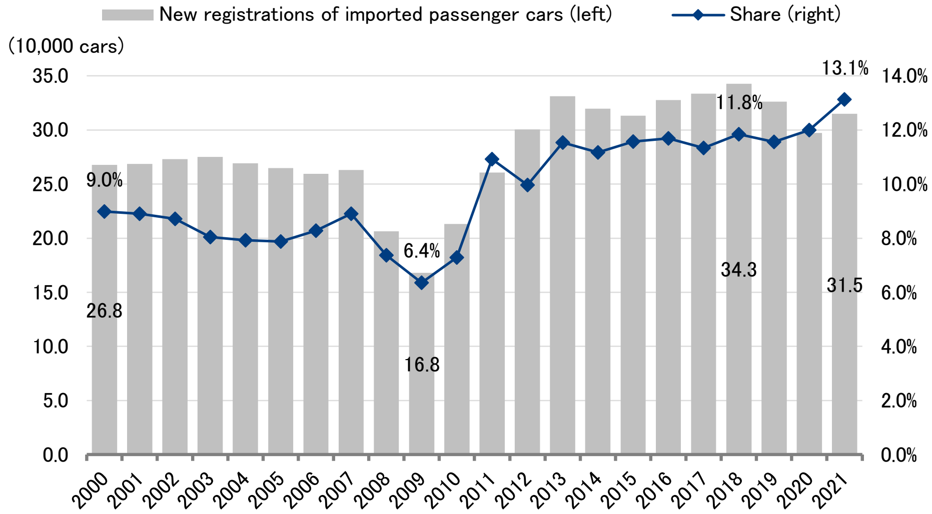
Is pursuing the first-mover advantage by actively responding to the accelerating transition to EVs

1. The domestic imported car market

Due to its declining birthrate and aging population, the population of Japan peaked in 2008 at 128.08mn people, and by February 2022 had declined to an estimated 125.34mn people. Meanwhile, according to statistics from the Japan Automobile Manufacturers Association, Inc., the number of passenger cars owned, including standard-size, small-size and kei minicars, continued to reach a record high level at 61.92mn at the end of March 2021. The number of passenger cars owned increased by 3.78mn over the past ten years. Breaking this down, standard-size cars increased by 3.14mn, small-size cars decreased by 4.09mn, and kei minicars increased by 4.73mn. In terms of the composition ratio, standard-size cars changed from 29.0% to 32.3%, small-size cars from 40.1% to 31.0% and kei minicars from 31.0% to 36.7%. As a result, it can be said that the purchasing behavior of consumers is polarizing and small-size cars have lost share. Also, for kei minicar standards, engine capacity and body size were increased, and FISCO believes that pragmatic consumers are tending toward owning kei minicars, while people who prioritize hobbies, lifestyle and value are tending toward owning standard-size cars.

FISCO found that the number of newly registered imported cars (overseas manufacturers) fell from 268,000 in 2000 to 168,000 in 2009 following the global financial crisis triggered by the collapse of Lehman Brothers, but subsequently recovered to reach 315,000 in 2021 (up 5.9% YoY). The share of imported passenger cars of all registered cars (standard- and small-size passenger cars), not including Japan's unique kei minicar models, was 9.0% in 2000 and fell to 6.4% in 2009, but has since seen an ongoing trend toward recovery, reaching 11.8% in 2018 and 13.1% in 2021.

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 data provided by the Japan Automobile Importers Association and Japan Automobile Dealers Association

Meanwhile, the share of imported cars overseas is high. In Germany, home to VW—the world's largest vehicle manufacturer—the luxury car brand Mercedes-Benz, and BMW, which is also popular in Japan, imported cars had a 39.5% share, while the share was 76.1% in Italy and 24.7% in the US (all figures for 2020). The Company thus believes there is considerable room for the share of imported cars in Japan to grow. Incidentally, according to the Company, the scale of the Japanese market for imported new cars is ¥1.41tn (2021), and in this market, the consolidation of medium- and small-size dealers is progressing. Given that the Company's market share is about 3%, it is aiming to increase that share through M&A going forward.

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 adopts a multi-brand strategy, handling 10 brands. The pattern of car model changes in Europe and the US is around seven to eight years, while full model changes for domestic cars are around every five to seven 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. Through 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 from overseas manufacturers in 2021 (calendar year), all 10 brands the Company handles were in the top 20. Its standards for selecting a brand are 1) the potential to become a major dealer within that brand and 2) strong brand power that can be expected to result in constant sales. Based on this, the Company is targeting more than 9 brands which it does not currently handle. Generally, importers, which are the Japanese subsidiaries of overseas manufacturers, grant sales rights to dealers in each area based on a dealer contract, and the dealers conduct sales. However, as many territories are already filled, an M&A strategy of acquiring or taking over the businesses of existing dealers is important.

In December 2018, Willplus Eins took over the business of Porsche Center Sendai, thereby acquiring the Porsche brand. Porsche, which is synonymous with luxury sports cars, has a stable sales track record and is ranked in the top 10 for new registrations of cars of overseas manufacturers, so this can be said to be an attempt to strategically capture a new brand.

(2) Dominant strategy

The dominant strategy refers to a strategy of opening dealerships in a concentrated manner in a specific region. In addition to new car dealers and showrooms, a used car dealership that handles approved cars (certified used cars) and a service center that performs maintenance and inspections will be set up in the business area to expand the options for purchasers and to provide after-sales services. For the Company, if it is a vehicle sold in-house, the history of the vehicle can be easily ascertained and an appropriate trade-in price can be presented, and there is an advantage that used cars can be purchased through the purchase of models handled by the specific brand.

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.

Looking at the change in the number of locations in terms of this dominant strategy, the total number of Group dealerships was 3 at the end of June 2007, 19 at the end of June 2010, and 34 at the end of June 2021. Meanwhile, the number of locations by region has increased from 2 to 7 to 15 in Fukuoka Prefecture, 1 to 12 to 15 in Tokyo and Kanagawa Prefecture, with 2 new dealerships in Yamaguchi Prefecture and 1 each in Miyagi and Fukushima prefectures, revealing that the Company is developing dealerships based on a dominant strategy.

Change in number of regional locations

Source: Results briefing materials

Some specific examples of the Company'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 Shonan/service center), Jaguar/Land Rover Shonan (Shonan showroom/new car sales), Jeep Fujisawa Shonan, Alfa Romeo Fujisawa Shonan, FIAT/ABARTH Hiratsuka, Jaguar/Land Rover Sagamihara. In the Kitakyushu area, it manages 7 dealerships: Volvo Cars Kitakyushu, Jeep Kitakyushu, BMW Kokura, BMW Yahata, MINI Kokura, Jaguar/Land Rover Kitakyushu, and MINI NEXT Fukuoka-Higashi; and newly opened CHECKER MOTORS Approved Munakata (Munakata City, Fukuoka Prefecture), its first multi-brand dealership specializing in approved imported used cars.

By brand, the Company has been actively investing in MINI. 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. In February 2021, the Company newly opened MINI NEXT Fukuoka-Higashi, a dealership specializing in sales of certified used MINI vehicles that is 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. As of the end of December 2021, it has 2 MINI dealerships in Yamaguchi Prefecture and 5 in Fukuoka Prefecture, and it is the major authorized dealer of this brand in those areas.

(3) M&A strategy

The majority of imported car dealerships are operated by local companies in each region, and many of these companies suffer from a lack of successors, a vulnerable financial position or other issues. In response, the Company aims to use M&A to support the sustainable growth of the imported car industry and help resolve social issues.

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. For introductions to M&A deals, the Company directly approaches importers, financial institutions or brokerage firms, or is directly approached by the other party. It reviews factors such as 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 deals, the Company works on building good relationships with importers. In the case of financial institutions and brokerage firms, on the other hand, deals often involve competitive bidding. In such cases, the Company bids in accordance with factors such as its internal investment-recovery standards. Note that its candidate areas for expansion are government-designated cities with populations exceeding 1mn people* and core cities with populations exceeding 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.

Over the last five fiscal years, the Company has acquired four businesses and opened 10 new dealerships, and has also renovated or relocated and renovated 20 dealerships. The Company's standard for M&A is to become profitable by the second fiscal year and to reach existing store level profitability within about two to three fiscal years; All nine M&As since the holding company's establishment have become profitable. Case 1, for example, had net sales of ¥4,228mn and operating loss of ¥390mn in the year immediately prior to the M&A. By the third fiscal year following the M&A, however, net sales and operating profit increased to ¥6,139mn and ¥215mn, respectively. Furthermore, in the most recent fiscal year, net sales reached ¥10,346mn with an operating profit of ¥464mn, while operating profit margin improved from 3.5% in the third fiscal year after the M&A to 4.4%. Case 3 had net sales of ¥3,456mn and operating loss of ¥79mn in the year immediately prior to the M&A. By the third fiscal year following the M&A, however, net sales and profits increased to ¥4,813mn and ¥231mn, respectively. In the most recent fiscal year, those figures respectively grew to ¥23,105mn and ¥1,249mn.

Actual M&As and new dealerships

	FY6/17	FY6/18	FY6/19	FY6/20	FY6/21
New dealerships	1 dealership [J] Fukuoka-Nishi (October 2016)	2 dealerships [AR] Ota (January 2018) [JLR] Kitakyushu (March 2018)	4 dealerships [J] Meguro (November 2018) [PC] Koriyama (January 2019) [MINI] Yamaguchi (March 2019) [MINI NEXT] Shunan (March 2019)	1 dealership [APP] Munakata (November 2019)	2 dealerships [MINI NEXT] Fukuoka-Higashi (February 2021) [JLR] Sagamihara (February 2021)
Business Acquisitions	1 deal [VC] Odawara (May 2017)	1 deal [JLR] Shonan (April 2018)	2 deals [PC] Sendai (December 2018) [JLR] Mitaka (April 2019)	-	-
Dealership remodeling/ relocation and remodeling	4	3	4	5	4
Number of dealerships at period end	24	27	32	32	34

Note: J: Jeep, AR: Alfa Romeo, JLR: Jaguar/Land Rover, VC: Volvo Car, PC: Porsche Center, APP: CHECKER MOTORS Approved Munakata
Source: Prepared by FISCO from the Company's results briefing materials

Examples of profit improvements following M&A

(¥mn)

	FY immediately prior to M&A	3rd FY following M&A	Most recent FY
Case 1			
Net sales	4,228	6,139	10,346
Operating profit	-390	215	464
Operating profit margin	-	3.5%	4.4%
Case 2 (3rd FY following M&A)			
Net sales	1,489		2,206
Operating profit	-10		131
Operating profit margin	-		5.9%
Case 3			
Net sales	3,456	4,813	23,105
Operating profit	-79	231	1,249
Operating profit margin	-	4.7%	5.4%
Case 4 (2nd FY following M&A)			
Net sales	2,228		2,485
Operating profit	-86		109
Operating profit margin	-		4.3%

Note: Six months or more following an M&A is counted as one period
Source: Prepared by FISCO from the Company's results briefing materials

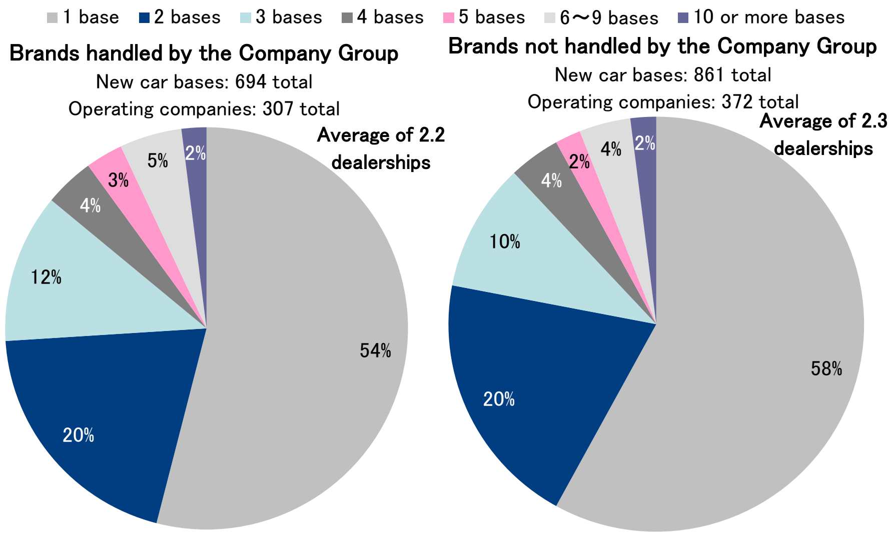
Looking at imported car dealers as a whole, there are a total of 307 operating companies for the 10 brands the Company handles, with 694 bases, which means that each company operates an average of 2.2 dealerships. Of the 8 brands the Company does not handle, each company operates an average of 2.3 dealerships. As these results show, we can say that there are many potential M&A targets nationwide, and plenty of room for growth. Given that there are as many management concerns, such as business succession and other issues, as there are companies, FISCO believes that it is possible for these social issues to be solved through M&A.

New registrations of cars of overseas manufacturers (calendar year) and overview of operating companies

Brand name	Number of new car registrations (2021)			Operating company		Company Group
	Ranking	Number of vehicles	Share	Number of companies	Number of bases	Number of bases
Brands handled by the Company Group						
Fiat	11	9,484	3.7%	44	73	4
ABARTH	14					
Alfa Romeo	15	2,341	0.9%	30	42	3
Jeep	7	14,271	5.5%	41	88	7
BMW	2	35,905	13.9%	47	171	2
MINI	5	18,211	7.0%	46	117	8
Jaguar	18	5,832	2.3%	24	48	5
Land Rover	13					
Volvo	6	16,638	6.4%	43	110	4
Porsche	10	7,009	2.7%	32	45	2
Brands not handled by the Company Group (examples)						
Mercedes-Benz	1	51,678	20.0%	55	209	-
VW	3	35,213	13.6%	88	248	-
Audi	4	22,535	8.7%	43	125	-
Citroen	12	5,892	2.3%	34	52	-
Peugeot	8	12,072	4.7%	42	77	-
Renault	9	7,666	3.0%	53	70	-
DS	19	889	0.3%	40	56	-
Maserati	17	1,085	0.4%	17	24	-

Note: Mercedes-Benz includes Smart
Source: Prepared by FISCO from the Company's results briefing materials and data from the Japan Automobile Importers Association

Breakdown of operating companies and new car bases

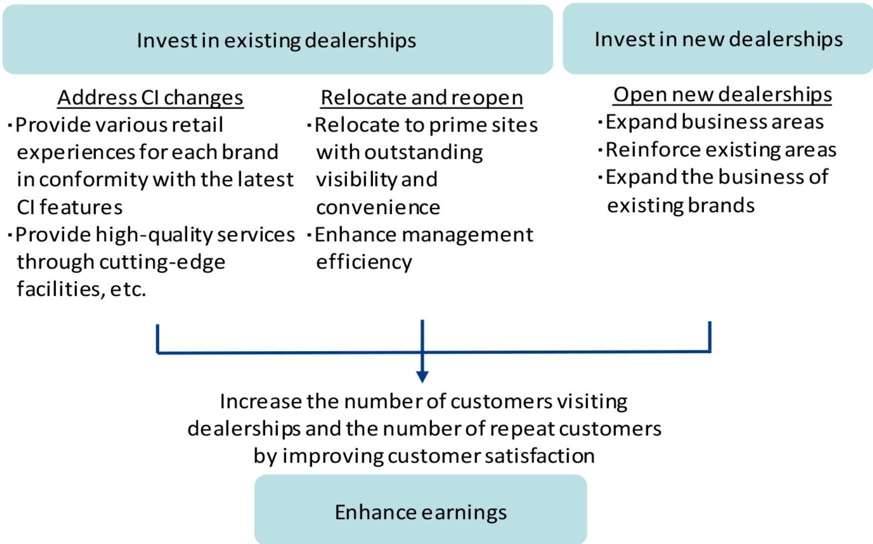


Source: Prepared by FISCO from the Company's results briefing materials

(4) Investments in dealerships

By improving the number of visitors to dealerships and customer satisfaction (CS), investment in dealerships leads to an increase in the number of repeat buyers. Therefore, the Company is investing in existing dealerships in order to comply with the latest CI and improve service quality. At the same time, it is advancing relocations to more advantageous locations where management efficiency can be expected to improve. Meanwhile, by investing in new dealerships, the Company aims to expand commercial areas, supplement existing areas and expand the scope of business for its existing brands.

Aims of investing in dealerships



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

3. Initiatives towards the accelerating transition to EVs

In April 2021, the Japanese government announced that, in order to achieve the "realization of a decarbonized society," one with zero greenhouse gas emissions in actual terms, by 2050, it had raised the 2030 target to reduce CO_2 emissions compared to FY2013 from 26% to 46%. Also, in the Green Growth Strategy Through Achieving Carbon Neutrality in 2050 that it announced in June of the same year, it is enacting comprehensive measures for the electrification of vehicles for sales of all new passenger cars by the mid-2030s at the latest. Specifically, to promote the spread of types of electric vehicles (EV, PHV, and FCV), it will install a charging infrastructure of 150,000 charging stations, including 10,000 quick chargers at service stations and 30,000 public-use quick chargers, with the aim of realizing a level of convenience equal to that of gasoline vehicles by 2030 at the latest.

Through this trend of decarbonization, there is accelerating movement to ban the sale of new gasoline and diesel vehicles. One example of this is both the UK and France announcing in 2017 that they would ban the sale of non-EV new cars by 2040. The UK went a step further and will now ban the sale of new gasoline and diesel vehicles in 2030, and ban the sale of new hybrid vehicles in 2035. In addition, the US state of California as well as China are advancing similar initiatives. With regards to this, Japan is considering having all new vehicles be electric-powered by the mid-2030s at the latest. Also, ahead of the national government's move, Tokyo Governor Yuriko Koike has declared that the sale of gasoline vehicles will be banned in Tokyo by 2030.

In Europe, which is leading the way in the decarbonization movement being advanced around the world, the industrial transformation is remarkable and trending toward movement at a high speed, as exemplified by the transition to EV developing among automakers, and this will no doubt be beneficial to the Company. The brands it handles include the Jeep Renegade 4Xe (PHV), FIAT 500e, BMW iX and iX3, MINI Cooper SE, Volvo XC40 Recharge (PHV) and Porsche Taycan. Volvo plans to transition all new cars to EVs by 2030, Jaguar/Land Rover will shift Jaguar to being a full EV brand by 2025, while MINI will shift to being a full EV brand by the start of the 2030s. In such ways, various companies are ambitiously targeting a complete transition to EVs. The policy of the Company, which is conducting offensive management, is to pursue the first-mover advantage for accelerating the transition to EVs, so it is making capital investments aimed at this transition. Specifically, it is progressing installations of the latest charging infrastructure at all dealerships (completed at 84% of its dealerships, and currently sequentially installing quick chargers). It is also advancing introductions of EV demonstration cars to give customers the experience of test driving an EV at an early stage.

Outlook for transition to EVs by European vehicle manufacturers handled by the Company

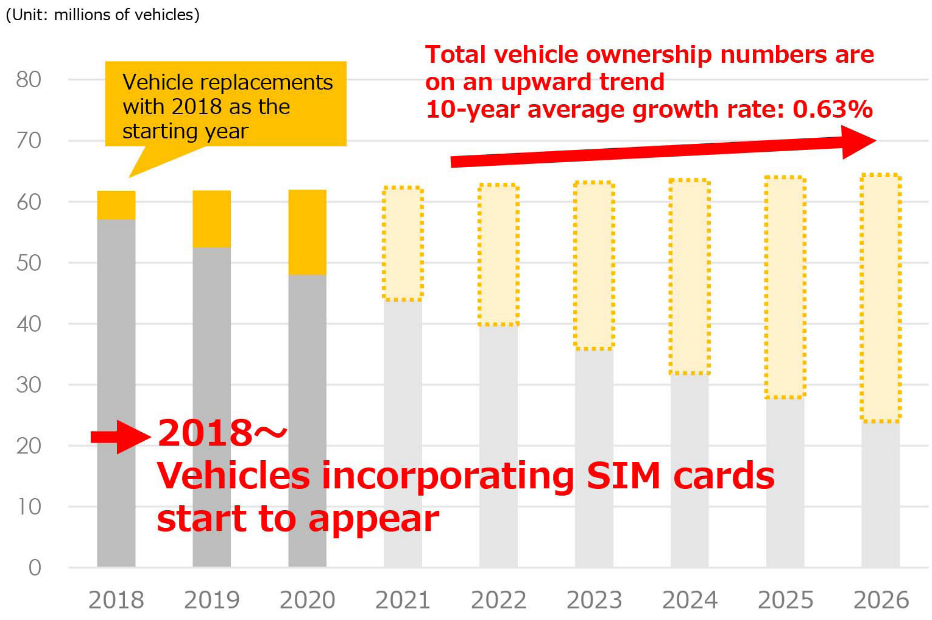
	2020	2025	2030
Volvo	■2020 ・Will abolish internal combustion engines for all models (transition to PHEV and HV)	■2025 ・Half of all new cars will be fully EV and the remainder will be hybrids	■2030 ・Will transition all new cars to EVs (will also end sales of hybrid vehicles)
BMW、MINI	■2023 ・Will launch sales of 25 EV models (of which, half will be fully EV)	■2025 ・EV models to provide 30% of global sales (of which, half will be fully EV)	■2030 ・Global sales of EV models to be more than 7mn vehicles (of which, more than 70% will be fully EV) ■Start of the 2030s ・MINI to shift to being a fully EV brand
Porsche			■2030 ・Will transition to EVs providing more than 80% of global new car sales
Jeep FIAT/ABARTH Alfa Romeo (Stellantis)		■2025 ・Jeep to establish fully electrified Jeep 4xe with zero emissions for all of its lineup ■2027 ・New Alfa Romeo models will be EV only in Europe, North America, and China	■2030 ・Aiming for the sales composition for LEVs (low emission vehicles) to be 70% in Europe and more than 40% in the US (in total) by 2030
Jaguar/Land Rover		■2025 ・Jaguar to shift to being a fully EV brand	■2030 ・Will set full battery EV models for all models of both brands

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

The new trend beyond EVs is CASE, of which vehicle maintenance through connectedness will be important. This is due to the increasing importance of authorized dealers, as vehicles equipped with SIM cards are becoming more widespread* due to the shift to connected vehicles, and repairs that can only be performed by authorized dealers are increasing as maintenance becomes more complex. Meanwhile, domestic automobile ownership is on the rise, with a 10-year average growth rate of 0.63% and 2.31% for imported vehicles alone. In addition, looking at the vehicle replacement cycle based on the average years of vehicle use, if 2018—the year SIM card-equipped cars were introduced—is taken as the starting point, approximately 63% of the total number of vehicles owned will be replaced by 2026. The Company sees this situation as an opportunity to increase profits, and aims to strengthen the foundation of its vehicle maintenance business by increasing the percentage of vehicles serviced through maintenance packages, new car warranties and other means. Note that in Europe, EV maintenance work is considered the handling of high-voltage systems, and it is important to acquire qualifications to handle these systems. Based on this, the Company's policy is to work on developing human resources not only for sales, but also for maintenance.

* The installation of SIM cards in vehicles will allow for monitoring of vehicle condition and remote control through smartphones. It is expected that EV cars will be able to unify everything from charger searches to usage fee payments through an app.

Depiction of number of vehicles owned in Japan and vehicle replacement



Source: Company results briefing materials

Performance trends

In 1H FY6/22, recorded the highest net sales and operating profit since its listing

1. Overview of 1H FY6/22 results

In the 1H FY6/22 consolidated results, net sales were ¥19,968mn, operating profit rose 13.0% YoY to ¥1,362mn, ordinary profit increased 13.5% to ¥1,367mn and profit attributable to owners of parent grew 11.5% to ¥892mn. Net sales and operating profit set new record highs since the Company's listing, and as in 1Q FY6/22, operating profit margin, ordinary profit margin and profit margin attributable to owners of parent all set new record highs since the listing. Note that with the adoption of the Accounting Standard for Revenue Recognition, sales incentives, etc. received from importers, which were previously recorded as part of net sales, have been excluded, and instead have been deducted from purchase prices, resulting in a ¥841mn reduction in net sales and cost of sales.

1H FY6/22 consolidated financial results

(¥mn)

	1H FY6/21		1H FY6/22		YoY comparison	
	Results	vs. net sales	Results	vs. net sales	Change	% change
Net sales	19,909	100.0%	19,968	100.0%	-	-
Gross profit	4,101	20.6%	4,321	21.6%	220	5.4%
SG&A expenses	2,895	14.5%	2,958	14.8%	62	2.2%
Operating profit	1,205	6.1%	1,362	6.8%	157	13.0%
Ordinary profit	1,204	6.1%	1,367	6.9%	162	13.5%
Profit attributable to owners of parent	800	4.0%	892	4.5%	91	11.5%

Note: At the start of FY6/22, the Company adopted the Accounting Standard for Revenue Recognition, so the YoY rate of change for net sales is not shown.
Source: Prepared by FISCO from the Company's financial results and results briefing materials

Regarding net sales, despite the impact of delays in product arrival and other factors, vehicle deliveries progressed—particularly in high-priced vehicles—and dealerships newly opened in FY6/21 contributed to sales. In terms of profits, while the number of dealerships and personnel increased, efforts to promote greater efficiency through effective use of resources and reevaluation of work flows, etc. resulted in a 2.2% YoY increase in SG&A expenses, to ¥2,958mn. Meanwhile, sales grew primarily around new cars, with gross profit rising 5.4% YoY to ¥4,321mn, and the recurring revenue-based businesses, with their high profit margins, also contributed. The number of dealership visits was down 7% YoY in 1Q FY6/22, but were flat YoY in 2Q. FISCO views this as a solid performance, on par with the same period last year, which also benefited from a tailwind from the rebound to the self-restraint brought on by COVID-19.

Regarding the imported car sales market in 1H FY6/22, new registrations of imported passenger cars (foreign manufacturers) declined 2.4% YoY from July to September 2021, and 22.6% from October to December 2021. In contrast, the Company's net sales by business* rose 8.0% YoY on strong new car sales. In addition, the recurring revenue-based businesses, including vehicle maintenance, insurance, etc., accumulated steadily in conjunction with strong new car sales. Note that sales of used cars fell 1.4% YoY, but FISCO believes this was due to the unstable supply of new vehicles caused by the shortage of semiconductors and other factors, which has kept the used car market at a high level.

* Figures and comparisons assume the Accounting Standard for Revenue Recognition, etc. had not been adopted in 1H FY6/22.

1H FY6/22 net sales by business

(¥mn)

	Prior to accounting standard change						After accounting standard change		
	1H FY6/21		1H FY6/22		YoY		1H FY6/22		
	Results	Composition ratio	Results	Composition ratio	Change	% change	Impact amount	Results	Composition ratio
New cars	9,661	48.5%	10,431	50.1%	770	8.0%	-193	10,237	51.3%
Used cars	5,212	26.2%	5,138	24.7%	-74	-1.4%	-92	5,046	25.3%
Auto auction sales	1,828	9.2%	1,931	9.3%	103	5.6%	-	1,931	9.7%
Vehicle maintenance	2,356	11.8%	2,527	12.1%	171	7.3%	-	2,527	12.7%
Others	850	4.3%	781	3.8%	-69	-8.1%	-555	225	1.1%
Total	19,909	100.0%	20,809	100.0%	900	4.5%	-841	19,968	100.0%

Note: Impact amount resulting from the FY6/22 adoption of the Accounting Standard for Revenue Recognition
Source: Prepared by FISCO from the Company's results briefing materials

2. Financial condition

At the end of 1H FY6/22, total assets were up ¥1,039mn compared to the end of the previous period to ¥18,011mn. Current assets increased ¥1,300mn to ¥10,788mn. This was primarily due to an increase of ¥1,566mn in cash and time deposits, while product inventories fell by ¥334mn. Total liabilities increased by ¥369mn to ¥9,811mn. Current liabilities fell by ¥560mn to ¥7,950mn. This was mainly because advances received decreased ¥77mn due to a ¥930mn increase in non-current liabilities resulting from an increase in long-term borrowings. As a result, the equity ratio was at 45.5% (versus 44.4% at the end of the previous period).

Consolidated balance sheet

(¥mn)

	End-FY6/19	End-FY6/20	End-FY6/21	End-1H FY6/22	Change
Current assets	8,247	9,269	9,488	10,788	1,300
Cash and time deposits	1,412	2,522	3,376	4,943	1,566
Accounts receivable - trade	217	177	210	186	-23
Products	5,338	5,492	4,731	4,397	-334
Non-current assets	6,425	7,376	7,483	7,222	-261
Property, plant and equipment	5,228	6,197	6,389	6,178	-210
Intangible assets	428	342	259	216	-43
Investments and other assets	768	835	834	827	-6
Total assets	14,673	16,645	16,972	18,011	1,039
Current liabilities	7,492	9,261	8,510	7,950	-560
Non-current liabilities	1,759	1,261	930	1,861	930
Total liabilities	9,252	10,522	9,441	9,811	369
(Interest-bearing debt)	4,429	5,126	3,894	4,995	1,100
Total net assets	5,421	6,123	7,530	8,200	669

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

Outlook

Steady progress against FY6/22 full-year forecast

● FY6/22 outlook

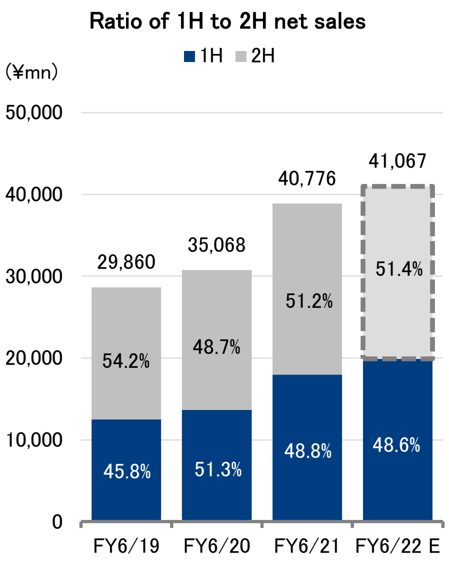
The Company is maintaining its initial forecast for FY6/22 consolidated results, with net sales of ¥41,067mn, operating profit to decline 6.1% YoY to ¥2,149mn, ordinary profit to decrease 7.4% to ¥2,132mn and profit attributable to owners of parent to decline 9.6% to ¥1,386mn. Progress against the full-year forecast is steady at 48.6% for net sales, 63.4% for operating profit, 64.1% for ordinary profit, and 64.4% for profit attributable to owners of parent. Although an upward revision in the forecast for profits would not be surprising given that the average progress rate over the past five fiscal periods has been 48.7% for net sales and 54.4% for operating profit, the Company has left its forecast unchanged in light of continuing uncertainty in the supply situation for new vehicles due to COVID-19.

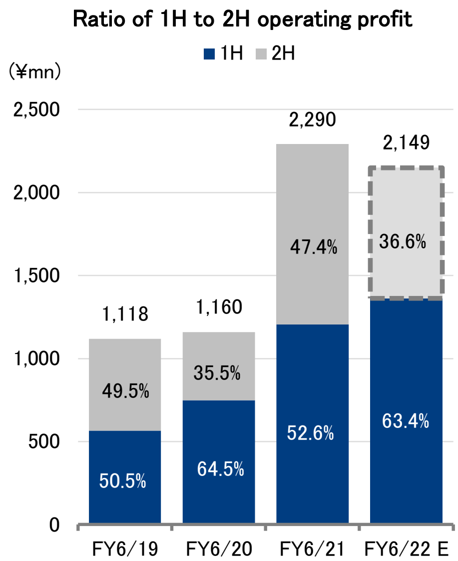
FY6/22 forecasts

(¥mn)

	FY6/21		FY6/22		YoY		1H progress rate
	Results	vs. net sales	Forecast	vs. net sales	Change	% change	
Net sales	40,776	-	41,067	-	-	-	48.6%
Operating profit	2,290	5.6%	2,149	5.2%	-140	-6.1%	63.4%
Ordinary profit	2,301	5.6%	2,132	5.2%	-169	-7.4%	64.1%
Profit attributable to owners of parent	1,533	3.8%	1,386	3.4%	-147	-9.6%	64.4%

Note: At the start of FY6/22, the Company adopted the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29). Therefore, figures for the consolidated results forecasts reflect the adoption of this accounting standard, so the YoY rate of change for net sales is not shown
Source: Prepared by FISCO from the Company's financial results and results briefing materials





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

In 2H FY6/22, new dealerships opened in the previous period are expected to contribute to sales, and orders are also expected to grow steadily at existing dealerships. In addition, the Company expects that the supply of new vehicles will remain unstable due to the semiconductor shortage and other factors, while used vehicles will be somewhat affected by changes in supply and demand. The Company intends to continue improving operational efficiency through the effective management use of resources and the promotion of a shift to the use of IT.

Note that the Company is focusing on new vehicle orders, primarily new models, with new models scheduled for release in FY6/22 to include the Jeep Grand Cherokee L, the Jeep Gladiator and the BMW iX.

Initiatives for SDGs

Is aiming for sustainable growth and improved enterprise value by achieving the SDGs

The Company is sequentially implementing initiatives, including reviewing its previous initiatives, such as for saving resources, and introducing new initiatives, through which it is aiming for sustainable growth and improved enterprise value by achieving the SDGs*. Specifically, it is conducting initiatives for 14 goals.

* SDGs (Sustainable Development Goals) are international goals that aim to achieve a more sustainable world by 2030. They are comprised of 17 goals and 169 targets.

(1) Creating environments that are easy to work in

Toward creating environments that are easy to work in, the Company is striving to establish and maintain workplace environments in which each and every employee can utilize their abilities to the greatest possible extent and continue to work for a long time. Its specific initiatives include developing human resources, preventing harassment, promoting workstyle reforms, and advancing diversity. To give some examples of advancing diversity, the Company is conducting initiatives including promoting the activities of women; recruiting senior citizen human resources, overseas human resources and people with disabilities; and promoting the activities of mid-career hires, and these initiatives are achieving results.

(2) Reducing the burden on the environment

In order to reduce the burden on the environment, the Company is aiming to reduce CO_2 emissions and achieve corporate growth through developing together with society. Specifically, it is working on initiatives including installing infrastructure to promote EV sales; conducting green purchasing; utilizing online meetings and sales discussions; reducing usage of paper resources, water, and electricity; managing waste water at maintenance plants and installing oil-water separation tanks; collecting chlorofluorocarbon (CFC) gas; collecting and recycling waste, greening the rooftops of dealerships; and building dealerships that are considerate of the environment.

(3) Social contribution

To contribute to society, the Company is aiming to develop together with its local communities. Specifically, it is working on initiatives including supporting regional revitalization through corporate-version hometown tax payments and supporting environmental groups through specific products.

The Company's specific initiatives for SDGs

SDGs that relate to the Company	The Company's initiatives
	**Creating environments that are easy to work in:** **Establishing and maintaining workplace environments in which each and every employee can utilize their abilities to the greatest possible extent and continue to work for a long time** ・Developing human resources ・Preventing harassment ・Promoting workstyle reforms ・Advancing diversity (promoting the activities of women; recruiting senior citizen human resources, overseas human resources, and people with disabilities; and promoting the activities of mid-career hire)
	**Reducing the burden on the environment:** **Aiming to reduce CO_2 emissions and grow as a company through developing together with society** ・Installing infrastructure to promote EV sales ・Conducting green purchasing ・Utilizing online meetings and sales discussions ・Reducing usage of paper resources ・Reducing usage of water ・Reducing usage of electricity ・Managing waste water at maintenance plants and installing oil-water separation tanks ・Collecting CFC gas ・Collecting and recycling waste ・Greening the rooftops of dealerships ・Building dealerships that are considerate of the environment
	**Social contribution:** **Aiming to be a company that develops together with its local communities** ・Supporting regional revitalization through corporate-version hometown tax payments ・Supporting environmental groups through specific products

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

Shareholder returns

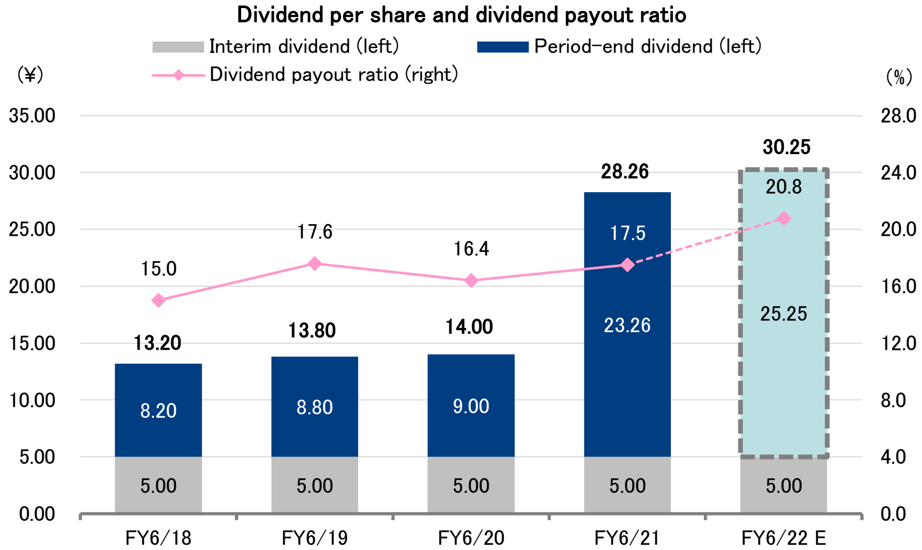
Raised targeted dividend payout ratio to 20.0%, with plans to increase dividend in FY6/22 for the fourth consecutive fiscal year

● 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. Up until recently, the Company targeted a dividend payout ratio of around 15%, but raised it to 17.5% from FY6/21 and raised it to 20.0% from FY6/22.

In FY6/20, it paid a dividend per share of ¥14.0 (interim dividend of ¥5.0, period-end dividend of ¥9.0) for a dividend payout ratio of 16.4%. In comparison, in FY6/21 it initially planned to pay a dividend per share of ¥13.59 (interim dividend of ¥5.0, period-end dividend of ¥8.59), but upon considering such factors as the Company's results and financial condition, it increased the period-end dividend by ¥2.47 from the forecast announced in May 2021, to ¥23.26 (increasing the annual dividend by ¥14.26 YoY to ¥28.26). For FY6/22, because the Company raised its targeted dividend payout ratio to 20.0%, it announced a revision to its dividend forecast in February 2022, although the initial plan had called for a dividend of ¥29.13 per share (interim dividend of ¥5.0, period-end dividend of ¥24.13). This was due to the decision to pay a special dividend of ¥1.12 per share in conjunction with the abolishment of its shareholder benefits program from the perspective of a fair return of profits to shareholders. As a result, it plans to pay an annual dividend per share of ¥30.25 (interim dividend ¥5.0, period-end dividend ¥25.25), for a dividend payout ratio of 20.8%. Note that the Company intends to maintain a more stable return on profits through dividends and other means.

Shareholder returns



Note: On November 1, 2017, the Company conducted a 2-for-1 share split of ordinary shares. The dividend per share for FY6/18 has been retroactively adjusted
The period-end dividend for FY6/22 E includes a special dividend of ¥1.12.
Source: Prepared by FISCO from the Company's financial results

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■ For inquiry, please contact: ■
FISCO Ltd.
5-13-3 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062
Phone: 03-5774-2443 (IR Consulting Business Division)
Email: support@fisco.co.jp