COMPANY RESEARCH AND ANALYSIS REPORT

Fuyo General Lease Co., Ltd.

8424

Tokyo Stock Exchange Prime Market

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Index

Summary

Set new record highs on all profit lines in FY3/23, with balanced growth in each business. Also seeing results in expansion of business domains based on various initiatives carried out in coordination with partner companies

Fuyo General Lease Co., Ltd. <8424> (hereinafter, "the Company") is a comprehensive leasing company established in 1969 by six Fuyo Group companies, including The Fuji Bank, Limited (currently Mizuho Bank, Ltd.) and Marubeni-Iida Co., Ltd. (currently Marubeni Corporation <8002>). Its strengths include real estate and energy & environment, and it has an annual newly executed contract volume of ¥1, 530.8bn and operating assets at the end of the fiscal year of ¥2,704.5bn (FY3/23 result). In addition to the steady increase in operating assets in business fields it has positioned as strategic fields, such as real estate and energy & environment, the Company is steadily expanding its earnings through expanding the functions of BPO services* from M&A. The Company started its medium-term management plan Fuyo Shared Value 2026 (five years) from FY3/23, and is aiming for sustainable growth by simultaneously "resolving social issues" and delivering "economic value."

* Business Process Outsourcing: A service that contributes to operational improvements and increased efficiency by handling some of client companies' business processes.

1. Summary of FY3/23 results

In the FY3/23 results, total revenues increased 4.7% year-on-year (YoY) to ¥688.7bn, operating profit increased 12.0% to ¥51.6bn, ordinary profit grew 13.2% to ¥59.7bn, and profit attributable to owners of parent rose 14.9% to ¥38.9bn, as all profit lines posted increases, with the Company marking a new record high in profit. Profit before interest expenses, which shows true business performance, grew steadily, increasing 10.2% to ¥108.3bn, due to growth in the growth drivers such as energy & environment, real estate and aircraft, as well as other factors including the fact that WorkVision Corporation (formerly Toshiba Solutions Sales Corporation), which the Company brought under its scope of consolidation in October 2021, contributed to profits from the start of the fiscal year (an additional six months). Looking at ordinary profit by business field, in addition to energy & environment and mobility, profit also grew in real estate, aircraft, and BPO/ICT, so it can be said that the Company achieved balanced growth in profits across fields. In terms of activities, the Company has been laying the groundwork for the future in all directions through efforts including coordination with highly-specialized partner companies (including overseas companies) and M&A, and expanded business domains.

2. FY3/24 results outlook

For the FY3/24 results, the Company is forecasting higher revenues and profits with total revenues to increase 1.6% YoY to ¥700.0bn, operating profit to grow 10.5% to ¥57.0bn, ordinary profit to rise 7.2% to ¥64.0bn, and profit attributable to owners of parent to increase 10.4% to ¥43.0bn. It is also forecasting a higher dividend, which it has increased continuously since being listed. Factors including the continued strong performance in real estate, aircraft, and energy & environment, as well as growth in BPO/ICT driven by rising demand (increase in non-asset earnings), are expected to contribute to the increase in profit. The Company plans to improve ROA as well through asset control that prioritizes profitability and the growth of non-asset earnings.

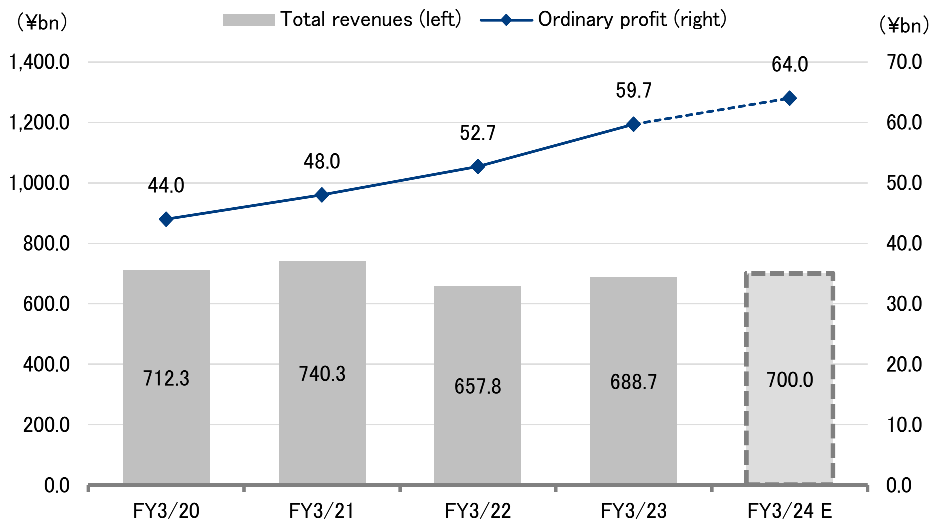
3. Medium-term management plan

Fuyo Shared Value 2026 (five years), the Company's medium-term management plan that started from FY3/23, is based on a strategy of achieving sustainable growth by realizing enterprise value and social value simultaneously, and it sets both financial and non-financial items for its management targets. Growth will be driven by: 1) the Rising Transformation ("RT") field (mobility and circular economy) that is aiming for strategic growth enabled by capturing tectonic social changes; 2) the Accelerating Transformation "AT" field (energy & environment, BPO/ICT, and healthcare) that aims for accelerating growth based on an understanding of market trends, and; 3) the Growing Performance "GP" field (real estate and aircraft) that is aiming for stable growth of the core fields. Then, the strategy is to improve earnings through concentrated investment of management resources into the RT and AT fields where market expansion and creation are expected and also through differentiation in the GP field. The financial targets are ordinary profit of ¥75.0bn, ROA of 2.5%, an equity ratio of 13% to 15%, and ROE of at least 10%, while the Company has also set non-financial targets for all items to be addressed, centered on the environment (a decarbonized society and a recycling-based society), society and people, and human resources investment.

Key Points

- Set new record highs on all profit lines in FY3/23, with balanced growth in each business
- In terms of activities, expanded business domains through efforts including coordination partner companies and M&A
- In FY3/24, the Company expects continued increases in sales and profits, as well as consecutive dividend increases since its shares were listed
- Started the medium-term management plan Fuyo Shared Value 2026 in FY3/23. It is aiming for sustainable growth by "resolving social issues" through human growth and dialogue while at the same time delivering economic value

Trends in total revenues and ordinary profit



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

Company profile

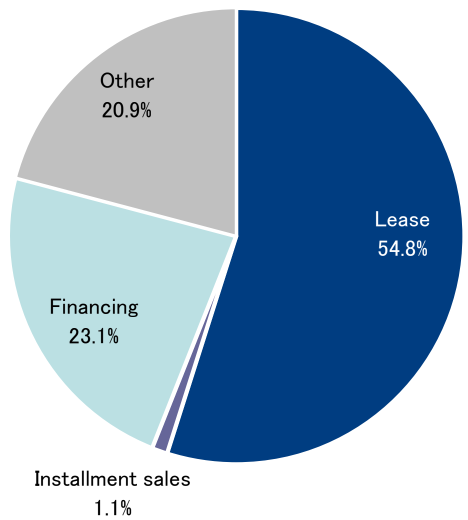
Comprehensive leasing company with strengths in real estate, energy & environment, and other areas. Also working to strengthen new domains, such as BPO/ICT and the mobility

1. Business overview

The Company has three business segments - lease and installment sales, financing, and other. Lease and installment sales disclose "lease" and "installment sales" separately. The mainstay lease business accounts for 54.8% of profit before interest expenses* and 62.4% of operating assets (FY3/23 results). As future growth drivers, the Company plans to proactively invest management resources in business fields including mobility, energy & environment, BPO/ICT, and healthcare, to differentiate in real estate and aircraft, and over the medium to long term its policy is to move away from "nontraditional leasing" and "non-financial services."

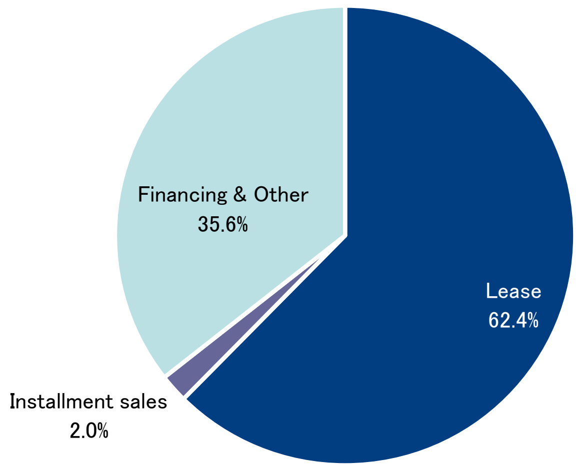
* Gross profit before deducting interest expenses.

Composition of profit before interest expenses by segment (FY3/23)



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

Ratio of operating assets by segment (FY3/23)



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

Below, we review the Company's business segments.

(1) Lease and installment sales

This segment handles leases of information and communications equipment, office equipment, industrial machine tools, and other equipment and installment sales of commercial facilities, production facilities, hospital facilities, and other facilities. In the lease business, the leasing company purchases and leases machinery, equipment, or other facilities selected by customers for a certain leasing fee over a relatively long period. In other words, leases constitute a funding method (financial transaction) that focuses on facility deployment. Benefits to customers, versus outright purchase (and ownership) of facilities, include efficient utilization of capital, reduction of administrative burden, avoidance of risk from outdated facilities, and cost control. Leasing companies, meanwhile, face less collection risk than ordinary loan transactions, because they possess ownership rights to the leased equipment. The Company conducts installment sales for equipment that does not qualify as leasing transactions for tax purposes and cases in which the customer wants direct ownership.

Looking at the volume of newly executed lease contract volume by type of equipment, substantial growth has been experienced in buildings, etc. (real estate leases) and transportation equipment in the past few years. Key drivers in real estate leases are commercial properties (such as large shopping centers), an area of expertise, as well as diversification of properties including hotels, nursing care and residential, leisure, services, and logistics, following the expansion in alliance partners. The Company leverages its experience of over 30 years and an extensive network in this business given the need for expertise and knowhow with tough legal hurdles and complex rights relationships. Also, the growth of transportation equipment up until recently was due to aircraft leases. However, the Company's strengths include its track record and expertise accumulated over many years. In addition, it is aiming to strengthen the mobility business, which is expected to grow in the future, through making YAMATO LEASE CO., LTD.* a consolidated subsidiary (in April 2020).

* Started making a consolidated subsidiary of YAMATO LEASE, which was a subsidiary of YAMATO HOLDINGS CO., LTD. <9064> in April 2020. The Company's shareholding ratio became 60% and YAMATO HOLDINGS became 40%.

(2) Financing

This segment covers capital investment funding and other business loans, real estate financing, and securities-related management tasks. Its operating assets include corporate operating loans (such as syndicate loans) and retail funding through consolidated subsidiary Sharp Finance Corporation (hereafter, “SFC”). The Company added a factoring business* by making Accretive Co., Ltd. a consolidated subsidiary (in January 2017).

* This business mainly handles FPS (early payments service for accounts receivable) for small- and medium-sized companies, and FPS Medical (early payment service for medical and care fee credits) for medical institutions.

(3) Other

This segment includes large-scale solar power operations (renewable energy business) handled directly by the Company, silent partnership originations for aircraft leases and other businesses, and the life insurance agency business. Also, the Company has built a structure to respond to various BPO needs with the addition of an integrated billing service* provided by INVOICE INC., which was made into a consolidated subsidiary in October 2018, and wide-ranging back-office services (including accounting, human resources and salary, general affairs and sales administration) provided by NOC Outsourcing & Consulting, Inc. (hereinafter, “NOC”) which was made into a consolidated subsidiary in August 2019. In October 2021, the Company expanded its service functions even further with the consolidation of WorkVision, which provides IT solutions centered on cloud packages (DX support, etc.).

* A service that handles making burdensome monthly payments to telecom carriers and other utilities on behalf of customers.

2. History

The Company was established in 1969 with six companies from the Fuyo Group as shareholders led by Fuji Bank (now Mizuho Bank) and Marubeni-Iida Co., Ltd. (now, Marubeni). It steadily broadened business scope thereafter and created a local entity in the US in 1988. It established a local entity in Ireland (Dublin), a major center for aircraft leases, in 1999. The Company was relatively early in its entry to aircraft business, which has recently attracted attention from many competitive companies, and accumulated a track record and know-how with leveraged leases (aircraft leases with investor subscriptions) and other formats.

The Company has also teamed up with other companies to establish joint ventures, such as Yokogawa Rental & Lease Corporation (holds a large share in measuring instruments) with Yokogawa Electric Corporation <6841> in 1987 and NIHON CREDIT LEASE CORPORATION * (holds a large share in medical equipment and welfare equipment) with NICHIIGAKKAN CO., LTD. in 1999.

* In January 2022, the Company carried out an absorption-type merger of Nihon Credit Lease with the Company as the surviving company.

Major turning points were listing shares on the First Section of the Tokyo Stock Exchange in December 2004 and acquisition of SFC as a consolidated subsidiary (buying a 65% stake) in April 2008. In particular, SFC controls a strong share in the retail (vendor lease) area and can be said to have contributed substantially to broadening business scope and increasing scale.

In July 2014, the Company acquired ALM 2010 Limited (it changed the name to Fuyo Aviation Capital Europe Limited), a UK-based aircraft-related services company, as a consolidated subsidiary (buying all shares) and thereby strengthened its ability to expand aircraft business.

In January 2017, it acquired Accretive, a subsidiary of Don Quijote Holdings Co., Ltd. (Pan Pacific International Holdings Corporation <7532>) that operates a factoring business (purchase of accounts receivable) mainly for small and medium-sized companies, as a consolidated subsidiary. In addition to pursuing synergies through cross-selling with each company in the Group, the Company is also strengthening initiatives for new domains. In October 2018, the Company made INVOICE, an integrated billing service provider, a consolidated subsidiary and then in August 2019, it made NOC, a back-office service provider with a wide range of operations, a consolidated subsidiary in an effort to strengthen the BPO services. In April 2020, it made a consolidated subsidiary of YAMATO LEASE, a subsidiary of YAMATO HOLDINGS, establishing footholds toward the development of the mobility business, which is considered to have growth potential, and for the logistics industry.

Financial results

Profit before interest expenses, which shows true business performance, is trending upward, including through the accumulation of operating assets and the growth of non-asset earnings

1. Key points for assessing results

The Company's total revenues consist of lease fee revenue (over 80% of overall sales), revenue from installment sales, interest income on financing, and non-asset earnings (such as fee income). Since total revenues (excluding non-asset earnings) fundamentally fluctuate with operating assets, the Company needs to increase newly executed contract volume and accumulate more operating assets in order to expand total revenues. However, it should be noted that accounting of mainstay lease fee revenue reflects the purchase transaction and includes the price of the leased item. Consequently, profit before interest expenses excluding the acquisition cost of leased equipment from total revenues is the suitable indicator for assessing actual income growth as a financing business.

Meanwhile, to ascertain the profitability of the Company's main business, the most rational approach is monitoring trends in ordinary profit, in which expenses such as interest expenses (fund-raising costs), personnel and equipment expenses, and costs related to bad debts (including reversals)*, are deducted from profit before interest expenses. Ordinary profit is obtained by multiplying operating assets by ROA (ratio of ordinary profit to operating assets), so it is affected by movements in both. Also, most recently, the Company has been working to grow non-asset earnings, so it is also necessary to pay attention to the Other segment.

* This is the net value of provision of allowance for doubtful accounts (SG&A expenses) and reversal of allowance for doubtful accounts (non-operating income).

2. Past results trends

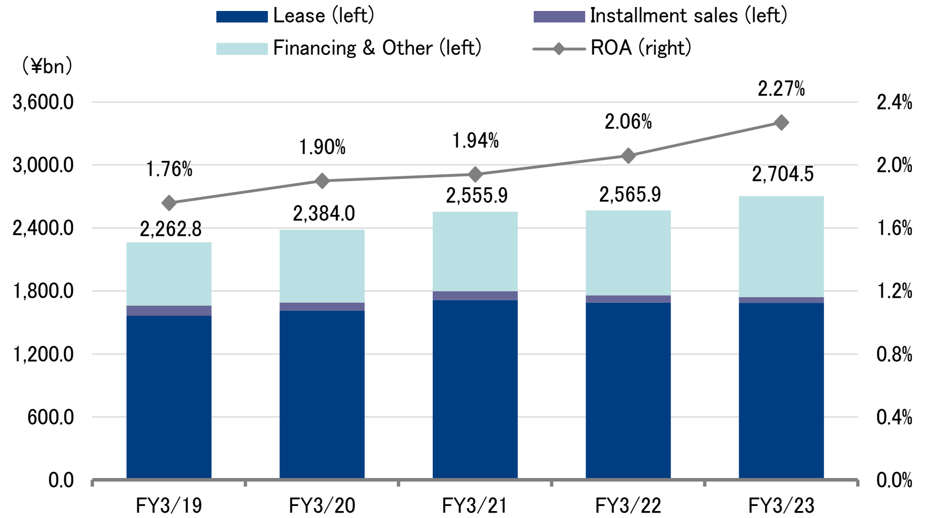
Looking back on past results trends, ordinary profit has also continued to increase from both the accumulation of operating assets and the improvement of ROA. The improvement of ROA has been particularly due to the growth of real estate leases and aircraft leases, which have comparatively high yields, while most recently, the growth of new-domain businesses (non-asset earnings), mainly BPO services, has also been contributing.

From a cost perspective, meanwhile, Interest expenses have been largely flat. This trend, despite growth in total funding value, is driven by a decline in interest on funding due to the impact of market rates. In FY3/23, interest on funding grew slightly, mainly due to an increase in funds in foreign currencies resulting from a greater number of overseas transactions. However, the effect on overall costs can be said to have been minimal. Additionally, the Company keeps personnel/equipment expenses at a certain level and has a low bad debts-related costs, demonstrating the company's strength in low-cost operations. As a result, ordinary profit for FY3/23 reached an all-time high for the sixth consecutive year.

Interest-bearing debt has been growing due to the accumulation of operating assets, but the equity ratio remains steady at about the 10% level. The Company's range does not compare unfavorably to other companies in the leasing industry, which possesses large amounts of highly liquid operating assets, and should not spark concerns about stability of the Company's financial base.

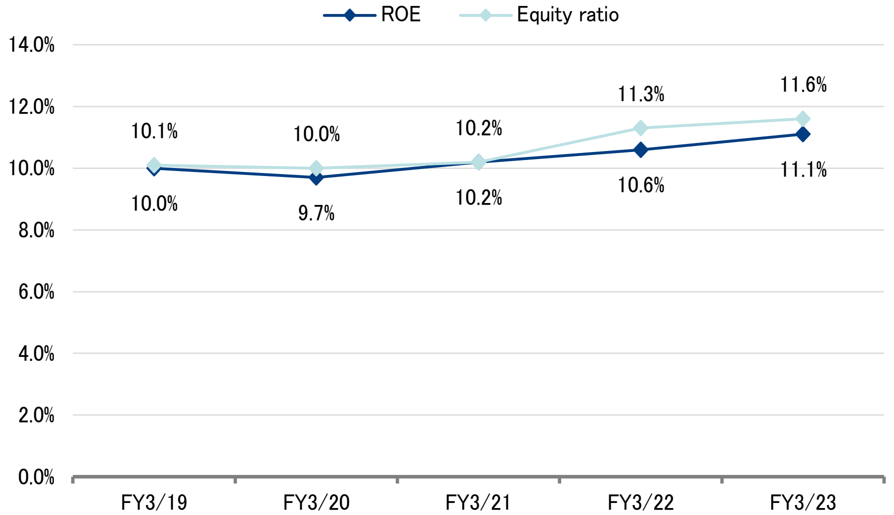
In addition, ROE (Return on Equity), which shows capital efficiency, has been increasing alongside the rise in the profit level, and it has exceeded 10% since FY3/21.

Trend in operating assets and ROA



Note: ROA is calculated as ordinary profit ÷ operating assets (average balance)
Source: Prepared by FISCO from the Company's financial results

Trend in equity ratio and ROE



Note: FY3/19 and FY3/20 reflect the values determined through accounting treatment for business combination in FY3/20
Source: Prepared by FISCO from the Company's financial results

3. Summary of FY3/23 results

In the FY3/23 results, total revenues increased 4.7% YoY to ¥688.7bn, operating profit increased 12.0% YoY to ¥51.6bn, ordinary profit rose 13.2% to ¥59.7bn, and profit attributable to owners of parent grew 14.9% to ¥38.9bn, and every profit item increased and set new record highs*.

* Ordinary profit marked a new record high for the sixth consecutive period, while profit marked a new record high for the eighth consecutive period.

Profit before interest expenses (gross profit before deducting interest expenses), which shows true business performance, grew steadily, increasing 10.2% YoY to ¥108.3bn, due to increases in the growth drivers such as energy & environment, real estate and aircraft, as well as other factors including the fact that WorkVision Corporation (BPO/ICT), which the Company brought under its scope of consolidation in October 2021, contributed to profits from the start of the fiscal year (an additional six months).

Ordinary profit also increased 13.2% due to factors including the growth in profit before interest expenses and the increase in earnings from equity-method investments*. Looking at ordinary profit by business field, in addition to energy & environment and mobility, profit also grew in real estate, aircraft, and BPO/ICT, so it can be said that the Company achieved balanced growth in profits across each business field.

* Notably, there was a strong performance by an equity method affiliate in Canada (leasing and rental of pickup trucks) and by Yokogawa Rental & Lease Corporation (rental of PC and measuring instruments), which is a joint venture with Yokogawa Electric Corporation.

Looking at expenses, interest expenses rose slightly due to factors including an increase in funds in foreign currencies resulting from a greater number of overseas transactions, increasing raising yields, but the effect of this on overall costs can be said to have been minimal. Looking at the impact of future rises in overseas market interest rates, as foreign currency-denominated interest-bearing debt does not account for a significant percentage of the Company's overall fundraising, these effects should remain at levels where they can be absorbed by rises in profits. Additionally, personnel/equipment expenses increased due to the growth of the Group, including the consolidation of WorkVision, but OHR (overhead ratio: personnel/equipment expenses/gross profit) was maintained at a favorable level. The default risk of credits held by the Company was also kept at a low level.

Newly executed contract volume increased significantly by 10.6% YoY to ¥1,530.8bn. In energy & environment, there was a large increase in equity investment (participation in renewable energy business), while there was also a big increase in real estate financing. Meanwhile, in leases, the Company shifted to highly profitable operating leases and newly executed contract volumes exceeded finance leases for the first time. The Company grew operating assets by 5.4% versus the end of the previous fiscal year to ¥2,704.5bn, as the growth in energy & environment, real estate, and aircraft covered the exits from a large project in real estate.

As a result, ROA* improved sharply to 2.27% (2.06% in 1H). ROA is steadily improving due to the continued accumulation of profitable assets.

* Ordinary profit (annualized) ÷ operating assets (average balance)

For the financial condition, total assets increased 6.8% on the end of the previous period to ¥3,149.7bn, while core capital increased 10.2% to ¥366.6bn due to the accumulation of internal reserves, and as a result the equity ratio improved to 11.6% (11.3% at the end of the previous period). Also, interest-bearing debt (excluding lease obligations) increased by 6.2% versus the end of the previous period to ¥2,513.9bn*1, but the long-term interest-bearing debt ratio*2 was maintained at 45.9% (43.2% at the end of the previous period), and the balance between short- and long-term debt was stable.

*1 As the Company is accumulating operating assets, its procurement of corporate bonds (including hybrid bonds) and long-term borrowings has increased. Also, it is proactively advancing ESG finance initiatives, and became the first leasing company to procure funds through syndicated Positive Impact Finance.

*2 The long-term debt ratio of interest-bearing debt represents the ratio of long-term interest-bearing debt (corporate bonds + long-term borrowings + long-term payables under securitization of lease receivables) to interest bearing debt.

Summary of FY3/23 results

(¥bn)

	FY3/22		FY3/23		YoY change	
	Results	% of revenues	Results	% of revenues	Amount	%
Total revenues	657.8		688.7		30.8	4.7%
Profit before interest expenses	98.2	14.9%	108.3	15.7%	10.0	10.2%
Lease	55.9	56.9%	59.4	54.8%	3.6	6.4%
Installment sales	1.5	1.5%	1.2	1.1%	-0.3	-19.9%
Financing	21.2	21.6%	25.0	23.1%	3.8	18.1%
Other	19.7	20.1%	22.6	20.9%	2.9	14.9%
Interest expenses	9.4	1.4%	10.9	1.6%	1.6	16.7%
Gross profit	88.9	13.5%	97.3	14.1%	8.5	9.5%
SG&A expenses	42.8	6.5%	45.8	6.6%	2.9	6.8%
Operating profit	46.0	7.0%	51.6	7.5%	5.5	12.0%
Ordinary profit	52.7	8.0%	59.7	8.7%	7.0	13.2%
Profit attributable to owners of parent	33.9	5.2%	38.9	5.7%	5.1	14.9%
Newly executed contract volume	1,384.4		1,530.8		146.4	10.6%
Financing & Lease	259.4	18.7%	229.1	15.0%	-30.3	-11.7%
Operating & Lease	214.7	15.5%	232.0	15.2%	17.2	8.0%
Installment sales	23.3	1.7%	21.5	1.4%	-1.8	-7.8%
Financing & Other	887.0	64.1%	1,048.3	68.5%	161.3	18.2%

	As of March 31, 2022 Results	As of March 31, 2023 Results	YoY change	
			Amount	%
Operating assets	2,565.9	2,704.5	138.6	5.4%
Financing & Lease	1,019.8	890.8	-129.0	-12.6%
Operating & Lease	671.8	797.4	125.5	18.7%
Installment sales	66.1	52.8	-13.3	-20.1%
Financing & Other	808.3	963.6	155.3	19.2%

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

4. Business performance and activities by business field

(1) Mobility (RT field)

As of the end of FY3/23, the balance of operating assets was ¥171.3bn (¥7.2bn more than at the end of FY3/22), ROA improved to 3.4% (1.9% in the year-earlier period), and ordinary profit was ¥5.7bn (up ¥2.4bn YoY), marking a huge increase in profit. Although the balance of operating assets increased following the expansion of the Group*1, domestic growth slumped, apparently due to the prolongation of delivery times for new cars against the backdrop of the global shortage of semiconductors. The significant improvement in ROA was largely due to contributions from an upturn in gain on sales driven by the soaring used car market and earnings from equity-method investments from overseas affiliates. In terms of activities, the Company approached new business domains, including proposing an EV one-stop service*2 and building the GREEN FORK*3 forklift lease package.

*1 Acquired Pacific Rim Capital (PRC), an independent operating leasing company, as our consolidated subsidiary. The aim is for business expansion on a global basis.
*2 For details, see "The basic strategies and targets in each business field" in the growth strategy section.
*3 An initiative in partnership with IGUAZU Corporation, which holds patent technology for reused batteries. Utilizing reused batteries can significantly reduce battery costs and CO_2 emissions.

(2) Energy & environment (AT field)

The balance of operating assets as of the end of FY3/23 increased ¥35.8bn from the end of FY3/22 to ¥126.2bn, while ordinary profit grew ¥0.4bn YoY to ¥2.0bn due to the fact that ROA improved slightly to 1.9% (1.8% in 1H). The renewable energy business grew in Japan and overseas, while the renewable energy power output (a non-financial target) grew steadily, increasing 197MW compared to the end of FY3/22 to 515MW*1 (medium-term management plan target is 1,000MW). In terms of activities, the Company began to build momentum in its overseas business expansion through strengthening associations with global players. This included investing in a U.K. offshore wind power generation project*2 and investing in a renewable energy fund (solar PV, wind power, hydropower, etc.)*3 in the European Economic Area. In addition, aiming to expand the storage battery-related business, the Company is focusing on realizing co-creation projects with a wide range of partners including energy companies.

*1 657MW including projects under development (up 210MW versus end-March 2022)
*2 Through an investment in an investment fund managed by U.K.-based Equitix Investment Management Ltd., which has assets under management of approximately 8.5 billion pounds. This is the Company's first investment in an offshore wind project, but the project covers an offshore wind power facility that is already in operation, so there is no development risk.
*3 Through conclusion of an investment agreement in a renewable energy fund of Germany-based Aquila Capital Holding GmbH, which as an overall group operates and manages approximately 14.7 billion euros in assets (as of June 30, 2022).

(3) BPO/ICT (AT field)

As of the end of FY3/23, the Company had secured profit growth, with an ordinary profit of ¥3.5bn (up ¥0.1bn YoY). The business achieved steady growth in both BPO and ICT as a result of meeting growing BPO needs and through the partnership with WorkVision, which was consolidated in October 2021. In terms of the non-financial target of work hours saved by customers, compared to FY3/22, there were 0.18 million hours saved (the target in the medium-term management plan is 1 million hours) so this got off to an excellent start. In terms of activities, the Company steadily expanded its business domain by strengthening functions through M&A*1 and cooperating with alliance partners*2.

*1 The Company made Human Centrix Co., Ltd., a B2B video production and distribution company with a top-level track record in Japan, and eXtreak, Inc., which operates an IT facility services business, into consolidated subsidiaries.
*2 In the BPO field, the Company is engaged in business collaborations with NTT Communications Corporation (accounting and invoicing solutions), Yasuda Logistics Corporation <9324> (filing management service, office relocation service), TEPCO Energy Partner, Inc. (public utility fee invoicing and arrangement service), and Dynabook Inc. (PC-LCM service). In the ICT field it is collaborating with OKI Crosstech Co., Ltd. of the Oki Electric Industry Co., Ltd.<6703> Group (outsourcing for IT operations).

(4) Healthcare (AT field)

As of the end of FY3/23, the balance of operating assets was ¥87.9bn (¥1.4bn decrease versus the end of FY3/22), and ROA was flat at 2.0%, while ordinary profit was roughly the same as at the end of FY3/22 at ¥1.8bn. The accumulation of medical and care fee credits factoring showed sluggish growth as a result of the satisfaction of financing needs due to financial support from the government and other entities. The number of nursing care facilities for the elderly (number of new rooms provided), a non-financial target, was 553 rooms, which marks steady progress and the target in the medium-term management plan has been revised upward from 1,000 to 1,330 rooms. In terms of activities, the Company managed to achieve results in efforts to build a business model for healthcare BPO*1 and to strengthen solutions*2 for business operators with revitalization and business succession needs.

*1 Concluded a capital and business agreement with JSH Co., Ltd., which offers an employment support service for people with disabilities and a home medical care service specialized in psychiatry, etc. and started collaboration in establishing a framework to build a business model for healthcare BPO.
*2 Established Japan's first region-specific healthcare fund in partnership with The 77 Bank, Ltd. and NIHONKEIEI GROUP.

(5) Real estate (GP field)

The balance of operating assets as of the end of FY3/23 was ¥1,030.5bn (¥95.6bn increase versus the end of FY3/22), and ROA was almost unchanged at 2.3%, leading to ordinary profit increasing ¥1.9bn YoY to ¥22.2bn. Although there was an impact from the exit from a large real estate lease project, the accumulation of assets in the overall business resulted in a significant increase in profit. The Company has secured a pipeline of projects, including development-type projects*, through collaboration with alliance partners. The Company plans to continue to conduct business operations with attention to risk-return in light of rising real estate prices due to continued active investments by real estate investors in Japan and overseas, as well as soaring construction costs associated with supply chain disruptions and other factors.

* Representative projects include a collaboration with SWCC Corporation <5805> (formerly SHOWA CABLE SYSTEMS CO., LTD) on the construction of a mixed-use facility project on the site of its Sagamihara business location and an urban renewal project for the area in front of Sapporo Station.

(6) Aircraft (GP field)

The balance of operating assets as of the end of FY3/23 was ¥227.1bn (¥31.7bn increase versus the end of FY3/22), and ROA improved greatly to 2.0% (versus 0.7% at the end of FY3/22), leading to ordinary profit increasing ¥2.7bn YoY to ¥4.2bn. The shift to turnover-type business started smoothly, with the operation of five new aircraft and sale of one aircraft, and the Company successfully built up its assets. The number of self-owned aircraft was 49, an increase of four compared to the end of FY3/22. Looking to the future, it seems like there is an increase in orders, particularly from airlines in North America (scheduled to be fulfilled successively from FY3/24). The large increase in ROA is mainly due to a decline in bad debts-related expenses that had risen because of the COVID-19 pandemic and the effects of yen depreciation. A decrease in depreciation due to a change in the depreciable life of aircraft owned by the Company also had an effect. In terms of activities, the Company achieved some results with respect to expanding transactions with U.S.-based airlines, which are seeing a recovery in passenger demand mainly for domestic routes (within the U.S.), and providing freighters (dedicated cargo flights) to the Yamato Group.

Results by business field (financial/non-financial)

(¥bn)

	FY3/22 Results	FY3/23 Results	Change
Mobility			
Ordinary profit	3.3	5.7	2.4
ROA	1.9%	3.4%	1.5pt
Operating assets	164.1	171.3	7.2
EV/FCV ownership ratio	0%	0.7%	0.7pt
Energy & environment			
Ordinary profit	1.6	2.0	0.4
ROA	1.8%	1.9%	0.1pt
Operating assets	90.4	126.2	35.8
Renewable energy power output (MW) *Figures in parentheses include projects in development	318 MW (447 MW)	515 MW (657 MW)	197 MW (210MW)
BPO/ICT			
Ordinary profit	3.4	3.5	0.1
ROA	1.5%	1.7%	0.2pt
Operating assets	48.5	46.3	-2.2
Customers' work reduction time (compared to FY3/22)	-	180,000 hours	180,000 hours
Healthcare			
Ordinary profit	1.8	1.8	0.0
ROA	2.0%	2.0%	0.0pt
Operating assets	89.3	87.9	-1.4
Nursing care facilities for the elderly (number of new rooms provided)	-	533 rooms	533 rooms
Management support financing for the healthcare market	23.3	21.7	-1.6
Real estate			
Ordinary profit	20.3	22.2	1.9
ROA	2.3%	2.3%	0.0pt
Operating assets	934.9	1,030.5	95.6
Aircraft			
Ordinary profit	1.5	4.2	2.7
ROA	0.7%	2.0%	1.3pt
Operating assets	195.4	227.1	31.7
Self-owned aircraft	45 aircrafts	49 aircrafts	4 aircrafts
Other aircraft (management aircraft, etc.)	56 aircrafts	55 aircrafts	-1 aircraft

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

5. Summary of FY3/23

To summarize FY3/23, in terms of results, the Company achieved steady growth in the business areas it is focusing on and achieved profit growth that surpassed its targets. In terms of activities, in the first year of its medium-term management plan, we can evaluate the Company as having gotten off to a good start, in both the quantitative and qualitative sense. In particular, based on collaboration with partner companies both in Japan and overseas, new developments have accelerated in growth fields including mobility, energy & environment, BPO/ICT and healthcare. These can be said to be points to focus on as the Company works to move away from "nontraditional leasing" and "non-financial services."

Business outlook

For FY3/24, the Company will accumulate operating assets and expects improvements in ROA to yield record high business results

1. FY3/24 results outlook

For the results in FY3/24, the Company expects total revenues to increase 1.6% YoY to ¥700.0bn, and profits are expected to increase with operating profit to increase 10.5% to ¥57.0bn, ordinary profit to rise 7.2% to ¥64.0bn, and profit attributable to owners of parent to grow 10.4% to ¥43.0bn.

Factors including strong performance in real estate, aircraft, and energy & environment, as well as growth in BPO/ICT driven by rising demand (increase in non-asset earnings), are expected to contribute to the increase in profit. In mobility, where soaring prices for used cars led to an upturn in gain on sale in the previous fiscal year, the forecast is conservative based on the possibility of a reaction if the market slows down, etc.

The Company plans to steadily improve ROA as well through asset control that prioritizes profitability and the growth of non-asset earnings.

FY3/24 outlook

(¥bn)

	FY3/23		FY3/24		YoY change	
	Results	% of revenues	Results	% of revenues	Amount	Change %
Total revenue	688.7		700.0		11.3	1.6%
Operating profit	51.6	7.5%	57.0	8.1%	5.4	10.5%
Ordinary profit	59.7	8.7%	64.0	9.1%	4.3	7.2%
Profit attributable to owners of parent	38.9	5.7%	43.0	6.1%	4.1	10.4%

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

2. Primary focus of FISCO

At FISCO, we consider it fully possible that the Company will achieve its results forecast based on its accumulation of highly profitable assets and expectations of growth in BPO/ICT driven by rising demand from businesses pursuing greater efficiency and workstyle reforms. Regarding BPO/ICT, where the Company has been expanding its service domain and strengthening sales channels, there is a particularly strong probability that it will have more opportunities to capture demand, as it has prepared a framework for providing a total solution utilizing "outsourcing and DX." Of course, attention must be paid to the external environment, with uncertainty regarding the future, including the impacts of the global semiconductor shortage, advancing inflation, and rising interest rates, but for the Company, which is realizing balanced profit growth in multiple growth fields, we can expect an appropriate amount of diversification effect and thus we feel downside risk can be viewed as being limited. Points to focus attention on will be the measures taken and the progress towards achieving the financial targets and non-financial targets laid out in the medium-term management plan. In particular, over both the short term as well as the medium to long term, we will closely follow the Company's initiatives aimed at resolving social issues, as well as watch how the Company advances personnel investment and its DX strategy to link these to its own sustainable value creation.

Growth strategy

Aims at achieving sustainable growth by “resolving social issues” while at the same time delivering “economic value”

1. Direction of the medium-term management plan

The Company started the five-year medium-term management plan in FY3/23. Under the vision of “Fuyo Shared Value 2026,” the direction the Company is aiming for is achieving sustainable growth by “resolving social issues” through human growth and dialog while at the same time delivering “economic value.” It sets both financial and non-financial items for the management targets.

(1) Growth drivers

As the axes for the strategic fields (and new domains) up to the present time, the growth drivers have been categorized into three types; 1) the RT field that is aiming for strategic growth enabled by capturing tectonic social changes, 2) the AT field that is aiming for accelerating growth based on an understanding of market trends, and 3) the GP field that is aiming for the stable growth of the core fields. Then, the strategy is to improve profitability through concentrated investment of management resources into the RT and AT fields where market expansion and creation are expected and also through differentiation in the GP field. It has positioned mobility and circular economy in the RT field; energy & environment, BPO/ICT, and healthcare in the AT field; and real estate and aircraft in the GP field.

(2) Image of the allocation of resources and the earnings portfolio

The Company is concentrating investment of approximately ¥1tn (five-year cumulative total) into the RT and AT fields, which are growth areas, and it will improve ROA at the same time as accumulating operating assets. In the GP field, which is a core field, its policy is to improve profitability that will lead to the improvement of ROA as a whole. In the next five years, operating assets are forecast to be around the ¥3tn level (an increase of around ¥0.5tn compared to FY3/22). Within this amount, operating assets in the RT and AT fields are expected to double, from ¥400.0bn to ¥800.0bn, alongside the replacements of assets. It is targeting ordinary profit of ¥75.0bn in five years’ time, and looking at the percentages for this, the percentage from the RT field will increase from 6% to 9% and from the AT field will increase greatly from 13% to 24%, while the GP field will be basically unchanged, from 41% to 40%. Conversely, the conventional general leasing and financing field will decline greatly, from 40% to 27%, and clearly there is a trend in progress of escaping from “nontraditional leasing” and “non-financial services.”

(3) Management targets

As the business strategy’s results targets through the three growth drivers, the Company has set both financial targets and non-financial targets and is aiming to simultaneously realize “corporate value” and “social value.” The 4 financial targets are ordinary profit of ¥75.0bn, ROA of 2.5%, an equity ratio of 13% to 15%, and ROE of at least 10%. So, it will further improve profitability while maintaining a balance with a certain level of financial discipline and capital efficiency. Conversely, it has set the non-financial targets to be tackled from three perspectives – 1) the environment, 2) society and people, and 3) human resources investment – and its policy is for the Company itself to sustainably improve its enterprise value through “resolving social issues,” such as by realizing a decarbonized society and a recycling-based society. Also, for measures to address climate change, it continues to work on achieving carbon neutrality and RE 100* toward the 2030 targets.

* An international consortium of companies that aim to procure 100% of the energy used in their operations from renewable energy.

Financial targets

	Base year		Final year			
	FY3/22 Results	% of revenues	FY3/27 Target	% of revenues	Change	CAGR
Ordinary profit (¥bn)	52.7		75.0		22.3	7.3%
RT and AT	10.0	19.0%	25.0	33.3%	15.0	20.1%
GP	21.7	41.2%	30.0	40.0%	8.3	6.7%
General lease & financing	21.0	39.8%	20.0	26.7%	-1.0	-1.0%
ROA	2.1%		2.5%		0.44pt	
Equity ratio	11.3%		13%~15%		1.7pt~3.7pt	
ROE	10.6%		10% or more		-	
Operating assets (Imagined)	¥2.5tn		¥3.0tn		¥0.5tn	
RT and AT	¥0.4tn		¥0.8tn		¥0.4tn	
GP	¥1.1tn		¥1.3tn		¥0.2tn	
General lease & financing	¥1.0tn		¥0.9tn		-¥0.1tn	

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

Non-financial targets (excerpt)

			FY3/27 Target
Environment	Decarbonized society	Contribution to CO_2 reduction targets	500,000 t-CO_2/year
		Amount of investment to progress decarbonization	¥300.0bn
		Renewable energy power output	1,000MW
		Ratio of EV and FCV to number of vehicles owned	30%
	Recycling-based society	Reuse and recycling rate of returned equipment	100%
		Waste plastic materials/chemicals recycling rate	100%
Society and people	Customers' work reduction time		Over 1 million hours (compared to FY3/22)
Human resources investment	Human resources development-related expenses (standalone)		300% (compared to FY3/22)

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

2. The basic strategies and targets in each business field

(1) Mobility (RT field)

On the one hand, needs are growing for EV and FCV toward realizing carbon neutrality, but on the other hand, in the logistics industry environment, social issues are becoming increasing severe, such as the shortage of drivers and the long working hours. Based on this situation, the Company's strategy is to develop both domestically and overseas one-stop services centered on partner collaborations, mainly in the vehicle and logistics areas. In the vehicle area, it plans to build new business models, such as an EV one-stop service[*1], and to expand the non-asset business, focused on fleet BPO[*2]. In the logistics area, it is creating collaborative projects through its collaboration with the YAMATO Group, strengthening the global mobility business through collaborations with overseas Group companies, and working to strengthen truck financing and to expand into peripheral areas, mainly through YAMATO LEASE. The financial targets are ordinary profit of ¥7.0bn (up ¥3.7bn from FY3/22) and ROA of 2.5% (up 0.6 points). The non-financial targets include an EV and FCV ownership ratio of 30% (up 30 points).

*1 Through collaborations with partner companies, it will provide a one-stop service, from EV introduction review and consulting through to charger installation consulting and construction, financing and vehicle management, and energy management. This service is also highly compatible with energy & environment, which is one of the Company's strengths.

*2 Support for improving business efficiency, such as labor saving, through telematics services and optimization consulting for the vehicle mobilization rate.

(2) Circular economy (RT field)

The circular economy is an economic system that aims to conserve and maintain the value of products and resources for as long as possible and to minimize waste. The Company is progressing advanced measures for markets that are expected to grow, and its strategy is to aim to build a sophisticated circular economy platform. At the current time it has not set any financial targets, but its non-financial targets are 1) a returned equipment reuse and recycling rate of 100% (same as in FY3/22) and 2) a waste plastic materials / chemicals recycling rate of 100% (up 100 points).

(3) Energy & environment (AT field)

The Company's strategy is to expand the renewable energy business on a global scale and to establish a new business in the secondary energy field. Renewable energy is not limited in terms of energy type or initiative form, and domestically and overseas the business scale will grow to 3 times its former scale. It will also accelerate joint investments with partner companies (major energy businesses, etc.) and continue to focus on the PPA business as a tool for customers' decarbonization. For secondary energy, it continues to work on measures for the LCM business (primary use → recycling of reuse, etc.) in the storage battery field and also with a view to participating in the power demand-supply adjustment market* that is steadily growing. The financial targets are ordinary profit of ¥5.0bn (up ¥3.4bn from FY3/22) and ROA of 2.0% (up 0.2 points). The non-financial targets are 1) a renewable energy power output of 1,000MWdc (up 682MWdc) and 2) investment in decarbonization of ¥300.0bn (five-year cumulative total).

* The domestic market for power demand and supply adjustments was launched in April 2021. It is a framework designed to facilitate the trading of electric power needed to adjust the supply and demand of electricity at power plants and other facilities (adjustment capacity) in a nationwide integrated market.

(4) BPO/ICT (AT field)

Against the backdrop of the labor shortage that is becoming increasingly serious and the workstyle reforms, measures to improve productivity, including DX and reviews of non-core operations, are accelerating. In this situation, the Company's strategy is to aim to provide BPS (business process services) that support customers in realizing their business reforms from both the aspects of operations and systems. Specifically, through a synergistic collaboration between BPO (business consulting + solutions) and ICT (systems consulting + IT solutions), it is providing total solutions through work outsourcing and DX. The financial targets are ordinary profit of ¥8.5bn (up ¥5.1bn from FY3/22) and ROA of 5.4% (up 3.9 points), while the non-financial targets are to reduce customers' work hours by an additional 1mn (up 1mn hours).

(5) Healthcare (AT field)

In addition to management issues such as the decrease in medical revenue, the labor shortage, and the lack of successors, needs for medical and social welfare are expected to further increase and become more sophisticated due to the 2025 problem*. In this situation, the Company's strategy is to maximize the value of businesses' management resources in the healthcare markets, including for medical, nursing care, and dispensing pharmacy businesses, by continuing to provide one-stop services based on the Fuyo Lease Platform Concept. The financial targets are ordinary profit of ¥4.5bn (up ¥2.7bn compared to FY3/22) and ROA of 3.3% (up 1.3 points), while the non-financial targets are 1) 1,000 rooms in nursing care facilities for the elderly, and 2) financing of ¥56.0bn to support management in the healthcare markets (up ¥32.7bn compared to FY3/22).

* Japan has become a "super-aging society" and its social structure and systems are approaching a major turning point that is expected to have an impact on various fields, including employment, medical care, and welfare.

(6) Real estate (GP field)

The Company is focusing on increasing the sophistication of and differentiating this business, and its strategy is to aim to stably grow profits through improving profitability. While conditions in the real estate market are active, particularly in the metropolitan areas, there is a sense that the competitive environment is overheating, and in this situation, it intends to further improve profitability and expand the business by strengthening collaborations with partners and even further deepening the business areas. Moreover, toward the realization of a decarbonized society, it is progressing measures targeting environmentally friendly real estate*. The financial targets are ordinary profit of ¥23.0bn (up ¥2.7bn from FY3/22) and ROA of 2.3% (unchanged YoY) (it has not set non-financial targets).

* Green buildings, such as buildings with CASBEE evaluation certification or with environment-friendly facilities installed (energy saving, solar panels, etc.)

(7) Aircraft (GP field)

It is anticipated that the business environment will gradually recover, and based on this, the Company is aiming to steadily grow profits through escaping from the effects of the COVID-19 pandemic and progressing the asset turnover business. At the same time, it plans to convert from a business model that assumes long-term holdings of aircraft to an asset turnover-type business model of flexibly selling aircraft based on the market environment and other factors. Conversely, it plans to enhance the earnings structure by accumulating excellent assets through strengthening competitiveness. It is also progressing measures for new technological fields that will contribute to “resolving social issues,” such as sustainable aircraft fuel (SAF). Its financial targets are ordinary profit of ¥7.0bn (up ¥5.5bn from FY3/22) and ROA of 2.4% (up 1.7 points) (it has not set non-financial targets).

3. Primary medium- to long-term management focuses

At FISCO, we think that as the business environment continues to undergo significant change, it makes sense for the Company to aim to create new value through alliances with partners in high-growth fields that are also highly-compatible with domains that the Company has built up its business in over the years. In particular, one key point will be how the Company links its initiatives aimed at “resolving social issues,” including tackling climate change in which it has been the industry leader, to growth opportunities. The medium-term management plan has just begun, and although no rapid changes to the earnings structure are expected, we shall be focusing on what ways the Company strengthens the RT and AT fields that will be the growth drivers towards evolving the earnings portfolio into the portfolio that it is aiming for. Also, with respect to initiatives for “resolving social issues,” we will follow the progress on KPI set as non-financial targets, and also pay close attention from a medium- to long-term perspective on the path the Company takes in terms of how it will link those KPI to creating new markets, strengthening competitiveness, and building new business models and other initiatives, and thereby connect to economic value (profit growth, etc.).

Shareholder returns

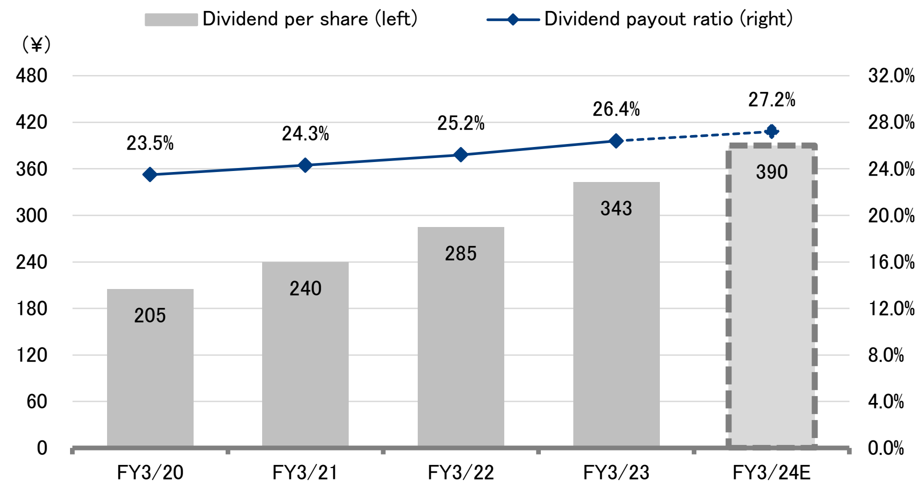
In FY3/24, is forecasting a dividend per share of ¥390, up ¥47 YoY. Is aiming to increase the dividend payout ratio to at least 30% by the final fiscal year of the medium-term management plan

The Company follows a fundamental policy of striving to return profits to shareholders by reinforcing shareholders' equity and continuing long-term, stable dividends to ensure a solid business foundation and robust financial position, taking into account its profits and business goals. Supported by strong profits, the Company has been continuously increasing its dividend since its shares were listed in 2004. Under the medium-term management plan, the Company has a policy of aiming for a dividend payout ratio of 30% or more by the final year of the plan.

For the FY3/23 annual dividend, it paid a dividend per share of ¥343 (interim dividend of ¥158 and period-end dividend of ¥185), an increase of ¥58 YoY (dividend payout ratio of 26.4%) and revised from the initial forecast of an increase of ¥27 YoY. For the FY3/24 annual dividend, it is forecasting a dividend per share of ¥390 (interim dividend of ¥195 and period-end dividend of ¥195), an increase of ¥47 YoY (forecast dividend payout ratio, 27.2%).

In addition to the higher dividend from profit growth, the Company has been gradually raising the dividend payout ratio, so at FISCO we think that there remains considerable room for the dividend to increase in the future due to both of these factors.

Dividend per share and dividend payout ratio



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

Disclaimer

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