COMPANY RESEARCH AND ANALYSIS REPORT

NEC Capital Solutions Limited

8793

Tokyo Stock Exchange Prime Market

17-Aug.-2022

FISCO Ltd. Analyst
Tomokazu Murase

FISCO Ltd.
https://www.fisco.co.jp

Index

Summary

The Company is creating new social value as the NEC Group's financial services company

NEC Capital Solutions Limited <8793> (hereinafter, the Company) is an equity-method affiliate of NEC Corporation <6701> that offers leasing, installment and factoring (purchasing sales credits) of information and communications equipment, including NEC products, office equipment, industrial machinery and facilities and other various types of equipment and facilities, as well as lending, and collection agent services. Up until now, it has steadily increased handling of non-ICT products and expanded service areas. Furthermore, it aims to shift to high value-added businesses and pursue diversification with investments and loans, fund formation, and other financial services. It also aims for CSV (Creating Shared Value) management that balances solving social issues and generating earnings, and works to solve social issues such as the establishment of social and ICT infrastructure, revitalization of local communities and the economy, prevention of global warming, and responses to an aging population.

1. FY3/22 results

In the Company's FY3/22 results, revenues were ¥249,907mn (up 12.9% YoY), operating income was ¥10,447mn (up 75.1%), ordinary income was ¥11,422mn (up 87.6%), and profit attributable to owners of parent was ¥6,939mn (up 68.5%). In segment results, although revenues in the Finance Business fell year on year, both revenues and profits increased from growth primarily in the Leasing and Investment businesses. Along with an increase in the operating asset balance, the Leasing Business saw an increase in gross profit associated with the sale of a large-scale asset, as well as improvement in credit costs. As a result, revenues were ¥224,200mn (up 8.8% YoY), gross profit was ¥16,570mn (up 16.8%), and operating income was ¥7,120mn (up 59.0%).

2. FY3/23 forecasts

In FY3/23, although the Company is aiming for the sustainable growth of the Leasing Business and profitability of new businesses, a portion of revenues recorded in the Investment Business came ahead of schedule in FY3/22. Therefore, it is forecasting revenues of ¥250,000mn (up 0.0% YoY), operating income of ¥11,000mn (up 5.3%), ordinary income of ¥11,000mn (down 3.7%), and profit attributable to owners of parent of ¥6,500mn (down 6.3%). However, the Company considers that the expertise which it has accumulated as a financial services company of the NEC Group up to this point will allow it to make a significant contribution toward solving social issues in the eras during and after the COVID-19 pandemic such as contactless operations, non-face-to-face operations, and avoiding the 3Cs.

3. Progress made in the Medium-Term Plan 2020

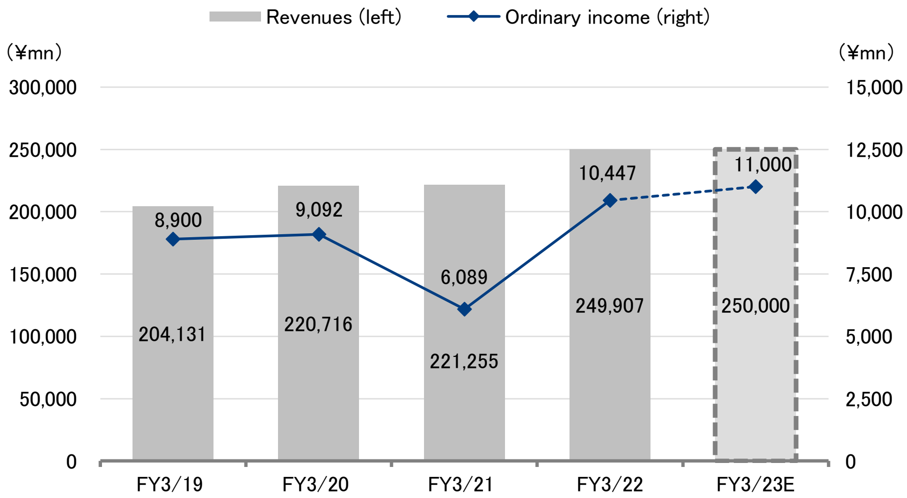
In "expand core areas," toward establishing new services with vendors, the Company acquired NEC Financial Services, LLC, a US company which is projected to lead the way in development of services, and obtained a new business opportunity in North America. By securing a base in North America, it is expected to conduct measures toward business growth in the future. In terms of achieving high revenues in the Investment Business, in addition to multiple large-scale exit projects, including IPOs, multiple IPOs resulting in exits were seen in the venture funds. Note that the venture fund business, in which the Company has been engaged since 2012, is entering the payback phase, and a new fund is being established.

In the area of "harvesting new business," steady progress was made in the Warehousing Business in the Healthcare sector, including the sale of property to a REIT, which has contributed to profit. In the Energy sector, the Company has expanded its initiatives in PPA services, concluding an agreement with NEC Platforms, Ltd. In April 2022, the Renewable Energy Business Division was established with the goal of generating revenue. In strengthening the management foundation to support business strategy, it has established a teleworking environment for all employees and conducted a review of workstyles. The Company is also making further progress in establishing a work environment compatible with the COVID-19 era.

Key Points

- Promotes collaboration with NEC in a strategic partnership
- In the Healthcare sector, steady progress in the Warehousing Business, including the sale of properties to a REIT
- Venture fund business is entering the payback phase and a new fund is being established

Results trends



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

Company overview

In addition to the Leasing Business, is expanding the service areas and converting to high-value-added businesses

The Company is an equity-method affiliate of NEC Corporation that offers leasing of information and communications equipment, including NEC products centering on ICT devices, leasing and installment sales of office equipment, industrial machinery and facilities, other various types of equipment and facilities, factoring (purchasing sales credits), lending, and collection agent services and is expanding its financing services offerings to help companies solve their management issues. In addition to promoting the development of social infrastructure in transactions with government agencies and municipalities, which has been a strength for many years, the Company has steadily increased handling of non-ICT products and expanded service areas with additions of investments and loans, fund formation, and other services and aims to transition to high value-added business.

It has cultivated three strengths of “strategic partnership with NEC,” “wealth of ICT knowledge,” and “broad range of financial solutions.” The Company strives to create and supply valuable services that integrate these elements and pursue initiatives to realize CSV management that targets sustainable growth while enhancing “social value” and generating “economic value.”

The Company started in 1978 as an entity handling sales financing for NEC products. Since its founding, it has supplied leases for various kinds of equipment and facilities such as ICT, in addition to a menu of financing services. It was listed on the Tokyo Stock Exchange’s Second Section (TSE-2) Market in 2005 and was transferred to the First Section (TSE-1) Market in 2006. It moved to the new market category known as the Prime Market in April 2022. After broadening the scope of financial solutions, it changed the company name to NEC Capital Solutions Limited in 2008. The Company formed a capital and business alliance with RISA Partners, Inc.* in 2009 and promoted a shift to higher value-added business. It actively diversified business even during economic slowdowns from the global financial crisis and Great East Japan Earthquake.

* The Company acquired RISA Partners, Inc. as a wholly owned subsidiary in December 2010.

History

Date	History
November 1978	NEC Leasing, Ltd. started operation of finance lease and installment sales transactions primarily of information related equipment. (with a capitalization of 72mn.)
March 1979	Joined the Japan Lease Association as an associated member.
September 1979	Capital increased to ¥100mn.
September 1987	Joined the Japan Lease Association as a regular member.
April 1989	Capital increased to ¥400mn.
March 1996	Outstanding value of active assets (purchase price basis) surpassed ¥1,000,000mn
May 1999	Capital increased to ¥800mn.
December 1999	Obtained "ISO14001" certification, international standard for environmental management systems.
February 2002	Changed name to NEC Leasing, Ltd.
July 2004	Capital increased to ¥1,041mn.
February 2005	Capital increased to ¥3,776mn. Listed in the Second Section of the Tokyo Stock Exchange.
March 2006	Listed in the First Section of the Tokyo Stock Exchange. Obtained "ISO27001" certification, international standard for Information Security Management Systems (ISMS).
October 2007	Established NL Asset Service, Ltd.
April 2008	Established Reboot Technology Services.
November 2008	Changed name to NEC Capital Solutions Limited.
December 2010	Acquired RISA Partners Inc.
April 2012	Changed the name of Asset Service, Ltd. to Capitech Limited. Established Innovative Venture Fund Investment Limited Partnership.
October 2012	Established NEC Capital Solutions Hong Kong Limited.
December 2012	Established NEC Capital Solutions Singapore Pte. Limited.
December 2013	Established NEC Capital Solutions Malaysia Sdn. Bhd.
October 2015	Reboot Technology Services merged Capitech Limited and changed the name to Reboot Technology Services and Capitech Limited.
May 2016	Established NEC Capital Solutions (Thailand) Ltd.
September 2018	Obtained "ISO9001" certification, international standard for Quality Management System. (East Japan Government, Public and Social System Sales Division, West Japan Government, Public and Social System Sales Division)
April 2020	Obtained Privacy Mark certification
November 2020	Made NEC Financial Services, LLC, of the US a consolidated subsidiary
April 2022	Moved to the TSE Prime Market in conjunction with the Tokyo Stock Exchange's revision of its market classifications

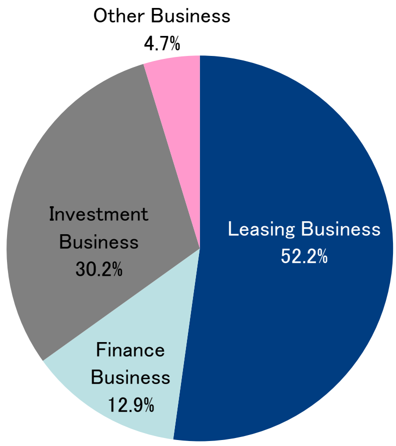
Source: Prepared by FISCO from the Company's website

Business overview

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

The Company's business provides a broad range of financial solutions from leases to corporate loans, securitization, and fund formation and equity investments. The Company has grown while closely collaborating with NEC due to its history of being established to handle sales financing services for NEC products. In the case of transactions with government agencies and municipalities, which account for the majority of contracts executed by industry (based on FY3/22 results), NEC and other vendors deliver solutions that utilize ICT technology to improve business efficiency and enhance the quality of public services. The Company supports these solutions financially with contract formats tailored to single fiscal-year budgets of government agencies and municipalities. It has transactions with government agencies and municipalities, and these are key components of the customer base as seen in its roughly 30 sites around the country and registration as a designated bidder with about 1,800 local entities. The Company has accumulated knowhow on the work process and other characteristics of government agencies and municipalities through experience in transactions over many years, and it is leveraging those strengths in the PFI and PPP (formats for private-sector participation in provision of public services) business. In contracts executed by product type in FY3/22, ICT equipment accounted for roughly 80%, reflecting the Company's strength in ICT equipment due to its history of having grown alongside NEC. The Company has assembled operations that meet a variety of customer requests, including provision of services that integrate its experience with ICT transactions over many years and financial services such as PIT Managed Service that provides from deployment to management and operation of ICT equipment utilizing a service-fee payment format.

Gross profit composition by business segment (FY3/22)



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

In light of the expansion of its business areas, beginning in 1Q of FY3/22, the Company changed its reporting segments to reflect the reality of its business more accurately. The Leasing and Installment Sales Business was renamed the Leasing Business, while consolidation of profit and loss items related to leasing, previous classified under Other Business, will more accurately present profit and loss in the Leasing Business. Meanwhile, the RISA Business was renamed the Investment Business, consolidating investment business aside from RISA Partners. The aim is to have a precise understanding of segment profit and loss status in consolidated management. Note that the composition of gross profit (based on FY3/22 results) will be 52.2% from the Leasing Business, 12.9% from the Finance Business, 30.2% from the Investment Business and 4.7% from Other Business.

Overview of changes in reporting segments

Previous segment	Description of primary business	New segment	Description of primary business
Leasing and Installment Sales Business	Leasing and Installment Sales Business handles leasing and rental and installment sales of information and office equipment, industrial, civil engineering, and construction equipment, and other equipment.	Leasing Business	Leasing, rental and installment sales of information and office equipment, industrial and civil engineering and construction equipment, and other equipment. Handles buying/selling of goods, property sales related to leasing contract completion and early terminations, leased equipment maintenance services and others.
Finance Business	Finance Business handles money lending business, factoring business, and investment business for securities owned to obtain business purpose income. It loans funds to established specific purpose companies (SPC), and it also provides funds in the form of investing in SPCs.	Finance Business	Finance Business handles money lending business, factoring business, and investment business for securities owned to obtain business purpose income. It loans funds to established specific purpose companies (SPC), and it also provides funds in the form of investing in SPCs.
RISA Business	RISA Business involves corporate investment, credit investment, real estate, financial services, and advisory business handled by subsidiary RISA Partners. With its team of professionals from a wide range of fields, RISA Partners delivers multi-faceted functions and services in a one-stop format that covers everything from business growth assistance to enhancement of capital efficiency, improvement of credit health, and effective utilization of real estate.	Investment Business	Invests in venture companies, etc. with the objective of receiving gains from the sale of securities. Subsidiary RISA Partners will develop business in corporate investment, credit investment, real estate, financial services and the advisory business.
Other Business	Other Business handles buying/selling of goods, property sales related to leasing contract completion and early terminations, fee transactions, investments in venture companies, healthcare-related business (Healthcare & Medical Investment Corporation <3455>), and solar power generation and sales business.	Other Business	New businesses in the fields of energy, tourism, agriculture and healthcare. It also promotes PFI and PPP (formats for private-sector participation in provision of public services) business with support from the customer base of government agencies and municipalities cultivated in Leasing and Installment Sales Business. It mainly participates in projects in forms such as constructing structures optimized for businesses, supporting fund raising with low interest rates, and preparing proposals for government agencies and municipalities.

Source: Prepared by FISCO from the Company's website

Strength

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

The Company provides services that combine its three strengths, which are "a strategic partnership with NEC," "wealth of ICT knowledge," and "a broad range of financial solutions." It has a strategic partnership with NEC that stems from being established to handle sales financing of NEC products and having grown while collaborating with NEC. The fact that government agencies and municipalities comprise half of the customer base, which is one of the Company's main characteristics, is also related to its background of having grown alongside NEC. The Company has extensive knowledge related to ICT as evidenced by the presence of ICT equipment as roughly 80% of executed lease contract value (FY3/22 results; contracts executed by product type). It hence goes beyond just leasing to provision of a wide range of service utilizing broad knowhow, including procurement and installation as well as operation and management of ICT equipment. It also delivers services coordinated to lifecycle management to meet rising needs because ICT equipment, an area with rapid technology innovation, has a higher frequency of upgrades to the latest model than other equipment. Additionally, it supports one-stop provision of peripheral businesses related to ICT products (above-mentioned PIT Managed Service) via group member Reboot Technology Services and Capitech Limited (CRTS) that handles ICT equipment kitting (set-up work for installing PCs and other products) and sales of ICT-related equipment that has finished the lease period.

Image of the business model

Source: Company's website

Another strength is provision of a broad range of financial solutions. The Company offers financing programs designed from the standpoint of manufacturers and sales companies, such as vendor finance that supports product sales by manufacturers and sales companies including the customer payment method. It is bolstering its service menu as a financial services company engaged in corporate loans, securitization, fund formation, and equity investments. RISA Partners, a professional services company in investments and loans and advisory services, delivers solutions that combine "investments and loans" as capital assistance and "advisory" as advice on financing, real estate, and other matters from an expert perspective. FISCO sees growth opportunities from expansion of business scope considering the different customer bases of RISA Partners, which has a network with regional financial institutions, and the Company, which focuses on government agencies and municipalities, and ordinary companies.

The Company has been involved in the venture fund business since 2012, investing in venture companies. In 2012, it established the Innovative Venture Fund Investment Limited Partnership to invest in venture companies with strengths in technology; in 2016 and 2018, it established the CSV Venture Fund and the CSV Venture Fund 2, respectively, with investments targeting venture companies in the social solutions field. In the approximately 10 years since the business was launched, the funds have invested in 50 companies for a total investment of ¥9.6bn, and have successfully completed multiple exits via IPO and M&A. As it steadily accumulates knowledge and a track record of investments, the Company has established a new NVC1 fund, and begun fund management.

Results trends

FY3/22 ended with double-digit growth in both revenues and profit. While revenues in the Finance Business declined from the previous fiscal year, growth was centered on the Leasing and Investment businesses.

1. FY3/22 results

In the Company's FY3/22 results, revenues were ¥249,907mn (up 12.9% YoY), operating income was ¥10,447mn (up 75.1%), ordinary income was ¥11,422mn (up 87.6%), and profit attributable to owners of parent was ¥6,939mn (up 68.5%). In addition to the impact on the industry as a whole due to supply chain disruptions caused by the spread of the novel coronavirus (the "COVID-19 pandemic"), the invasion of Ukraine by Russia that broke out in February 2022 has caused a spike in prices for oil, grain and other commodities. Efforts by central banks worldwide to tighten monetary policy in attempts to control inflation have also contributed to an increasingly uncertain global economic situation. With regard to business conditions in the leasing industry, according to lease statistics from the Japan Leasing Association, the industry's total lease transaction volume in fiscal 2021 was ¥4,218.6bn, down 8.1% from the previous fiscal year. These figures may reflect the impact of the COVID-19 pandemic, which has led to cutbacks in capital investments by service and distribution firms and other leasing customers, as well as an absence of special demand for GIGA school projects in the previous fiscal year.

FY3/22 results

(¥mn)

	FY3/21 Results	FY3/22	
		Results	YoY
Revenues	221,255	249,907	12.9%
Operating income	5,965	10,447	75.1%
Ordinary income	6,089	11,422	87.6%
Profit attributable to owners of parent	4,118	6,939	68.5%

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

Under these circumstances, contracts executed in the Leasing Business declined 10.8% YoY, while new transactions fell by 20.8%. This was due to special demand in the previous fiscal year for GIGA school projects during the COVID-19 pandemic (government-related budgets were over ¥460.0bn, primarily for the cost of providing "one device per person"). Outside of the GIGA schools, there are no other notable negative factors, and since these levels have already been factored into the initial plan for the fiscal year, this can be given a neutral rating.

Earnings by business

(¥mn)

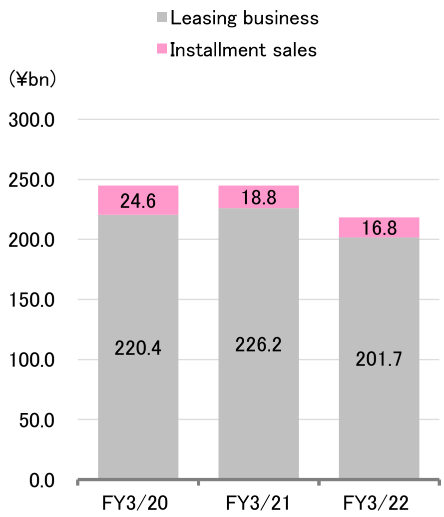
		FY3/21	FY3/22	YoY
Leasing Business	Revenues	206,097	224,200	8.8%
	Gross profit	14,190	16,570	16.8%
	Operating income	4,478	7,120	59.0%
Finance Business	Revenues	6,659	5,219	-21.6%
	Gross profit	5,430	4,142	-23.7%
	Operating income	2,399	-655	-
Investment Business	Revenues	6,801	16,366	140.6%
	Gross profit	5,183	9,570	84.6%
	Operating income	734	5,395	634.9%
Other Business	Revenues	1,746	4,180	139.4%
	Gross profit	1,056	1,451	37.4%
	Operating income	-29	275	-

Note: Information on financial results segments excluding adjustment amounts
Source: Prepared by FISCO from the Company's results briefing material and financial results

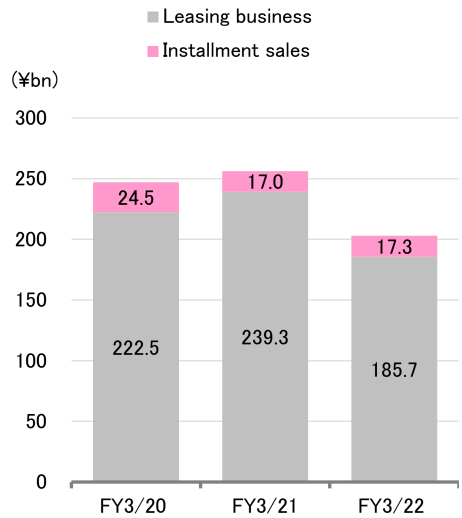
2. Results trends by business

By segment, revenues and profit in the Finance Business fell year on year, but both revenues and profits increased, with growth primarily in the Leasing and Investment businesses. Along with an increase in the operating asset balance, the Leasing Business saw an increase in gross profit associated with the sale of a large-scale asset, as well as improvement in credit costs. As a result, revenues were ¥224,200mn (up 8.8% YoY), gross profit was ¥16,570mn (up 16.8%), and operating income was ¥7,120mn (up 59.0%). Contracts executed in the Leasing Business declined 10.8% YoY to ¥218.4bn, while new transactions fell by 20.8% to ¥203.0bn. As mentioned earlier, this was due to a lull in demand following the special demand for GIGA school projects in the previous year.

Contracts executed in Leasing Business



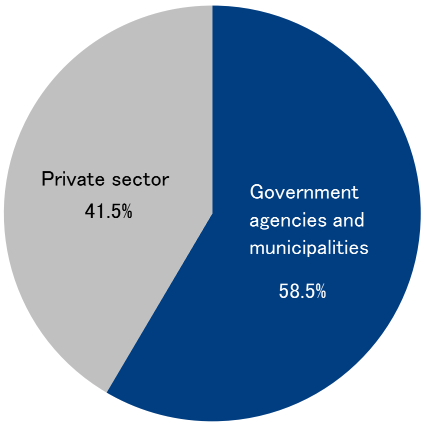
New transactions in Leasing Business



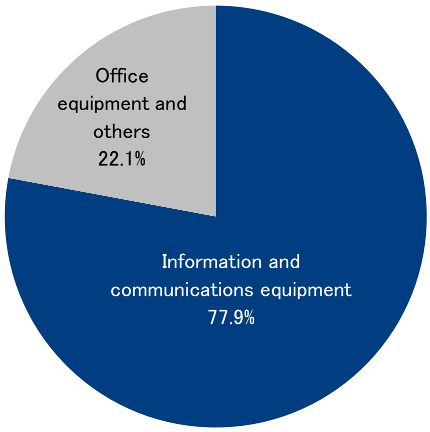
Source: Prepared by FISCO from the Company's results briefing material

The percentages of Leasing Business contracts executed by industry were 58.5% for government agencies and municipalities, and 41.5% for the private sector (service industry, distribution industry, manufacturing industry, and others), while the percentages of contracts executed by product type were 77.9% for information and communications equipment (electronic computers and related devices, software, communication devices and related devices), and 22.1% for office equipment and others. Looking at contracts executed in the Leasing Business, and considering demand for GIGA school projects, one can see that results have steadily exceeded those of FY3/19.

Contracts executed by industry (FY3/22)



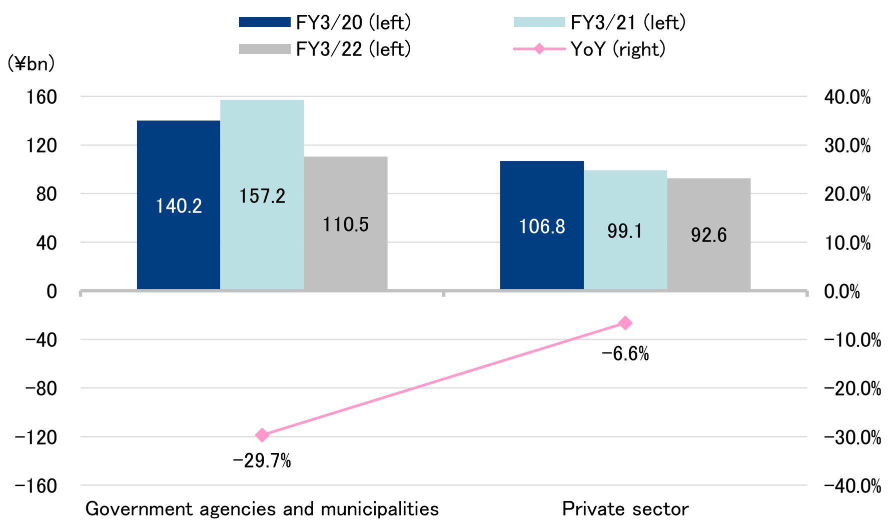
Contracts executed by product type (FY3/22)



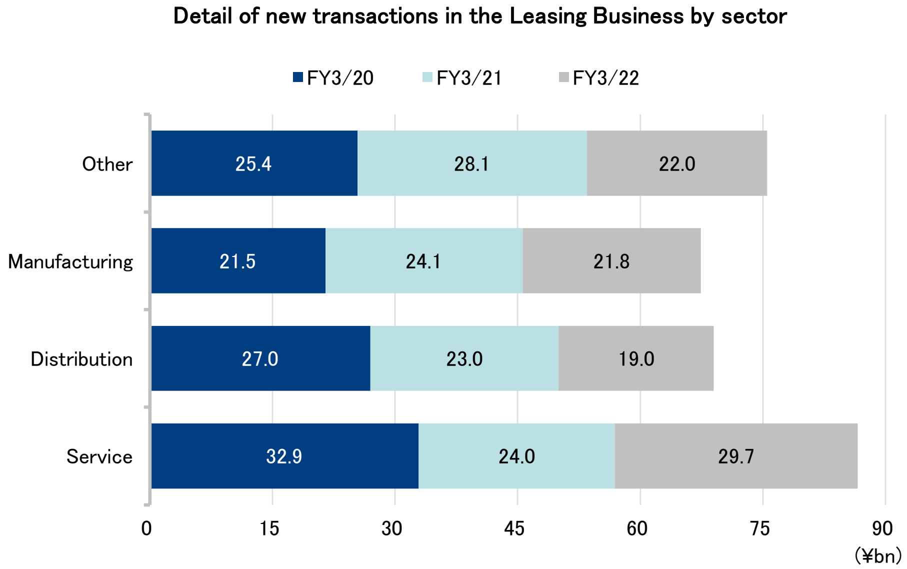
Source: Prepared by FISCO from the Company's results briefing material

Public sector contracts declined by 9.9% YoY due to a peak out in demand for GIGA school projects, while private sector contracts declined by 22.4% in the distribution sector and 14.9% in manufacturing, despite a 17.9% increase in the service sector. In terms of private sector contracts by industry, the service sector grew by 23.7%, but declined year on year in line with declines in the distribution and manufacturing sectors.

New transactions in the Leasing Business by sector

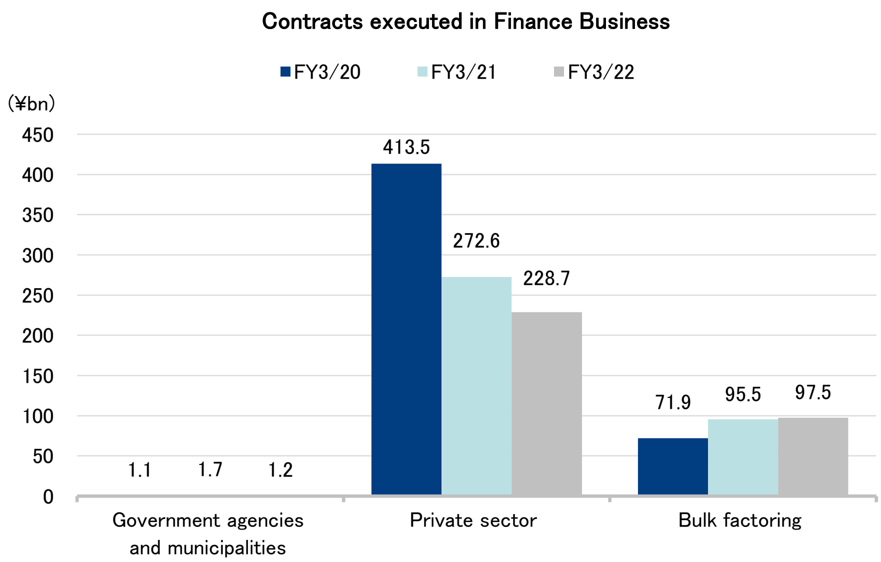


Source: Prepared by FISCO from the Company's results briefing material



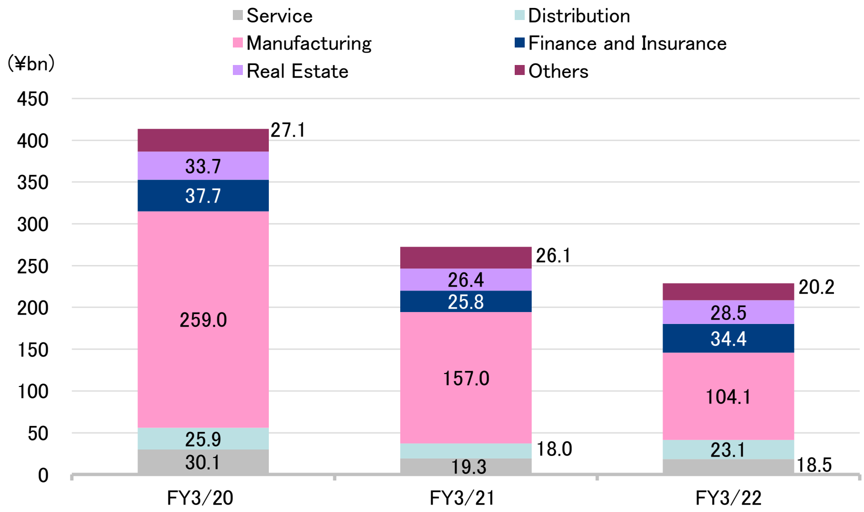
Source: Prepared by FISCO from the Company's results briefing material

In the Finance Business, net sales were ¥5,219mn (down 21.6% YoY), with gross profit of ¥4,142mn (down 23.7%) due to a decline in interest income and other factors. Operating loss totaled ¥655mn, down ¥3,054mn YoY due primarily to provision of an allowance for doubtful accounts and other factors. This was mainly due to a decrease in credit balance, focused on individual factoring, and credit costs. In private sector demand by industry, the decrease was notable primarily in the manufacturing sector, which includes a large volume of individual factoring.



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

Contracts executed in Finance Business (details)



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

In the Investment Business, revenues were ¥16,366mn (up 140.6% YoY), with operating income of ¥5,395mn (up 635.0%) due to an increase in gross profit. Due to the recording of multiple major exit deals on operational investment securities, revenues and operating income both exceeded the previous year's results by a significant margin.

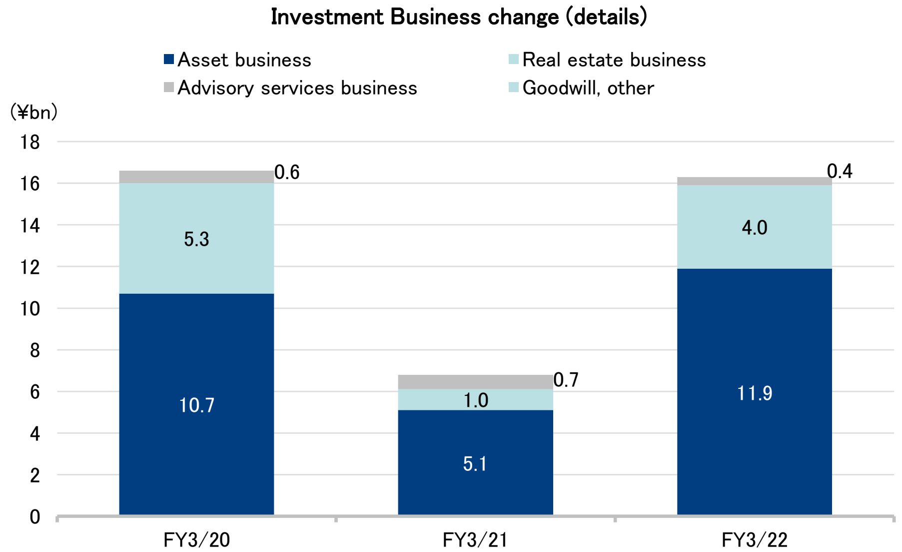
Investment Business change in revenue

(¥bn)

		FY3/20	FY3/21	FY3/22	YoY
Asset business	Revenues	107	51	119	133.3%
	Gross profit	49	37	67	81.1%
	Operating income	22	12	36	200.0%
Real estate business	Revenues	53	10	40	300.0%
	Gross profit	29	8	25	212.5%
	Operating income	23	4	20	400.0%
Advisory services business	Revenues	6	7	4	-42.9%
	Gross profit	6	7	4	-42.9%
	Operating income	0	2	-1	-
Goodwill, other	Revenues	0	0	0	-
	Gross profit	0	0	0	-
	Operating income	-10	-11	-1	-

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

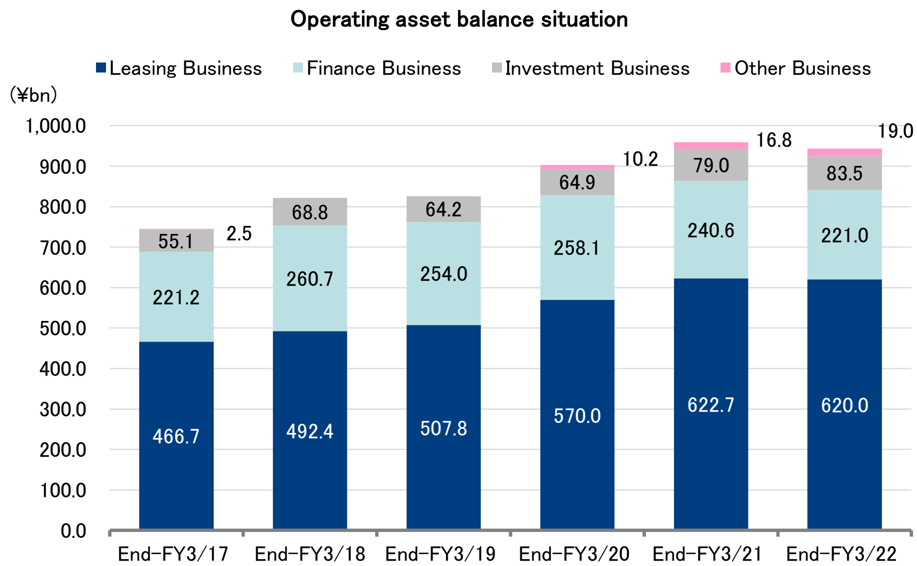
Breaking this down, in the assets business, multiple exits from funds were recorded, and revenues grew significantly to ¥11.9bn (up 133.3% YoY), as did operating income at ¥3.6bn (up 200.0%). In the real estate business, an increase in revenues from sales, including overseas deals, and an increase in rental income brought a significant increase in revenues and profit, with revenues at ¥4.0bn (up 300%) and operating income at ¥2.0bn (up 400%). The advisory business posted revenues of ¥0.4bn (down 42.9%) and operating loss of ¥0.1bn (profit of ¥200mn in the previous fiscal year), in part due to the impact of contingency fees recorded in the previous fiscal year. In goodwill and others, amortization of goodwill was completed in 1Q.



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

3. The operating asset balance situation

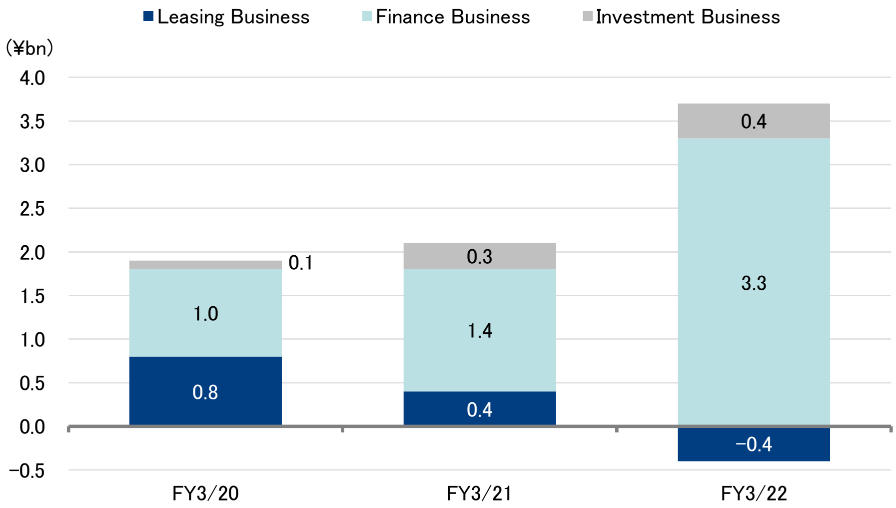
At the end of FY3/22, the operating asset balance was ¥943.4bn, a YoY decline of ¥15.7bn. Breaking this down, the balance of Leasing Business was ¥620.0bn. Although the decrease was in response to the previous fiscal year's uptake of GIGA school projects and teleworking demand, it remained on par with the previous fiscal year, down ¥2.7bn YoY. In the Finance Business, the operating asset balance declined ¥19.6bn YoY to ¥221.0bn, primarily due to a drop in factoring. The Investment Business saw a rise of ¥4.5bn to ¥83.5bn with an increase in investment securities and others. In the Other Business, the operating asset balance increased by ¥2.1bn to ¥19.0bn with the acquisition of healthcare facilities, etc.



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

Credit costs increased by ¥1.2bn, due to credit costs recorded in the Finance Business.

Credit costs



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

Outlook

Expertise accumulated up to the present time will prove a powerful tool in solving social issues during and after the COVID-19 pandemic

1. FY3/23 forecasts

In FY3/23, although the Company is aiming for the sustainable growth of the Leasing Business and profitability of new businesses, a portion of revenues recorded in the Investment Business came ahead of schedule in FY3/22. Therefore, it is forecasting revenues of ¥250,000mn (up 0.0% YoY), operating income of ¥11,000mn (up 5.3%), ordinary income of ¥11,000mn (down 3.7%), and profit attributable to owners of parent of ¥6,500mn (down 6.3%). The COVID-19 pandemic is having a major impact on ways of conducting business and daily lives, and moreover its impact is expected to continue in the future as well. In this situation, it is considered that the Company may have opportunities to create new social value in its business activities. It is considered that solving social problems during and after the COVID-19 pandemic such as relating to contactless operations, non-face-to-face operations, and avoiding the 3Cs, will enable the Company to demonstrate its great strength, of the expertise it has accumulated up to the present time as the financial services company of the NEC Group.

In the Leasing Business, special demand from the GIGA school concept has peaked out, but FISCO believes that demand for teleworking can be expected to continue even as economic activity moves toward normalization. In addition, the Company's collaboration with NEC, which has strengths in contactless technology, is expected to allow it to capture social needs in this so-called "new normal." Further, the Digital Agency, established on September 1, 2021, appears to be in a state of confusion, with its primary accomplishments overshadowed by a variety of problems that have been addressed, including the resignation of Yoko Ishikura, who had served as the Agency's chief digital officer since its inception, in April 2022. The agency was originally positioned as a pillar of Japan's growth strategy and was expected to bolster the structure of those efforts, but with the government and the private sector seen as working together to move full-on into digital transformation (DX), FISCO believes the Company's strengths in the public sector should also present opportunities for it to play an active role.

FY3/23 forecasts

(¥mn)

	FY3/22 Results	FY3/23	
		Forecast	YoY
Revenues	249,907	250,000	0.0%
Operating income	10,447	11,000	5.3%
Ordinary income	11,422	11,000	-3.7%
Profit attributable to owners of parent	6,939	6,500	-6.3%

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

2. Medium-Term Plan

As a Group Vision, the Company aims "To be a global solution service company that aims to enhance social value with customers." It formulated the Group Vision in October 2013 in recognition of the importance of setting an unwavering course over the longer term and promoting management within a unified purpose among all employees, rather than just responding to immediate changes. It clearly depicted the "what it wants to be" in 10 years and prepared a roadmap with three stages to attain this goal. The Company is pursuing CSV management that creates shared value for society and itself through creation of social value and also economic value that it needs as a company via business activities by implementing its Medium-Term Plan in three stages. It is promoting business aimed at realizing CSV management, with its Group Vision to be achieved in 10 years over the course of three medium-term plans. While the Company's plans for FY3/23 do not appear set to achieve the goals set for its Medium-Term Plan 2020, this is because revenues which were originally scheduled to be booked in FY3/23 were recorded ahead of schedule in FY3/22. The three-year profit level will reach ¥17,500mn, exceeding the target for cumulative profit attributable to owners of parent of ¥17,000mn in the Medium-Term Plan 2020.

Management goals in the Medium-Term Plan 2020

(¥mn)

	FY3/21 results	FY3/22 results	FY3/23 forecasts	FY3/23 Medium-Term Plan goals
Operating income	5,965	10,447	11,000	11,000
Ordinary income	6,089	11,422	11,000	12,000
Profit attributable to owners of parent	4,118	6,939	6,500	7,500

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

Cumulative period of the Medium-Term Plan 2020

(¥mn)

	FY3/21	FY3/22	FY3/23 Forecast	Three-year total
Management goals in the Medium-Term Plan 2020	4,000	5,500	7,500	17,000
Actual results and current fiscal year plan	4,118	6,939	6,500	17,557

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

The Company emphasized "rebuild core areas" and "build corporate systems" in Medium-Term Plan 2014 and "complete core areas" and "develop new businesses" in Medium-Term Plan 2017. It outlined a strategy of "expand core areas" and "harvest new businesses" as further evolution of initiatives accumulated in the two previous plans in Medium-Term Plan 2020. The Medium-Term Plan 2017, the second stage of initiatives, was completed in FY3/20. In the Medium-Term Plan 2020, the Company presents the final stage of an overarching effort to fulfill its Group Vision.

In the Medium-Term Plan 2020, the Company steadily ascertains solving new social problems during and after the COVID-19 pandemic to be business opportunities, and aims to be a company that will take the lead in social reforms in the finance and ICT areas. Through progressing various measures while prioritizing profitability, in FY3/23, it is targeting operating income of ¥11,000mn, ordinary income of ¥11,000mn, and profit attributable to owners of parent of ¥6,500mn.

3. Progress made in the Medium-Term Plan 2020

In "Expand core areas," toward establishing new services with vendors, the Company acquired NEC Financial Services, LLC, a US company which is projected to lead the way in development of services, and obtained a new business opportunity in North America. By securing a base in North America, it is expected to conduct measures toward business growth in the future. Through strengthening collaborations in the NEC Group, measures for GIGA schools and fire-fighting projects grew significantly. Although GIGA school projects will peak out, they are expected to contribute a certain level of profits, while in the fire-fighting field, the Company expects horizontal development for new transactions. Other than these, it has enhanced and expanded deals by starting new measures with foreign-owned ICT vendors, while initiatives have been advanced to establish a services model for medical care and ICT devices. In addition, the Company is making concrete progress on service projects for government agencies and municipalities, and is participating in an investment in a platform company in the digital asset field. In terms of achieving high earnings in the Investment Business, several large-scale exits, including IPOs, were made in RISA Partners, and in the venture funds, multiple exits were achieved through IPOs and new funds were formed. Note that the venture fund business, in which the Company has been engaged since 2012, is entering the payback phase, and a new fund is being established.

In the area of "harvesting new business," steady progress was made in the Warehousing Business in the Healthcare sector, including the sale of property to a REIT, which has contributed to profit. In the Energy sector, the Company has expanded its initiatives in PPA services, concluding an agreement with NEC Platforms, Ltd. In April 2022, a Renewable Energy Business Division was established. In strengthening the management foundation to support business strategy, it has established a teleworking environment for all employees and conducted a review of workstyles. The Company is also making further progress in establishing a work environment compatible with the COVID-19 era. Also, in the Environmentally Rated Loan Program of the Development Bank of Japan (DBJ), the Company was awarded the highest classification for the 18th consecutive year. This rating features companies assessed for financing by the DBJ, which are those it has evaluated as superior in terms of non-financial information based on a screening system developed by DBJ. The Company also obtained a AAA rating for SMBC's ESG/SDGs (positive impact-type) evaluated financing. This is a financing product that conforms to positive impact financing principles formulated by the United Nations Environment Programme Finance Initiative (UNEP FI). In tourism, the Company assembled an Asset Renovation Fund in cooperation with the Organization for Promoting Urban Development and other parties including regional financial institutions. The fund has made several investments, including an investment in Gose Machizukuri Co., Ltd., which operates a public bathhouse in Gose City, Nara Prefecture as well as the GOSE SENTO HOTEL, a lodging and restaurant business utilizing several traditional private homes.

In the area of strengthening the management foundation to support business strategy, in February 2022, ABeam Consulting Ltd., a comprehensive management consulting firm, announced the ABeam Cloud Asset & Finance Platform, which is a collaborative business platform that will support business transformation across the leasing industry as a whole. It has begun development work in collaboration with the Company, which is scheduled to be the first company to introduce this initiative. In April 2022, the Company was certified as a DX Certified Operator under the DX certification system established by the Ministry of Economy, Trade and Industry. As the Company promotes DX, it is advancing solid growth as it works to solve social issues. The Company also issues Sustainability Bonds, in which all funds raised are used solely for initial investment or refinancing of green projects and social projects. This is intended to diversify financing methods, while helping to solve social issues such as social and ICT infrastructure development, revitalization of local communities and the economy, prevention of global warming, and responses to an aging population. One of the Company's efforts is to achieve CSV management is also to improve employee satisfaction, and it is promoting the creation of an environment in which employees can work with enthusiasm and a sense of purpose. Under the "Eruboshi" certification system based on the Act on Promotion of Female Participation and Advancement in the Workplace, the Minister of Health, Labour and Welfare certifies those companies that have formulated and submitted plans and applied for certification, and whose efforts in this area are particularly outstanding. In 2017, the Company obtained second-level certification, and in October 2021, it met all five criteria (in recruiting; continued employment; working hours; ratio of women in management; and diverse career tracks) for obtaining third-level certification, which is in the upper level.

Targeting realization of CSV management

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

The Company aims to realize CSV management through both its existing core business areas and through new businesses—working to improve social and ICT infrastructure, prevent global warming, address the aging population and revitalize local economies. The Company has long promoted environmentally friendly business activities, but since formulating its Group Vision in 2013, it has been advancing efforts to realize that vision based on the concept of CSV management, which creates shared value for both society and the Company. Like two halves of a whole, this requires it to both improve profits and improve CSR. The Company's president serves as the chairman of its PDCA Meeting, comprised of all executive officers, which meets monthly to discuss progress with material issues (expansion of the revenue base, strengthening management foundations, reform of corporate culture) and important CSR-related issues. The Company recognizes that these efforts will lead to the realization of the United Nations Sustainable Development Goals (SDGs).

(1) Core areas

Main initiatives in core areas are promoting activities that lead to establishing social infrastructure, such as building public infrastructure, with optimal proposals made in cooperation with NEC and NEC Group companies. In the GIGA school concept, spearheaded by the Ministry of Education, Culture, Sports, Science and Technology (MEXT) to provide one computer per student in elementary and junior high schools, the Company leveraged its strong customer base in government agencies and municipalities, increasing its transaction volume by working with other NEC Group companies as OneNEC. Going forward, it is expected that the Company will also collaborate with NEC and its Group companies in the area of communications technology—NEC's strength—to help client companies addressing 5G.

Furthermore, the RISA Corporate Solutions Fund, which is arranged and operated by RISA Partners, delivers solutions that address business succession, corporate revitalization, growth assistance, IPO assistance, MBO support and other needs and engages in private equity (PE) fund activities that seek improvement in enterprise value at investees.

(2) New businesses

The Company is promoting new initiatives in four areas – energy, tourism, agriculture, and healthcare.

In energy, it promotes establishment of new, regional power companies and investment and loans for renewable energy. It founded a new power company with public and private collaboration in Hamamatsu (Shizuoka Prefecture) with the concept of local production and consumption of energy in 2015. It is promoting wider use of renewable energy and participation at the conceptual stage to realize an eco-friendly smart city. Through this project, the Company has added a collaborative business model with municipalities in regional areas and is accelerating initiatives in various energy areas.

In tourism, the Company is pursuing activities in multiple regions, including capital participation in OMOTENASHI YAMAGATA Co., Ltd. which was founded by Yamagata Prefecture Tourism Center and other companies and organizations in March 2017. Besides provision of funds (investments), the Company directly participates in business and aims to enhance value as a tourist area by utilizing local tourism resources. Being able to flexibly form teams with the most suitable players in order to deliver optimal services will work to the Company's advantage. The Company believes it is capable of contributing to solutions for issues confronting various regions and is taking action to develop precursors to "community design."

In agriculture, the Company implements initiatives to solve social issues that surround agriculture, such as the aging farmer population, lack of successors and increase in abandoned farming land due to acreage reduction policy as well as other factors. In August 2016, it founded Mirai Kyousou Farm Akita Co., Ltd., a corporation with approval to own farmland, through joint investments in Ogata Village (Akita Prefecture). This entity seeks to establish a large-scale farming model that is efficient and highly profitable with a goal of sixth industrialization (integrated business that not only produces agricultural crops but also manufactures and sells processed foods using the crops as raw materials) by farming rice on idle farmland and unused land in addition to handling consignment farming and crop sales.

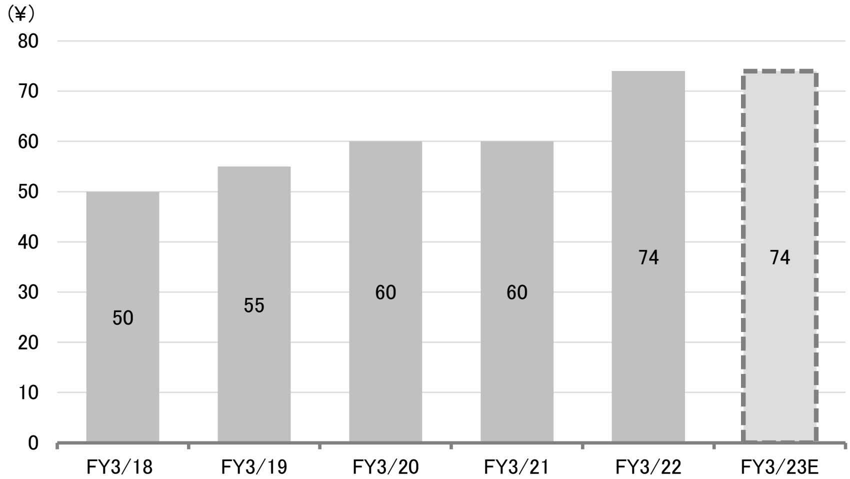
In healthcare, it established Healthcare Asset Management Co., Ltd. with Sumitomo Mitsui Banking Corporation and SHIP HEALTHCARE HOLDINGS, INC. <3360> with the aim of helping to build infrastructure in the healthcare field that it is vital to an aging population. Healthcare & Medical Investment Corporation, which Healthcare Asset Management manages as a consignment, was listed on the J-REIT market in March 2015. It assists REIT growth by temporarily holding (warehousing) healthcare facilities prior to inclusion in the healthcare REIT.

Shareholder returns

Plans to maintain the dividend level of the previous year and pay a ¥74 dividend in FY3/23

The Company's dividend policy adheres to sustaining a stable dividend as the core approach and suitably adjusts the dividend based on an assessment of the fair level in consideration of market trends and fluctuations in business results while securing enough retained profits to invest in growth strategy and reinforce its financial standing. In FY3/22, the Company paid a ¥74 dividend (including a ¥32 interim dividend), ¥14 per share more than the previous fiscal year. For FY3/23, the Company plans to pay an annual dividend of ¥74 per share (including an interim ¥37 interim dividend), the same amount as the previous fiscal year.

Dividends per share



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

The Company also provides online catalog gifts utilizing the Internet as a shareholder benefit program. It gives benefits to shareholders who own at least 100 shares and who are registered on the shareholder register as of March 31 each year. The value differs depending on the number of owned shares and ownership period. Shareholders with more 100 shares and fewer than 500 shares receive an online catalog gift worth roughly ¥2,000 for ownership duration of less than one year and roughly ¥3,000 for duration of one year or longer. Shareholders with at least 500 shares receive an online catalog gift worth roughly ¥10,000 for ownership duration of less than one year and roughly ¥15,000 for duration of one year or longer.

For those who have requested in advance to decline these shareholder benefits, the Company donates an equivalent amount. In FY3/20, it donated to the National Federation of UNESCO Associations in Japan's Great East Japan Earthquake Children's Aid Fund and the UNESCO Scholarship for School Attendance.

Shareholder benefit program

Number of shares owned	At least one unit (100 shares) to fewer than five units (500 shares)	
Period of ownership	Less than one year	One year or more*1
Online catalog gift	Roughly ¥2,000	Roughly ¥3,000

Number of shares owned	At least five units (500 shares)	
Period of ownership	Less than one year	One year or more*2
Online catalog gift	Roughly ¥10,000	Roughly ¥15,000

*1 Shareholders consecutively recorded as owning at least 100 shares under the same shareholder number in the shareholder register on March 31 each year and in the shareholder register at the end of the previous fiscal year as well as the end of the interim period of the fiscal year under review.
*2 Shareholders consecutively recorded as owning at least 500 shares under the same shareholder number in the shareholder register on March 31 each year and in the shareholder register at the end of the previous fiscal year as well as the end of the interim period of the fiscal year under review.
Source: Prepared by FISCO from the Company's website

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■ 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