COMPANY RESEARCH AND ANALYSIS REPORT

Fuyo General Lease Co., Ltd.

8424

Tokyo Stock Exchange Prime Market

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Contents

Summary

In 1H FY3/25, ordinary profit marked a record high again. Profits growth trend is forecast to continue

Fuyo General Lease Co., Ltd. <8424> (hereafter, "the Company") is a comprehensive leasing company established in 1969 by six Fuyo Group companies, including The Fuji Bank, Limited (currently Mizuho Bank, Ltd.). Its strengths include real estate and energy & environment, and it has an annual newly executed contract volume of ¥1,742.8bn (FY3/24) and operating assets of ¥2,982.9bn (as of September 30, 2024). In addition to the steady increase in operating assets in business fields it has positioned as growth drivers, such as energy & environment and aircraft, 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 1H FY3/25 results

In the 1H FY3/25 results, operating profit increased 16.6% year-on-year (YoY) to ¥32.3bn, ordinary profit grew 3.5% to ¥34.3bn, and profit attributable to owners of parent declined 0.8% to ¥22.8bn, with the Company marking the eighth consecutive fiscal year with a record high in ordinary profit for 1H. Results for all profit lines also showed solid progress versus the full-year forecast. Profit before interest expenses, which is a performance indicator of the Company's main business, showed steady expansion mainly in growth areas such as mobility & logistics and aircraft. Ordinary profit increased despite an increase in interest expenses because of the increased profit before interest expenses. Looking at business performance by business field, real estate profits turned down due to the dropout of gain on sale, but mobility & logistics, energy & environment, BPO/ICT, and aircraft all recorded profit increases, reflecting a continuing trend of well-rounded profit growth mainly in growth areas. Activities by business field also demonstrate progress of initiatives for the future on all fronts through collaboration with highly specialized partner companies, including overseas companies, as well as intra-Group cooperation and other means.

2. FY3/25 results outlook

For the FY3/25 results, the Company maintains its initial forecasts and is projecting profits to decline due to the end of the special factors that occurred in the previous fiscal year, with operating profit to fall 0.1% to ¥60.0bn, ordinary profit to decline 3.4% to ¥66.0bn, and profit attributable to owners of parent to decrease 4.7% to ¥45.0bn. However, when looking at ordinary profit excluding the special factors (based on actual values), the outlook is for profits to continue to increase. Also, with regards to the medium-term management plan that has reached its third year, ordinary profit is expected to hit the upper limit of the plan's interim target (¥64.0bn to ¥66.0bn), so it is reasonable to view the Company as making steady progress. As in 1H, in addition to a well-balanced accumulation of assets centered on growth areas, it seems the recovery of healthcare and the growth of BPO/ICT (the expansion of non-asset revenues), for which demand is increasing, will contribute to raising the bottom line. The outlook is also for ROA to maintain its high level through asset controls that prioritize profitability and the expansion of non-asset earnings.

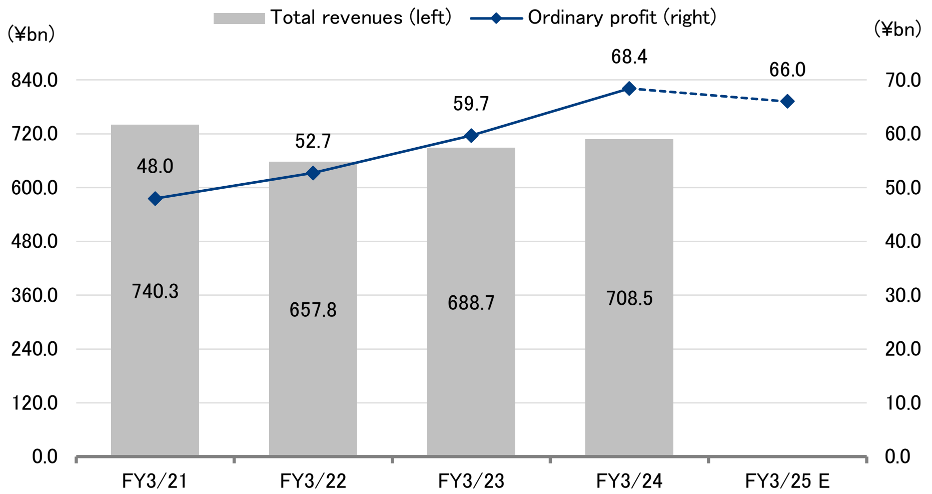
3. Medium-term management plan

Fuyo Shared Value 2026, which is the five-year medium-term management plan that was started in FY3/23, is the basis for the Company's strategy of achieving sustainable growth by solving societal problems at the same time as realizing economic value. The plan also sets various management targets, both financial and non-financial. Growth will be driven by: 1) the Rising Transformation ("RT") field (mobility & logistics 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 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

- Well-rounded expansion of growth areas continued in 1H FY3/25, with ordinary profit at a record high for eighth consecutive year
- In terms of activities, progress achieved with initiatives for the future on all fronts through engagement with partner companies including overseas companies
- Initial forecasts are maintained for profit to decline in FY3/25, but when based on actual values excluding the special factors, the outlook is for profits to continue to increase
- 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



Note: Will not disclose a total-revenues forecast for FY3/25
Source: Prepared by FISCO from the Company's financial results

Company profile

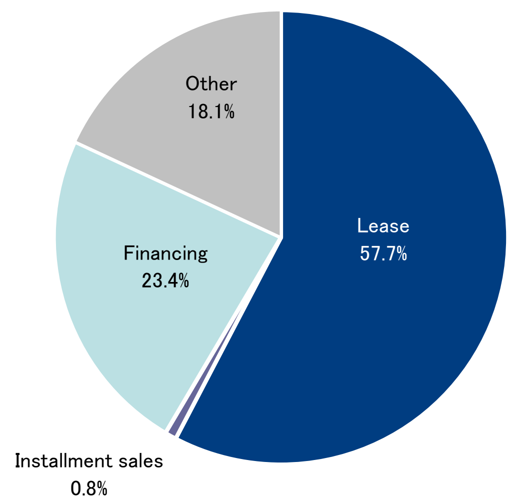
Comprehensive leasing company with strengths in real estate, energy & environment, and other areas. Also working to strengthen new domains, such as BPO/ICT and the mobility & logistics

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 57.7% of profit before interest expenses* and 61.6% of operating assets (1H FY3/25 results). As future growth drivers, the Company plans to proactively invest management resources in business fields including mobility & logistics, 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."

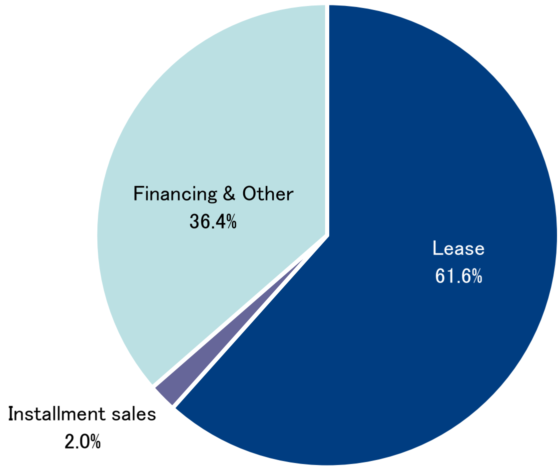
* Gross profit before deducting interest expenses

Composition of profit before interest expenses by segment (1H FY3/25)



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

Ratio of operating assets by segment (1H FY3/25)



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 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. It includes fund investments in the renewable energy business and investments for retail by consolidated subsidiary Sharp Finance Corporation ("SFC"). Also, the factoring business* was added to it following the consolidation of Accretive Co., Ltd. (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. (currently Fuyo Outsourcing & Consulting Inc., "FOC") which was made into a consolidated subsidiary in August 2019. In October 2021, the Company expanded its service functions with the consolidation of WorkVision Corporation, which provides IT solutions centered on cloud packages (DX support, etc.) Moreover, through a business agreement with AKARI Inc., which provides DX solutions that make use of algorithms and AI technologies, it is working on developing high-value-added BPO services that utilize AI.

* 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). 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 has 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. (now 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 FOC, 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

Ordinary profit for FY3/24 at record high for seventh consecutive year

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, accounting of mainstay lease fee revenue reflects the purchase transaction and includes the price of the leased item. 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

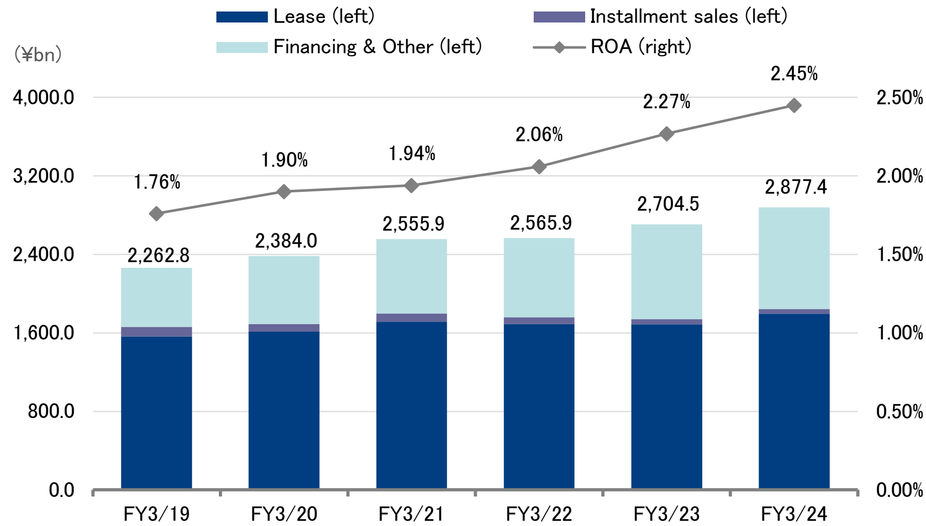
Looking back on past results trends, ordinary profit has also continued to increase from both the accumulation of operating assets and the improvement of ROA. The improvement of ROA has been particularly due to the growth of real estate leases and aircraft leases, which have comparatively high yields, while most recently, the growth of 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 FY3/24, interest on funding grew significantly, mainly due to an increase in funds in foreign currencies resulting from a greater number of overseas transactions. On the other hand, 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 FY3/24 reached an all-time high for the seventh consecutive year.

Interest-bearing debt has increased alongside the accumulation of operating assets, but in FY3/24, the equity ratio was secured at a level of over 12%. 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.

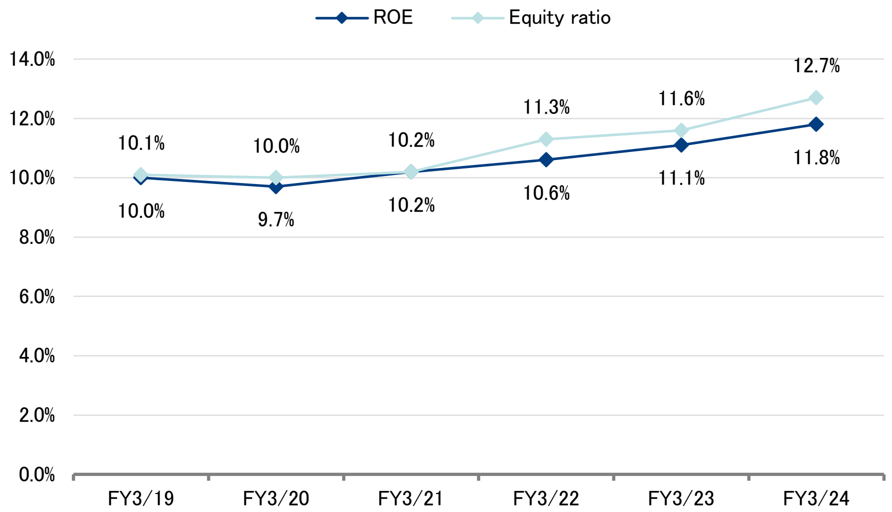
In addition, ROE (Return on Equity), which shows capital efficiency, has been increasing alongside the rise in the profit level, and it has exceeded 10% since FY3/21.

Trend in operating assets and ROA



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

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 1H FY3/25 results

In the 1H FY3/25 results, operating profit increased 16.6% YoY to ¥32.3bn, ordinary profit rose 3.5% to ¥34.3bn, and profit attributable to owners of parent decline 0.8% to ¥22.8bn, with the Company marking the eighth consecutive fiscal year with a record high in ordinary profit for 1H. Results for all profit lines also showed solid progress versus the full-year forecast

Profit before interest expenses, which is a performance indicator of the Company's main business, increased 17.5% YoY to ¥73.0bn mainly in growth areas like mobility & logistics and aircraft.

Ordinary profit went up despite an increase in interest expenses because of the increased profit before interest expenses. Looking at business performance by business field, real estate profits turned down due to the dropout of gain on sale, but mobility & logistics, energy & environment, BPO/ICT, and aircraft all recorded profit increases, which can be said to reflect a continuing trend of well-rounded profit growth mainly in growth areas.

Looking at expenses, meanwhile, interest expenses went up due to a higher funding balance associated with an increase in operating assets and a rise in interest on funding, although within the expected range. An increase in personnel expenses associated with human capital investment and dropout of equity-method investment profit recorded by the real estate business in 1H FY3/24 were also negative factors. However, these were absorbed by the increase in profit before interest expenses. The Company maintained the overhead ratio (OHR; calculated as personnel/equipment expenses divided by gross profit) at a strong level and kept the default risk of accounts receivable purchased low.

Newly executed contract volume increased 0.9% YoY to ¥842.0bn, expanding in aircraft and mobility & logistics. Although newly executed contract volume turned down for leasing overall, because the Company progressed asset controls in the real estate business field, the overall total increased due to factors including growth of Accretive (factoring business). Operating assets recorded a steady increase mainly in growth areas such as mobility & logistics, energy & environment, and aircraft, up 3.7% from the end of FY3/24 to ¥2,982.9bn.

ROA*1 was 2.34% (versus 2.40% in 1H FY3/24), down from a year earlier, when there was a special factor of gain on sale, but has continued to improve excluding this factor*2. We at FISCO maintain our view that the Company's profitability improvement has stabilized as a result of transforming its business portfolio into a highly profitable one and expanding the scope of its business fields.

*1 Ordinary profit (annualized) ÷ operating assets (average balance)
*2 ROA excluding the year-ago special factor is 2.28%.

There were no significant changes in financial condition, and total assets increased 1.9% from the end of the previous fiscal year to ¥3,454.1bn, while core capital increased 8.3% to ¥467.4bn due to the accumulation of internal reserves, and as a result the equity ratio improved to 13.5% (12.7% at the end of the previous fiscal year). Also, the Company has managed to strike a stable balance between short- and long-term debt amid a scenario where interest-bearing debt (excluding lease obligations) increased by 1.2% versus the end of the previous fiscal year to ¥2,715.1bn*1 due to accumulation of operating assets, but the long-term procurement ratio*2 was maintained at 69.1% (68.4% at the end of the previous fiscal year).

*1 Interest-bearing debt rose due to the increase in operating assets such as the issue of hybrid bonds (sustainability-linked bonds) with a total value of ¥20.0bn.
*2 The long-term procurement ratio 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 1H FY3/25 results

(¥bn)

	1H FY3/24		1H FY3/25		YoY change	
	Results		Results		Amount	%
Profit before interest expenses	62.1		73.0		10.9	17.5%
Lease	35.6		42.1		6.5	18.3%
Installment sales	0.5		0.6		0.1	20.0%
Financing	13.8		17.1		3.3	23.9%
Other	12.1		13.2		1.1	9.1%
Interest expenses	8.5		13.7		5.2	61.2%
Gross profit	53.6		59.2		5.6	10.5%
SG&A expenses	25.9		26.9		1.0	4.0%
Operating profit	27.7		32.3		4.6	16.6%
Ordinary profit	33.1		34.3		1.2	3.5%
Profit attributable to owners of parent	23.0		22.8		-0.2	-0.8%
Newly executed contract volume	834.7		842.0		7.4	0.9%
Financing & Lease	120.5	14.4%	150.1	17.8%	29.6	24.5%
Operating & Lease	152.0	18.2%	97.5	11.6%	-54.5	-35.9%
Installment sales	9.7	1.2%	17.3	2.1%	7.7	79.0%
Financing & Other	552.4	66.2%	577.2	68.5%	24.7	4.5%

	FY3/24		1H FY3/25		YoY change	
	Results		Results		Amount	%
Operating assets	2,877.4		2,982.9		105.4	3.7%
Financing & Lease	858.7	29.9%	846.5	28.4%	-12.3	-1.4%
Operating & Lease	936.1	32.5%	991.6	33.2%	55.5	5.9%
Installment sales	49.9	1.7%	59.1	2.0%	9.2	18.5%
Financing & Other	1,032.7	35.9%	1,085.7	36.4%	53.0	5.1%

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

Summary of business performance and activities by business field in 1H FY3/25

4. Business performance and activities by business field

(1) Mobility & logistics (RT field)

As of the end of 1H FY3/25, the balance of operating assets was ¥200.1bn (up ¥6.1bn from the end of 1H FY3/24), ROA improved to 4.0% (3.4% in 1H FY3/24), and ordinary profit increased to ¥4.0bn (up ¥1.0bn YoY). The upward trend in profits continued, driven by growth of the overseas business centered on U.S. subsidiary Pacific Rim Capital*1 as well as steady performance of the domestic business. We note that the Company's non-financial target of EV/FCV ownership ratio was flat amid slow progress in the spread of EVs in Japan. In terms of activities, the Company expanded initiatives in the EV domain through collaboration with alliance partners*2. As well, it concluded a business alliance agreement to establish a subscription-based automated transport service*3 and made Thai logistics solution company PLIC Corp., Ltd. a consolidated company.

*1 An operating lease company that deals with material handling (transport) and other equipment.

*2 Examples are the EV life cycle service (collaboration with YAMATO Group), the subscription-based Kyuden EV Bus Service (collaboration with Kyushu Electric Power Co., Inc. <9508> and EV Motors Japan Co., Ltd.), and a virtual power plant (VPP) demonstration project in collaboration with Yokogawa Rental & Lease and REXEV Co., Ltd. using the Company's own EVs. Of these, the EV life cycle services were launched in October 2024 by the YAMATO Group to help users of commercial vehicles decarbonize, coordinating functions in supporting the introduction of EVs and chargers within the service.

*3 The Company entered into a business alliance to establish a joint automated transport service with eve autonomy, Inc., which provides automated transportation solutions using automated driving technology. By combining "eve auto" (eve autonomy's automated transport service that uses a Level 4 autonomous driving system) with the Company's services and know-how in finance and asset management, the two companies will provide "eve auto Re Fine," a subscription-based automated transport service.

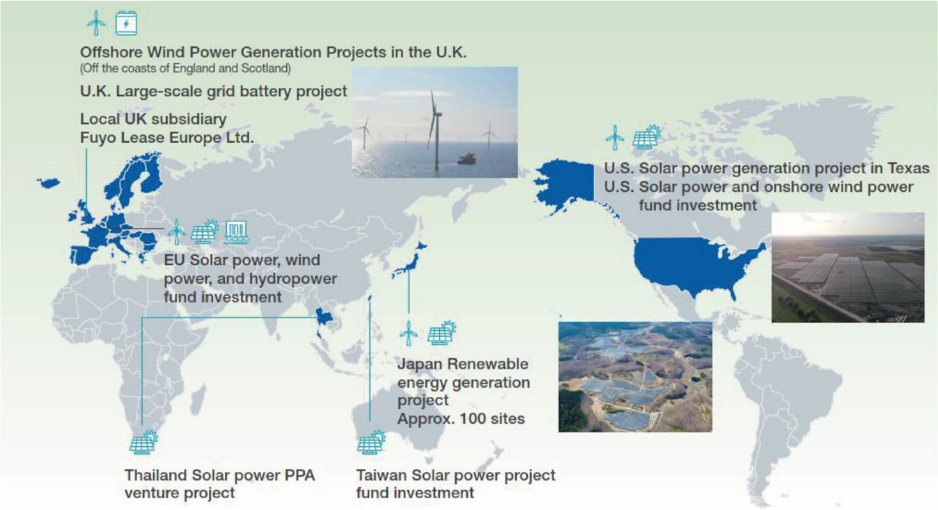
(2) Energy & environment (AT field)

As of the end of 1H FY3/25, the balance of operating assets increased to ¥195.6bn (up ¥13.5bn from the end of 1H FY3/24), ROA improved to 1.4% (1.1% in 1H FY3/24), and ordinary profit increased to ¥1.4bn (up ¥0.6bn YoY). Profits increased, absorbing the rise in foreign currency costs. Collaboration projects with alliance partners in Japan and overseas are expanding steadily and development-type projects are mostly progressing well. As a result, the Company is making strong progress toward its non-financial target of 1,000MW in renewable energy power generation capacity. In the field of energy storage, the Company built partnerships with diverse companies, invested and participated in Japan's first grid storage battery fund*1, and produced results with its first large-scale grid storage battery business*2.

*1 Tokyo Metropolitan Energy Storage Plant Investment Limited Partnership, an investment limited partnership operated by GI Energy Storage Management Inc., which was established jointly by ITOCHU Corporation and Gore Street Capital Limited of the U.K. on February 29, 2024. It is Japan's first fund exclusively for energy storage. The Tokyo Metropolitan Government is one of the investors.

*2 Jointly operated with Daiwa Energy & Infrastructure Co., Ltd. and ASTMAX Co., Ltd.

Global expansion of renewable energy power generation business



Source: The Company's results briefing materials

(3) BPO/ICT (AT field)

In 1H FY3/25, ordinary profit increased to ¥2.2bn (up ¥0.4bn YoY), driven by growth of the ICT business including subsidiary WorkVision, which was underpinned by brisk IT capex. The Company also made solid progress toward its non-financial target of work hours saved by customers (compared to FY3/22), which increased to 640,000 hours (330,000 hours in 1H FY3/24; the medium-term management plan's numerical target is 1,000,000 hours). In activities, the Company expanded the menu of services* provided in collaboration with alliance partners.

* The Company entered into a business alliance with Azusa Institute of Research Co., Ltd. relating to AIR-Plate, a facility management platform, as well as providing an integrated BPO service through a business alliance with its subsidiary FOC and The Mitsubishi UFJ Factors Limited, which provides payment services.

(4) Healthcare (AT field)

At the end of 1H FY3/25, the balance of operating assets was little changed YoY at ¥87.4bn and ROA fell to 1.7% from 1.9% in 1H FY3/24. As a result, ordinary profit was down ¥0.1bn YoY to ¥0.7bn. Although the Company did not make progress in increasing operating assets, Accretive's factoring of medical and care fee credits is trending upward due to strengthened collaboration with regional financial institutions and consulting firms. In healthcare facilities, the number of new rooms provided in nursing care facilities for the elderly, which is one of the Company's non-financial targets, increased to 1,011 (up 328 from the end of 1H FY3/24). It is also expanding initiatives with alliance partners. The Group is continuing to deliver healthcare platforms* and increase operating assets in anticipation of an improved market environment.

* The concept of providing a one-stop solution from finance (capital investment and working capital) to services (BPO, operational improvements, etc.) that includes collaboration with alliance partners to help businesses in the healthcare market including medical and nursing care facilities, dispensing pharmacies, etc.

(5) Real estate (GP field)

As of the end of 1H FY3/25, the balance of operating assets was ¥1,065.6bn (down ¥28.3bn from the end of FY3/24) and ROA turned down from 2.9% a year earlier to 2.3%. This resulted in a ¥2.5bn YoY decline in ordinary profit to ¥12.5bn. Profit fell as the Company continued with asset controls with awareness of profitability and a balanced portfolio, due in part to the dropout of the large gain on sale recorded in FY3/24. Nonetheless, the Company is making steady progress toward its medium-term management plan targets in the final year. Its project pipeline also appears to be expanding solidly (including collaborations with alliance partners) as a result of inquiries from a broad range of deal sources. The Company also began overseas real estate initiatives* in collaboration with alliance partners.

* The Company began a multi-family housing project with U.S. real estate developers in collaboration with Sumitomo Forestry Co., Ltd. <1911> and Odakyu Electric Railway Co., Ltd. <9007>.

(6) Aircraft (GP field)

As of the end of 1H FY3/25, the balance of operating assets increased substantially to ¥377.5bn (up ¥69.6bn from the end of 1H FY3/24), ROA improved to 3.1% (2.4% in 1H FY3/24), and ordinary profit increased to ¥5.4bn (up ¥2.4bn YoY). Profit increased sharply amid a continuing favorable business environment as a result of ongoing efforts to own more aircraft mainly in Japan and North America (seven added in 1H FY3/25) combined with the effect of yen depreciation. Regarding activities, the Company promoted a turnover-oriented business of flexibly selling aircraft based on the market environment and began leasing a third freighter (cargo-only aircraft)* to YAMATO Holdings.

* FISCO regards this initiative as a promising passenger to freighter (P2F) business as part of a strategy to expand business areas.

Results by business field (financial/non-financial)

(¥bn)

	1H FY3/24 Results	1H FY3/25 Results	Change
Mobility & logistics			
Ordinary profit	3.0	4.0	1.0
ROA	3.4%	4.0%	0.6pp
Operating assets	194.0	200.1	6.1
EV/FCV ownership ratio	0.7%	1.2%	0.5pp
Energy & environment			
Ordinary profit	0.8	1.4	0.6
ROA	1.1%	1.4%	0.4pp
Operating assets	1,82.0	1,95.6	13.5
Renewable energy power output * Figures in parentheses include projects in development	576MW (900MW)	698MW (1,026MW)	122MW (126MW)
BPO/ICT			
Ordinary profit	1.8	2.2	0.4
ROA	1.7%	3.0%	1.4pp
Operating assets	51.2	51.6	+0.4
Work hours saved by customers (compared to FY3/22)	330,000 hours	640,000 hours	310,000 hours
Healthcare			
Ordinary profit	0.8	0.7	-0.1
ROA	1.9%	1.7%	-0.2pp
Operating assets	87.4	87.4	0.1
Nursing care facilities for the elderly (number of new rooms provided)	683	1,011	328
Management support financing for the medical and social-welfare market	21.0	27.0	6.0
Real estate			
Ordinary profit	15.0	12.5	-2.5
ROA	2.9%	2.3%	-0.5pp
Operating assets	1,093.9	1,065.6	-28.3
Aircraft			
Ordinary profit	3.0	5.4	2.4
ROA	2.4%	3.1%	0.7pp
Operating assets	307.9	377.5	69.6
Self-owned aircraft	56	65	9
Other aircraft (management aircraft, etc.)	55	57	2

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

5. Summary of 1H FY3/25

To summarize 1H FY3/25, we at FISCO are positive on the Company maintaining a profit growth trend by absorbing higher interest expenses and special negative factor of the dropout of a large gain on sale with strong performance of growth areas. As well, the Company is making steady progress working with alliance partners on further expansion of business scope as initiatives for the future. Potential next-generation growth drivers (business models) are taking shape, such as the EV domain including EV life cycle services in mobility & logistics, and new business areas like the storage battery-related business in energy & environment and P2F business in aircraft. Also, in energy & environment, plans for further expansion of the renewable energy business are underway in the form of overseas collaboration projects (in Europe, North America, etc.). We at FISCO are positive on the Company's recent results that strike a good balance between current earnings performance and preparing for future profits.

Business outlook

Full-year forecast calling for profit decline unchanged, but when based on actual values excluding the special factors, the outlook is for profits to continue to increase

1. FY3/25 results outlook

For the FY3/25 results, the Company maintains its initial forecasts and is projecting profits will decline due to the end of the special factors that occurred in the fiscal year, with operating profit to fall 0.1% to ¥60.0bn, ordinary profit to decline 3.4% to ¥66.0bn, and profit attributable to owners of parent to decrease 4.7% to ¥45.0bn. However, when looking at ordinary profit excluding the special factors (based on actual values), the outlook is for it to continue to increase, rising 2.5%. Also, with regards to the medium-term management plan that has reached its third year, ordinary profit is expected to hit the upper limit of the plan's interim target (¥64.0bn to ¥66.0bn), so it is reasonable to view the Company as making steady progress.

The Company has made no major revisions to its initial assumptions and plans a well-rounded asset increase mainly in growth areas as in 1H, while continuing to assume an impact from rising domestic interest rates. We at FISCO also expect the recovery of healthcare (whose progress versus plan has been slow) and growth of BPO/ICT (i.e., expansion of non-asset earnings) in response to increased demand to underpin earnings.

The outlook is also for ROA to maintain its high level through asset controls that prioritize profitability and the expansion of non-asset earnings.

FY3/25 outlook

(¥bn)

	FY3/24 Results	FY3/25 Forecast	YoY change	
			Amount	%
Operating profit	60.0	60.0	0.0	-0.1%
Ordinary profit	68.4	66.0	-2.4	-3.4%
Profit attributable to owners of parent	47.2	45.0	-2.2	-4.7%

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

2. FISCO's view

While it is necessary to continue to pay attention to the external environment that contains uncertain elements for the future, such as the unstable international conditions and the rise in domestic interest rates, when considering the Company's 1H results, accumulation of highly profitable assets in aircraft, energy & environment, and other areas, at FISCO, we consider its results forecasts to be fully achievable. Also, while it maintains its initial forecast for a decline in profits, this does not indicate a worsening of results, and in order to avoid making an incorrect investment judgment, it is necessary to be aware that when viewed based on actual values, profits are continuing to increase. On the other hand, from a medium-to long-term perspective, we should continue to focus on the AT fields of energy & environment, BPO/ICT, and healthcare for which the Company is aiming for accelerated growth on ascertaining market trends. In energy & environment, in addition to the potential for global business expansion through strengthening collaborations with powerful partners, it will also be necessary to follow trends in new areas, such as secondary energy (storage batteries) in Japan. For BPO/ICT, demand is growing including for improving work efficiency and workstyle reforms, and in addition, with a structure in place that utilizes DX and AI, the Company expects to capture new demand and for profitability to improve. In addition, there are signs of recovery in the stagnant financing needs of healthcare, where progress appeared to be lagging behind, and it seems the key point will be how to catch up in the future.

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 five-year medium-term management plan, which was started in FY3/23, is has entered its third year. Based on factors such as the progress made so far and the awareness of the environment, the Company has not changed its strategy direction or numerical targets. With Fuyo Shared Value 2026 as its vision, its policy is to aim for sustainable growth by solving societal problems at the same time as realizing economic value through the growth of people and dialogues, while the plan also set both financial and non-financial 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 & logistics 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 the end of 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 moving away from traditional leasing and financing 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 four 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

Basic strategies, targets, and medium- to long-term focuses in each business field

2. The basic strategies and targets in each business field

(1) Mobility & logistics (RT field)

On the one hand, there is an increasing focus on 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 percentage points (pp)). The non-financial targets include an EV and FCV ownership ratio of 30% (up 30pp).

*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 100pp).

(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 three 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 0.2pp). The non-financial targets are 1) a renewable energy power generation capacity of 1,000MW (up 682MW) 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 3.9pp), while the non-financial targets are to reduce customers' work hours by an additional 1 million (up 1 million 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 1.3pp), while the non-financial targets are 1) 1,330 rooms in nursing care facilities for the elderly, and 2) financing of ¥56.0bn to support management in the medical and social welfare markets (up ¥32.7bn).

* 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 enhancing sophistication and differentiation in 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-type 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 1.7pp) (it has not set non-financial targets).

3. Primary medium- to long-term 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 entered its third year, and although substantial changes to the earnings structure are yet to come, we shall continue to focus on what ways the Company strengthens the RT (mobility & logistics) and AT (energy & environment, BPO/ICT, healthcare) 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.).

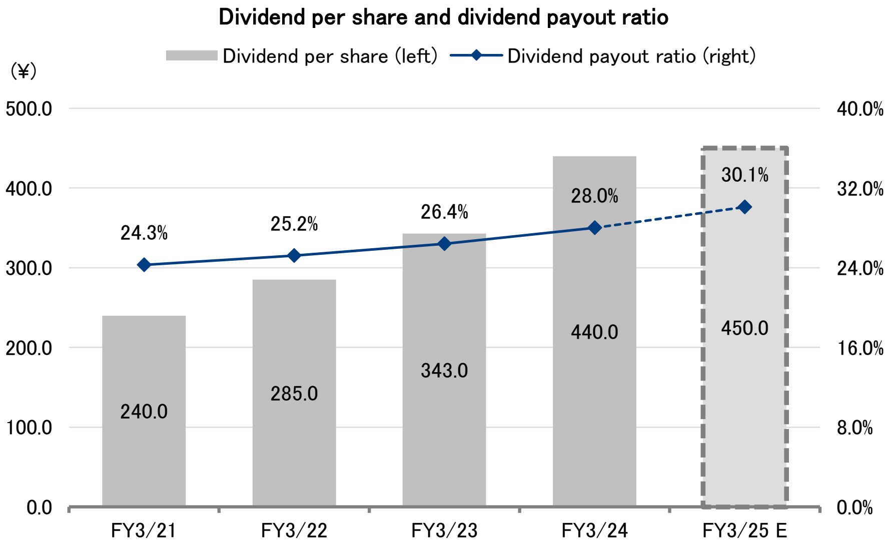
Shareholder returns

For FY3/25, is forecasting a dividend per share of ¥450, an increase of ¥10 YoY. Expects to achieve the medium-term management plan’s dividend payout ratio target of at least 30% two years ahead of schedule

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,considering its profits and business goals. Supported by strong profits, the Company has been continuously increasing its dividend since its shares were listed in 2004.

For FY3/25, the Company is forecasting a dividend per share of ¥450 (interim dividend ¥225, fiscal year-end dividend ¥225), an increase of ¥10 YoY, and it expects to achieve the medium-term management plan’s dividend payout ratio target of at least 30%, two years ahead of schedule (forecast dividend payout ratio of 30.1%).

At FISCO, we think there is plenty of room to increase the dividend through profit growth in the future.



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

Disclaimer

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