COMPANY RESEARCH AND ANALYSIS REPORT

WILLPLUS Holdings Corporation

3538

Tokyo Stock Exchange First Section

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Summary

Upward revision to FY6/21 results forecast based on current status of orders and recent solid operating results, significant increase in profit and dividend

WILLPLUS Holdings Corporation <3538> (hereafter, also "the Company") is a pure holding company with four consolidated subsidiaries that are engaged in sales of imported cars. They sell 10 brands, including Jeep, FIAT, BMW, MINI, Volvo, and Porsche, through authorized dealerships. As of the end of February 2021, the Company manages 34 dealerships, including in Fukuoka Prefecture, where its business originated, and also in Tokyo and Kanagawa Prefecture, Yamaguchi Prefecture, and the Tohoku area.

1. Efforts for the accelerating shift to EVs

In Europe, which is leading the way on "decarbonization" which is being advanced around the world, automakers are moving to EVs ahead of Japan, but there are many EVs among the brands that the Company handles. These include the Jeep Renegade 4Xe (PHV), the FIAT 500e, the BMW iX and iX3, MINI's MINI Cooper SE, the Volvo XC40 Recharge (PHV) and the Porsche Taycan. The Company, which has an aggressive approach to management, is pursuing the first-mover advantage in the accelerating shift to EVs, and has already carried out capital investment towards the shift to EVs, and will continue to expand this into the future. In terms of specific initiatives, the Company is promoting installing the latest charging infrastructure at all of its dealerships (charging infrastructure already installed at 84% of its dealerships, and the Company is in the process of installing quick chargers). In addition, the Company was among the first to introduce EV demonstration cars to give customers the experience of test-driving EVs.

2. Performance trends

In 1H FY6/21, net sales totaled ¥19,909mn (+10.7% YoY), while operating profit increased 61.0% YoY to ¥1,205mn, as net sales grew by double digits along with significant growth in profits. This marked the highest level of earnings ever for a 1H. The main factors for the large increase in profits were the significant growth in sales of high profit-margin used cars, improved profitability and efficiency at dealerships acquired through M&A, and a reduction in employee training expenses and travel expenses due to the COVID-19 pandemic. The factors behind the increase in net sales included the slight recovery trend in the delays in new car shipments and strong sales of used cars.

Based on the current situation with orders and the results through the end of 1H, the Company upwardly revised its consolidated forecasts for FY6/21. The revised forecasts are for net sales to increase 9.3% YoY to ¥38,344mn (+6.1% vs. previous forecast), and operating profit to increase 58.2% YoY to ¥1,836mn (+55.5%). The Company is focusing on activities for orders of new vehicles, primarily new models, and will continue to focus on used car sales due to the fact that the supply of new vehicles is unstable. Also, in addition to promoting the expansion of the recurring revenue-based business, the Company will aim to raise its product turnover rate to increase capital efficiency.

The Company's initiative policies include: 1) Safely operate dealerships and increase efficiency; 2) Expand the market share of new car sales; and 3) Adapt to the accelerating shift to EVs. In terms of safely operating dealerships and increasing efficiency, the Company will transition to optimal business activities adapted to changes caused by the COVID-19 pandemic – such as business negotiations conducted online and digitizing documents, etc. – all the while carrying out thorough infection prevention measures, and promoting efficiency improvements to its operations. Regarding expanding the market share of new car sales, based on the Company's three growth strategies of the multi-brand strategy, the dominant strategy, and the M&A strategy, the Company will continue working toward increasing its share of sales through proactive dealership openings. In addition, in order to further bolster the management base, the Company will aim to increase the turnover ratio to have good capital efficiency.

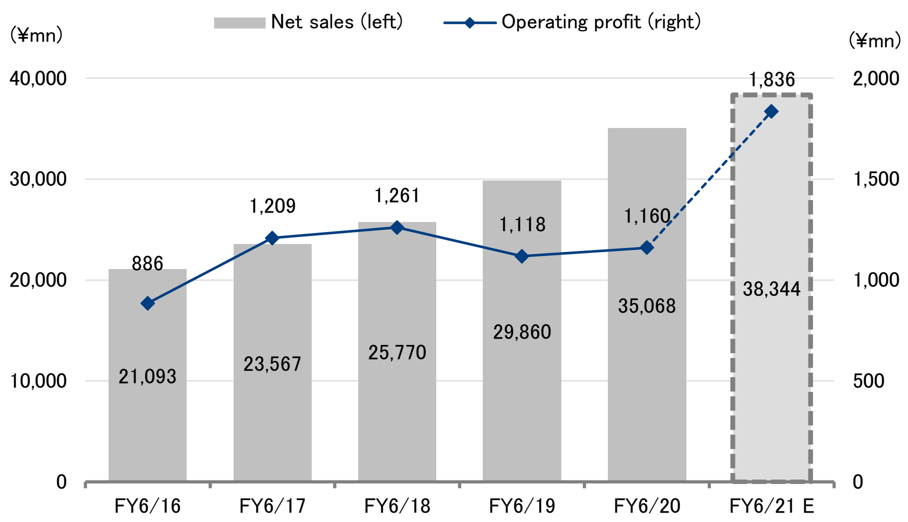
3. Shareholder returns

Accompanying the upward revision to its FY6/21 results forecasts, the Company raised its year-end dividend to ¥16.77 per share (up ¥8.18 versus the previous forecast), and the annual dividend to ¥21.77 per share (up ¥8.18). The Company also raised the dividend payout ratio target from 15.0% to 17.5%, starting from FY6/21.

Key Points

- Ahead of the shift to EVs expected to pick up momentum, the Company is making capital investments and was among the first companies to provide opportunities for customers to experience EVs
- In 1H FY6/21, the Company posted a double-digit increase in net sales and a significant increase in operating profit, posting the highest level of 1H earnings ever
- Based on the current level of orders and the level of earnings through 1H, the Company upwardly revised its FY6/21 results forecast and plans to increase the annual dividend to ¥21.77 per share

Performance trends



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

Company profile

Handles 10 brands of overseas vehicle manufacturers at 34 dealerships

1. Company profile

The Company is a pure holding company with four consolidated subsidiaries engaged in sales of imported cars. Its 34 dealerships (as of the end of February 2021) within Japan sell the 10 main brands of Alfa Romeo, FIAT, ABARTH, Jeep, Jaguar, Land Rover, BMW, MINI, Volvo, and Porsche. Also, its dealerships are located in Miyagi Prefecture, Fukushima Prefecture, Tokyo, Kanagawa Prefecture, Yamaguchi Prefecture, and Fukuoka Prefecture.

From its corporate philosophy of "The joy of + in the future," the Company's name is derived from "Providing the future together with imported cars (=WILL) and continuing to take on the challenge of being able to propose a 'joyful life' to everyone involved (=PLUS)."

In the four fiscal years from FY6/17 to FY6/20, the Company newly opened 8 dealerships, acquired 4 dealerships through business takeovers, rebuilt and reopened 4 dealerships from existing dealerships, and renovated 11 dealerships. For the compound annual growth rate (CAGR), net sales increased 14.2% and operating profit 1.4%, while EBITDA rose 10.0%. Meanwhile, operating profit fell in FY6/19 due to an increase in the burden of upfront investment. This was expected to be recovered from FY6/20 onwards, but due to the COVID-19 pandemic there was only a small increase in profit. In 1H FY6/21, the operating profit increased 61.0% YoY, a significant improvement, based on sales activities responding to the business environment amid the COVID-19 pandemic. Accompanying this, in February 2021, the Company upwardly revised its FY6/21 operating profit forecast to +58.2% compared to the previous fiscal year (+55.5% versus the previous forecast).

2. History

In 1997, the father of Takaaki Naruse, the current President, established Sunflower CJ in Kitakyushu City, Fukuoka Prefecture. Soon thereafter, Sunflower CJ acquired a Chrysler (U.S.) dealership and began operating as an official Chrysler dealer. After engaging in new and used car sales, Takaaki Naruse acquired all the shares of Fukuoka Chrysler in October 2004 and became independent. He then opened a dealership in Ota Ward, Tokyo in 2005, and entered Tokyo. After that, he established WILLPLUS Holdings Corporation in 2007.

For its stock market listing, the Company was listed on the Tokyo Stock Exchange (TSE) JASDAQ (standard) market in March 2016, which was changed to the TSE Second Section in September 2017, and then upgraded to the TSE First Section in February 2018.

Through actively conducting M&A, the Company acquired imported car sales rights and commercial areas for leading brands, and at the same time, it rapidly expanded its dealership network through new dealership openings. In 2008, it made CHECKER MOTORS CORPORATION a wholly owned subsidiary, started handling FIAT and Alfa Romeo, and made a full-fledged entry into the Kanto area. In 2009, it acquired 2 Jeep dealerships in the Tokyo metropolitan area and 5 BMW and MINI dealerships through business takeovers, and in 2014, it made a wholly owned subsidiary of Teio Auto Corporation, which sells Volvo vehicles. Furthermore, in 2017, it established Willplus Eins Corporation, which took over the business of Porsche Center Sendai in 2018, thereby handling Porsche and entering the Tohoku area for the first time. In November 2019, the Company newly opened CHECKER MOTORS Approved Munakata, its first dealership specializing in approved imported used cars.

History

Date	Business change	Brand development	Commercial area expansion
October 2007	Established WILLPLUS Holdings Corporation		
July 2008	Converted CHECKER MOTORS CORPORATION into a wholly owned subsidiary	Began handling FIAT/Alfa Romeo vehicles	Full-fledged entry into the Kanto area
July 2009	Took over 2 directly managed dealerships from Chrysler Japan Co., Ltd.		
September 2009	Willplus Motoren Corporation took over the businesses of 5 dealerships	Began handling BMW/MINI vehicles	
April 2014	Converted Teio Auto Corporation into a wholly owned subsidiary	Began handling Volvo vehicles	
November 2017	Established Willplus Eins Corporation		
March 2018	Newly opened Jaguar/Land Rover Kitakyushu	Began handling Jaguar/Land Rover vehicles	
April 2018	Took over the Jaguar/Land Rover Shonan business		
December 2018	Took over the Porsche Center Sendai business	Began handling Porsche vehicles	Entered the Tohoku area for the first time
March 2019	Opened the new MINI Yamaguchi and MINI NEXT Shunan dealerships		Entered the Chugoku area for the first time
April 2019	Took over the Jaguar/Land Rover Mitaka business		
November 2019	Newly opened CHECKER MOTORS Approved Munakata, its first dealership specializing in approved imported used cars		

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

As of the February 28, 2021, the Company Group is managing 34 dealerships. Breaking them down according to the consolidated subsidiary managing them, CHECKER MOTORS, which handles Alfa Romeo, FIAT, ABARTH, Jeep, Jaguar, and Land Rover, is managing 18 dealerships; Willplus Motoren, which handles BMW and MINI, is managing 10 dealerships; Teio Auto, which handles Volvo, is managing 4 dealerships; and Willplus Eins, which handles Porsche, is managing 2 dealerships.

List of Operating Companies

Name	CHECKER MOTORS CORPORATION	Willplus Motoren Corporation	Teio Auto Corporation	Willplus Eins Corporation
Number of dealerships (as of February 28, 2021)	18 dealerships	10 dealerships	4 dealerships	2 dealerships
Importers	FCA Japan Limited Jaguar Land Rover Japan Limited	BMW Japan Corporation	Volvo Car Japan Limited	Porsche Japan KK
Brands handled	Jeep Alfa Romeo FIAT ABARTH Jaguar Land Rover	BMW MINI	Volvo	Porsche

Source: Prepared by FISCO from the Company's financial results presentation materials and press releases

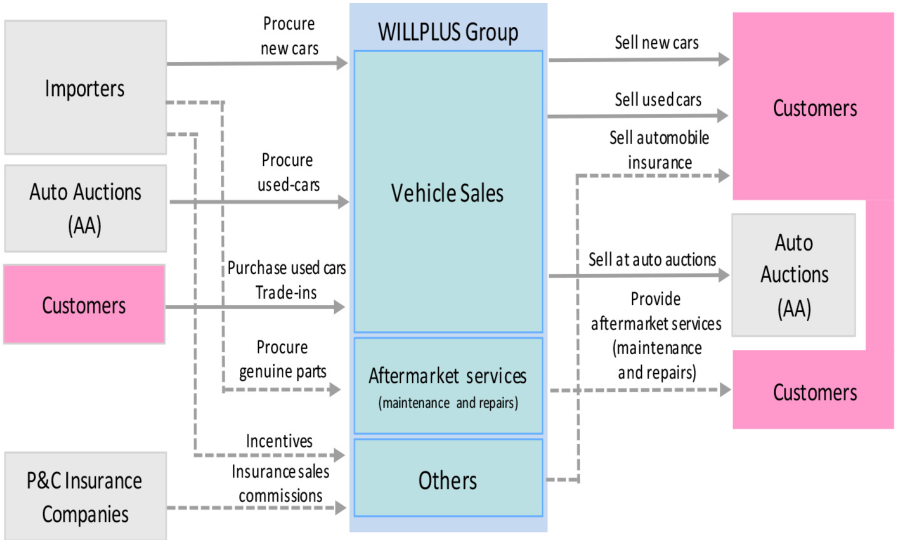
3. Description of business

(1) Business models

As an authorized dealer for the sales of imported cars, the Company purchases new cars from importers (the Japanese subsidiaries of overseas auto manufacturers), which it then sells. In terms of the details of the importers, FCA Japan Limited, which is the Japanese subsidiary of the FCA Group (Fiat Chrysler Automobiles N.V.), handles the Alfa Romeo, FIAT, and ABARTH brands of Italy and the Jeep brand of the United States. Jaguar Land Rover Japan Limited handles Jaguar and Land Rover, and BMW Japan Corporation handles BMW and MINI. Volvo is handled by Volvo Car Japan Limited and Porsche is handled by Porsche Japan KK.

The Company purchases used cars at auto auctions and through trade-ins. Also, trade-ins of brands not handled by the Company are sold at auto auctions. In addition, alongside sales of cars, it sells automobile insurance and provides after-sales services (maintenance and repairs).

Schematic diagram of the Company Group's businesses

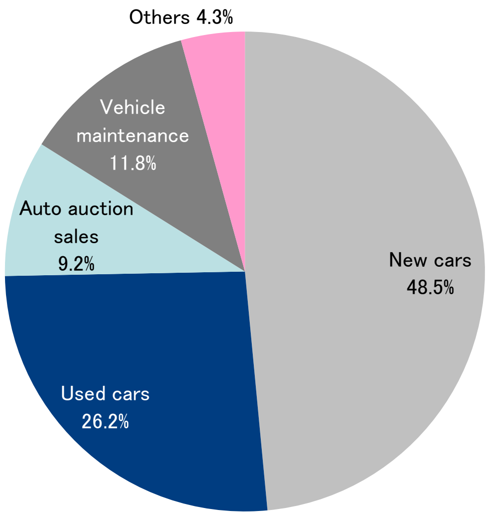


Source: Prepared by FISCO from the Company's results briefing materials

(2) Composition of total net sales

In 1H FY6/21, the composition of total net sales by business were that new cars provided 48.5%, used cars 26.2%, auto auction sales 9.2%, vehicle maintenance 11.8%, and others 4.3%. Meanwhile, in terms of profitability, the cost-of-sales-ratio for new vehicles is high, so profitability of new cars is lower than that of used cars. With regards to other services, in addition to the fact that agency commissions are the main source of revenue, insurance fees have become a stable source of revenue, so profit margin has increased. Auto auction sales are sales of traded-in cars of brands not handled by the Company Group.

Sales mix (1H FY6/21)



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

Business strategies

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

1. Trends in the automotive market in Japan

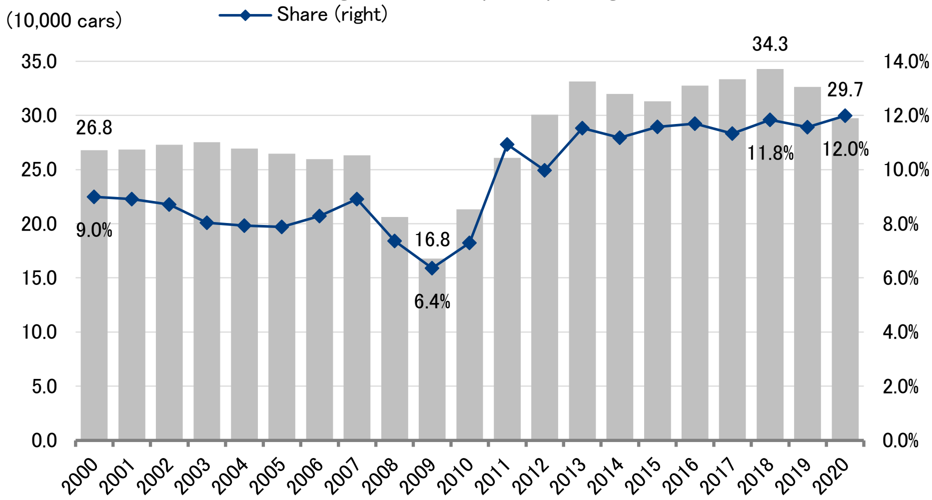
Due to the declining birthrate and aging population, the population of Japan peaked in 2008 at 128.08mn people and is now trending downward. In the estimate for December 2020, the population had declined by slightly more than 2.37mn people from its peak to 125.71mn people. It is considered that young people are tending not to buy a car and elderly people are giving up their driving licenses, but according to the statistics of Japan Automobile Manufacturers Association, Inc., at the end of 2017, the number of owned passenger cars, which is the total of standard-size, small-size, and kei minicars, was 61.81mn, the highest level ever. The number of passenger cars owned at the end of March 2020 had increased by 3.9mn compared to the end of 2010, and on breaking this down, standard-size cars increased by 2.91mn, small-size cars decreased by 4.05mn, and kei minicars increased by 5.04mn. In terms of the changes in the composition ratio, standard-size cars had changed from 28.8% to 31.7%, small-size cars from 41.0% to 31.8%, and kei minicars from 30.2% to 36.5%. As a result, it can be said that the purchasing behavior of consumers is polarizing and small-size cars have lost share. Also, for the kei minicar standards, the engine capacity was increased from 360cc to 550cc, and furthermore to 660cc, while the total body length was increased from 3 meters to 3.4 meters, and the total width increased from 1.3 meters to 1.48 meters. So pragmatic consumers are tending toward owning kei minicars, while people who prioritize hobbies, lifestyle, and values are tending toward owning standard-size cars.

New car sales are affected by factors including the economy, interest rates, and the launch dates of new models. FISCO found that the number of new registrations of passenger cars peaked at 4.768mn in 2004, and registrations fell below 4mn to 3.924mn due to the impact of the Lehman Shock in 2009. This number fell to 3.525mn registrations following the Great East Japan Earthquake in 2011, but subsequently it recovered to 4.301mn registrations in 2019. However, in 2020, the COVID-19 pandemic resulted in a 11.4% YoY decline to 3.809mn registrations.

The number of newly registered imported cars (overseas manufacturers) declined from 271,000 in 1999 to 168,000 in 2009 after the Lehman Shock, but subsequently recovered to 297,000 in 2020 (8.9% YoY decline). The share of imported passenger cars of all registered cars (standard- and small-size passenger cars), not including Japan's unique kei minicar models, was 9.3% in 1999, 6.4% in 2009, and 12.0% in 2020.

The share of imported cars in Germany, which has the world's largest auto manufacturer VW, the luxury car brand Mercedes-Benz, and BMW, which is also a popular brand in Japan, is high at 39.2%, while in the US it is 23.2% and in Italy 73.5%. Therefore, the Company Group considers there is considerable room for the share of imported cars in Japan to grow. Incidentally, according to the Company, sales of imported new cars in Japan in 2019 were worth approximately ¥1.53tn, and in the market, the consolidation of medium- and small-sized dealers is progressing. The Company's market share is less than 3%, but it is aiming to increase this share in the future through M&A.

Trends in the number of new registrations of imported passenger cars



Note: The share of imported cars is the percentage of imported passenger cars of all registered passenger cars (not including kei minicars).
Source: Prepared by FISCO from the data of the Japan Automobile Importers Association and the Japan Automobile Dealers Association

2. Growth strategies

The Company's growth strategies are 1) a multi-brand strategy, 2) a dominant strategy, and 3) an M&A strategy.

(1) Multi-brand strategy

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

In the ranking of the number of new registrations of cars of overseas manufacturers in 2020 (calendar year), all of the 10 brands that the Company handles were in the top 20. Its standards for selecting a brand are 1) the potential to become a major dealer among the brands and 2) strong brand power that can be expected to realize constant sales. The Company is targeting more than 9 brands which it does not handle. Generally, importers, which are the Japanese subsidiaries of overseas manufacturers, give sales rights to the dealers in each area based on the dealer contract and conduct sales. However, as many areas are already filled, an M&A strategy of acquiring or taking over the businesses of existing dealers is important.

New registrations of cars of overseas manufacturers (calendar year)

(unit: cars)

Ranking		Brand name	2010	2015	2020	Share
1		Mercedes-Benz	30,920	65,159	56,999	22.4%
2	*	VW	46,704	54,765	36,574	14.4%
3		BMW	32,426	46,229	35,712	14.0%
4		Audi	16,854	29,414	22,304	8.8%
5	*	BMW MINI	11,338	21,083	20,196	7.9%
6	*	Volvo	7,767	13,510	15,547	6.1%
7	*	Jeep	1,877	7,129	13,562	5.3%
8		Peugeot	6,021	5,906	10,752	4.2%
9	*	Porsche	3,335	6,690	7,284	2.9%
10		Renault	2,536	5,082	5,963	2.3%
11	*	Fiat	5,562	6,032	5,889	2.3%
12	*	Citroën	2,402	1,978	5,028	2.0%
13		Land Rover	727	2,979	3,945	1.6%
14	*	ABARTH		1,472	2,571	1.0%
15	*	Alfa Romeo	1,816	2,321	1,674	0.7%
16	*	Jaguar	1,138	1,349	1,423	0.6%
17		Ferrari	493	720	1,085	0.4%
18		DS		925	908	0.4%
19		Maserati	287	1,449	898	0.4%
20		Lamborghini	60	349	631	0.2%
		Overseas manufacturers, total	180,255	284,471	298,378	100.0%

Note: Rankings and shares are from 2020 data.
* Brands handled by the Company
Source: Prepared by FISCO using data from Japan Automobile Importers Association

(2) Dominant strategy

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

The Company utilizes a multi-brand strategy to conduct this dominant strategy. The aims of the dominant strategy are to capture customers by offering them multiple choices and increase efficiency through making the human resources within the Group mobile and optimizing their allocation. This method responds to the needs of customers who want to change to another brand during a model-cycle valley, or who want to try a model of another brand (for example, an SUV).

Some specific examples of the Company Group's dominant strategy include its dealership networks in the Kanagawa area and the Kitakyushu area. In the Kanagawa area, it manages 6 dealerships: Jaguar/Land Rover Shonan (approved Shonan/service center), Jaguar/Land Rover Shonan (Shonan showroom/new car sales), Jeep Fujisawa Shonan, Alfa Romeo Fujisawa Shonan, FIAT/ ABARTH Hiratsuka, Jaguar/Land Rover Sagamihara. In the Kitakyushu area, it manages 7 dealerships: Volvo Cars Kitakyushu, Jeep Kitakyushu, BMW Kokura, BMW Yahata, MINI Kokura, Jaguar/Land Rover Kitakyushu, and MINI NEXT Fukuoka-Higashi; and newly opened CHECKER MOTORS Approved Munakata (Munakata City, Fukuoka Prefecture), its first multi-brand dealership specializing in approved imported used cars.

By brand, the Company has been actively investing in MINI. In November 2019, it reopened the renovated MINI Hakata/MINI NEXT Hakata dealership, which is compliant with the latest corporate identity (CI). In January 2020, it relocated the MINI Yamaguchi/MINI NEXT Yamaguchi dealership to a more prime location and opened a newly constructed dealership compliant with the latest CI. In February 2021, the Company newly opened MINI NEXT Fukuoka-Higashi, a dealership specializing in sales of certified used MINI that is compliant with the latest CI. Also, in March 2019, it entered the Chugoku area for the first time, choosing Yamaguchi Prefecture for its close proximity to Fukuoka Prefecture, an existing sales base in the Kyushu area. As of the end of February 2021, it has 2 MINI dealerships in Yamaguchi Prefecture and 5 in Fukuoka Prefecture, and it is the major authorized dealer of this brand in those areas.

In December 2020, the Company integrated Jaguar/Land Rover Approved Hiratsuka (certified used car sales) and Jaguar/Land Rover Shonan Service (service center) into the Jaguar/Land Rover Approved Shonan and Jaguar/Land Rover Shonan Service dealership, and reopened them, conforming to the latest corporate identity (CI) features. By relocating to near the existing new car dealership of Jaguar/Land Rover Shonan, it seems that the level of convenience for customers has increased.

The Company Group's dealership network by region (As of the end of February 2021)

Miyagi Prefecture				
Sendai				[PS] New and used car sales and after-sales services
Fukushima Prefecture				
Koriyama				[PS] New and used car sales and after-sales services
Tokyo				
Shinjuku		[MINI] New and used car sales and after-sales services		
Ikebukuro			[FT/AB] New and used car sales and after-sales services	
Meguro	[JP] New and used car sales			
Ota		[AR] New and used car sales and after-sales services	[FT/AB] After-sales services	
Setagaya	[JP] New and used car sales and after-sales services	[AR] New and used car sales and after-sales services	[FT/AB] New and used car sales and after-sales services	
Denenchofu			[FT/AB] New and used car sales	
Mitaka				[JG/LR] New and used car sales and after-sales services
Kanagawa Prefecture				
Shonan	[JP] New and used car sales and after-sales services	[AR] New and used car sales and after-sales services		[JG/LR] New and used car sales and after-sales services
Hiratsuka			[FT/AB] New and used car sales and after-sales services	
Sagamihara				[JG/LR] New and used car sales and after-sales services
Yamaguchi Prefecture				
Yamaguchi		[MINI] New and used car sales and after-sales services		
Shunan		[MINI] Used car sales		
Fukuoka Prefecture				
Kokura		[MINI] New and used car sales and after-sales services	[BMW] New and used car sales and after-sales services	
Yahata		[MINI] Used car sales	[BMW] New and used car sales and after-sales services	
Kitakyushu	[JP] New and used car sales and after-sales services			[VC] New and used car sales and after-sales services [JG/LR] New and used car sales and after-sales services
Fukuoka-Higashi		[MINI] Used car sales		
Fukuoka-Nishi	[JP] New and used car sales and after-sales services	[MINI] New and used car sales and after-sales services		
Fukuoka	[JP] New and used car sales and after-sales services	[MINI] New and used car sales and after-sales services		[VC] New and used car sales and after-sales services
Fukuoka-Minami				[VC] New and used car sales and after-sales services
Kurume	[JP] New and used car sales and after-sales services			[VC] New and used car sales and after-sales services
Munakata	Used car sales			

Note: JP: Jeep, AR: Alfa Romeo, FT: FIAT, AB: ABARTH, JG: Jaguar, LR: Land Rover, VC: Volvo, PS: Porsche
Source: Prepared by FISCO from the Company's results briefing materials and press releases

(3) M&A strategy

The M&A strategy is to 1) enter new areas, 2) acquire new brands (multi-brand strategy), and 3) increase the shares of existing brands. Areas that are candidates for entry include government-designated cities* with a population of more than 1mn people and core regional cities with a population of more than 400,000 people.

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

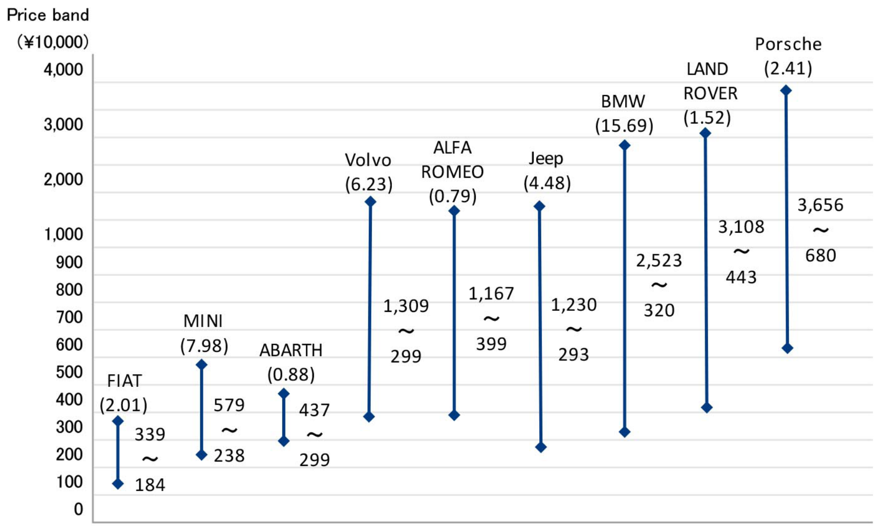
In December 2018, Willplus Eins took over the business of Porsche Center Sendai, thereby entering Tohoku for the first time. This case is an entry into a new area and at the same time, the acquisition of a new brand. In order to cover all the commercial areas in the Tohoku area, it opened Porsche Center Koriyama as the second dealership in Fukushima Prefecture in January 2019. Normally, when entering a new area, the Company chooses locations adjacent to existing bases as the success rate of locations that are not adjacent to an existing base tends to be low. Porsche, which is synonymous with luxury sports cars, has a stable sales track record and ranked 9th in the top 10 for new registrations of cars of overseas manufacturers in 2020, so this could be said to be an attempt to strategically capture a new brand.

The nationwide network of authorized dealers of imported cars is not as large as that for domestically produced cars, but there is considerable room for growth for the Company. Specifically, in the Japanese domestic market, the numbers of bases for new cars, used cars, and services are 280 for BMW, 207 for MINI, and 122 Volvo new car dealers (as of the end of October 2020).

For introductions of M&A proposals, the Company directly approaches importers, financial institutions, or brokerage firms, or the other party approaches it. It examines aspects including future growth potential and business synergies, and after completing various types of due diligence, formulates a business plan and confirms elements such as the investment-recovery period. In order to be preferentially introduced to proposals, the Company works on building good relations with importers. On the other hand, in the case of financial institutions and brokerage firms, there is often competitive bidding. In this case, the Company Group bids in accordance with factors such as its internal investment-recovery standard.

Moreover, the models and price bands of the brands handled by the Company Group are rich in variety. The sales prices are ¥1.84mn to ¥3.39mn for FIAT, ¥2.38mn to ¥5.79mn for MINI, and ¥6.80mn to ¥36.56mn for Porsche (as of the end of March 2020). Previously, the image was that “owners of imported cars are wealthy” and “imported cars break down easily,” but the price difference between imported cars and domestically produced cars has narrowed and their quality has also improved. In terms of price, they have become more affordable and their user groups are expanding.

Sales price bands of brands handled by the Company



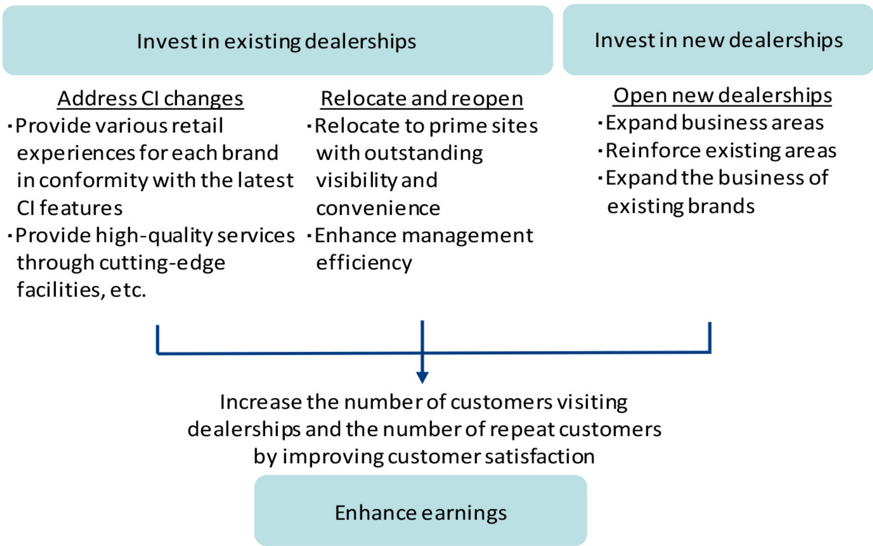
Note: Percentages in parentheses are the shares of the number of new registrations of passenger cars of overseas manufacturers in 2019. Domestic shares are between the cars of overseas manufacturers. Sales prices are as of the end of March 2020.
Source: Prepared by FISCO from the Company's materials

(4) Investment in dealerships

Investment in dealerships leads to an increase in the number of repeaters through improving the number of visitors to dealerships and customer satisfaction (CS). Therefore, the Company Group is investing in existing dealerships in order to comply with the latest CI and to improve the quality of services, and at the same time, is progressing relocations to locations where management efficiency can be expected to improve. Importers seek improvements, such as investment in the latest CI to expand sales and the holding of ample dealer inventory to shorten delivery times. Cases of business transfers involving small-scale dealers with sales rights in existing areas are appearing due to the burden placed on them of investing in dealerships, the increase in demo cars, having to respond to new CI, and the issue of business succession.

The aims of new dealership openings are to expand commercial areas and supplement existing areas and to expand the business scope of existing brands. This is because continuously increasing the number of dealerships through new dealership openings and business takeovers is essential in order to realize sustainable growth. The timings of company acquisitions and business takeovers cannot be determined in advanced, and it is not advisable to miss the investment timing. Therefore, a wave is generated for investment, including for M&A. From FY6/17 to FY6/20, the Company actively invested in dealerships. As a result, CAGR for operating profit decreased 1.4% during this period, but EBITDA increased 10.0%. The dealership renovations have basically been completed, so going forward the Company expects to enter an investment-recovery period.

Aims of investing in dealerships



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

(5) Initiatives towards the accelerating transition to EVs

In his general-policy speech in October 2020, Prime Minister Yoshihide Suga declared that Japan would aim to achieve a “decarbonization of society” (zero net emissions of greenhouse gases) by 2050. Around the world, as of December 2020, 123 countries and one territory had announced that they would “decarbonize” by 2050.

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

In Europe, which is leading the way on “decarbonization,” which is being advanced around the world, automakers are moving to EVs ahead of Japan, but there are many EVs among the brands that the Company handles. These include the Jeep Renegade 4Xe (PHV), the FIAT 500e, the BMW iX and iX3, the MINI Cooper SE, the Volvo XC40 Recharge (PHV) and the Porsche Taycan. The Company, which has an aggressive approach to management, is pursuing the first-mover advantage in the accelerating shift to EVs, and has already carried out capital investment towards the shift to EVs, and will continue to expand this into the future. In terms of specific initiatives, the Company is promoting installing the latest charging infrastructure at all of its dealerships (charging infrastructure already installed at 84% of its dealerships, and the Company is in the process of installing quick chargers). In addition, the Company is among the first to introduce EV demonstration cars to give customers the experience of test-driving EVs. Furthermore, introducing the EV demonstration cars means the Company can also proactively appeal to importers, which raises the possibility of leading to preferential introductions for M&A.

Performance trends

In 1H FY6/21, the Company posted a double-digit increase in net sales, and a significant increase in operating profit, as well as recorded the highest level of 1H earnings ever

1. Overview of 1H FY6/21

In 1H FY6/21, net sales totaled ¥19,909mn (+10.7% YoY), while operating profit increased 61.0% YoY to ¥1,205mn, ordinary profit increased 59.6% YoY to ¥1,204mn, and profit attributable to owners of parent increased 63.3% to ¥800mn. For FY6/21 full year profit forecasts, the Company was expected operating profit of ¥1,180mn, ordinary profit of ¥1,170mn, and profit attributable to owners of parent of ¥737mn, but all of these were already reached by the end of 1H. The main factors for the large increase in profits were the significant growth in sales of high profit-margin used cars, improved profitability at dealerships acquired through M&A, effective use of resources, greater efficiency due to a review of operational flow and a reduction in employee training expenses and travel expenses due to the COVID-19 pandemic. The factors behind the increase in net sales included the slight recovery trend in the delays in new car shipments and strong sales of used cars.

1H FY6/21 consolidated financial results

(¥mn)

	1H FY6/20		1H FY6/21		YoY	
	Results	vs. net sales	Results	vs. net sales	Change	% change
Net sales	17,981	100.0%	19,909	100.0%	1,927	10.7%
Gross profit	3,560	19.8%	4,101	20.6%	540	15.2%
SG&A expenses	2,812	15.6%	2,895	14.5%	83	3.0%
Operating profit	748	4.2%	1,205	6.1%	456	61.0%
Ordinary profit	754	4.2%	1,204	6.1%	449	59.6%
Profit attributable to owners of parent	490	2.7%	800	4.0%	310	63.3%

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

(1) Net sales by business

In terms of net sales by category, there was an increase in all categories excluding other services, and a particularly large increase in used cars. New car sales increased 3.3% YoY to ¥9,661mn, due to the slight recovery trend in the delays of new car shipments. Used car sales increased 34.3% YoY to ¥5,212mn, setting a new record high for 1H. Used car sales have a short cycle from procurement to sale, so the profit margins are large, and thus this category drove the big increase in profit. Auto auction sales increased 12.1% YoY to ¥1,828mn, while vehicle maintenance increased 4.6% to ¥2,356mn. Other services declined 1.7% YoY to ¥850mn.

1H FY6/21 net sales by category

(¥mn)

	1H FY6/20		1H FY6/21		YoY	
	Results	vs. net sales	Results	vs. net sales	Change	% change
New cars	9,350	52.0%	9,661	48.5%	311	3.3%
Used cars	3,881	21.6%	5,212	26.2%	1,331	34.3%
Auto auction sales	1,631	9.1%	1,828	9.2%	197	12.1%
Vehicle maintenance	2,253	12.5%	2,356	11.8%	103	4.6%
Others	865	4.8%	850	4.3%	-15	-1.7%

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

(2) Dealership openings

With respect to 1H FY6/21 dealership openings, in December 2020, the Company's subsidiary CHECKER MOTORS, which is the approved certified dealership network, integrated Jaguar/Land Rover Approved Hiratsuka (certified used car sales) and Jaguar/Land Rover Shonan Service (service center) into the Jaguar/Land Rover Approved Shonan and Jaguar/Land Rover Shonan Service dealership, and reopened, conforming to the latest corporate identity (CI) features. By relocating to near the existing Jaguar/Land Rover Shonan new car dealership, it seems that the level of convenience for customers has increased.

Also, in February 2021, Jaguar/Land Rover Sagamihara was newly opened. This dealership is located in a prime location, and has established a certified used car display area on the same grounds. Additionally, FIAT/ABARTH Fujisawa Shonan was relocated and newly opened as FIAT/ABARTH Hiratsuka. The interior and exterior of this dealership conforms with the newest CI which expresses the brand's global view. Also, in order to bolster the ratio of coverage in the Fukuoka-Higashi area, MINI NEXT Fukuoka-Higashi, a MINI certified used car specialty dealership, was newly opened.

Dealership openings

	FY6/18	FY6/19	FY6/20	February 28, 2021
New dealership openings	2 dealerships	4 dealerships	1 dealership	2 dealerships
	Alfa Romeo Ota (January 2018) Jaguar/Land Rover Kitakyushu (March 2018)	Jeep Meguro (November 2018) Porsche Center Koriyama (January 2019) MINI Yamaguchi (March 2019) MINI NEXT Shunan (March 2019)	CHECKER MOTORS Approved Munakata (November 2019)	MINI NEXT Fukuoka-Higashi (February 2021) Jaguar/Land Rover Sagamihara (February 2021)
Business takeovers	1 dealership	2 dealerships		
	Jaguar/Land Rover Shonan (April 2018)	Porsche Center Sendai (December 2018) Jaguar/Land Rover Mitaka (April 2019)		
Dealership renovations and renovations and relocations	3 dealerships	4 dealerships	5 dealerships	2 dealerships
	Alfa Romeo Setagaya (September 2017) FIAT/ABARTH Setagaya (September 2017) Volvo Car Fukuoka-Minami (September 2017) Jeep Kurume (January 2018)	Jeep Kitakyushu (January 2019) FIAT/ABARTH Denenchofu (January 2019) Volvo Car Kurume* (January 2019) Volvo Car Kitakyushu* (January 2019)	MINI Hakata/MINI NEXT Hakata (November 2019) MINI Yamaguchi/MINI NEXT Yamaguchi* (January 2020) Jaguar/Land Rover Kitakyushu* (May 2020) MINI Kokura/MINI NEXT Kokura (May 2020) Porsche Center Sendai (June 2020)	Jaguar/Land Rover Approved Shonan, Jaguar/Land Rover Shonan Service* (December 2020) FIAT/ABARTH Hiratsuka (February 2021)
Number of dealerships at end of quarter	27 dealerships	32 dealerships	32 dealerships	34 dealerships

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

(3) Foot traffic at dealerships

Next is a look at the impact of the COVID-19 pandemic based on the rate of change of newly registered passenger cars. As for the YoY rate of change, before the consumption tax hike (July-September 2019), it increased by 7.5% from the same month of the previous year, and due to the recoil decline following last-minute demand (October - December 2019), it decreased by 16.0% from the same month of the previous year. In April-June 2020, it decreased by 32.9%, and in July-September 2020, it decreased by 14.1%. It can be seen that it has been greatly influenced by the COVID-19 disaster. From October to December of the same year, it increased by 15.4% YoY, but this was due to the recoil decline following the last-minute demand in the same period of the previous year. On a monthly basis, May 2020, when the state of emergency was declared, declined the most, and the level has bottomed out since May.

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

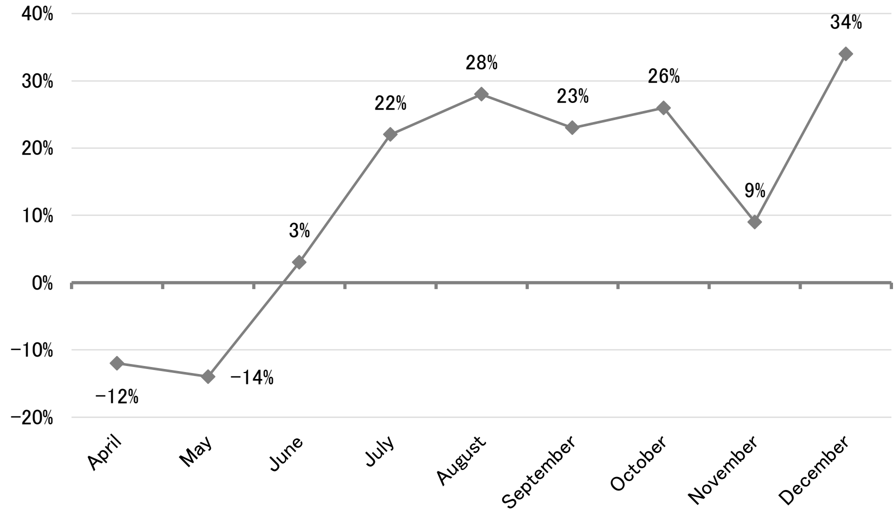
Date	Standard-size car	Small-size car	Four-wheeled kei minicar	Cars of overseas manufacturers
19/1	4.0%	-2.0%	0.2%	4.3%
2	3.3%	-2.9%	-1.2%	-0.4%
3	-5.6%	-5.8%	-4.6%	-6.0%
4	10.9%	-4.7%	3.5%	1.6%
5	10.1%	-0.4%	8.6%	-3.1%
6	1.4%	-5.5%	-3.2%	-1.7%
7	10.3%	-0.1%	-2.1%	2.6%
8	3.9%	-3.0%	13.0%	0.7%
9	16.9%	8.5%	14.1%	8.8%
10	-25.3%	-30.2%	-20.4%	-22.0%
11	-14.9%	-14.1%	-5.6%	-5.9%
12	-7.4%	-12.1%	-14.4%	-13.8%

Date	Standard-size car	Small-size car	Four-wheeled kei minicar	Cars of overseas manufacturers
20/1	-10.8%	-12.2%	-13.1%	-3.3%
2	-14.9%	-5.4%	-8.2%	-9.2%
3	-17.4%	0.2%	-6.8%	-13.6%
4	-37.7%	-15.7%	-35.4%	-37.2%
5	-50.0%	-31.4%	-55.9%	-46.6%
6	-29.9%	-22.4%	-14.4%	-32.3%
7	-21.5%	-17.4%	1.7%	-17.9%
8	-20.7%	-10.1%	-12.4%	-15.7%
9	-18.6%	-12.1%	-12.7%	-12.8%
10	34.9%	34.0%	24.3%	32.6%
11	18.2%	-8.1%	7.2%	-3.7%
12	13.9%	0.4%	16.7%	-4.9%

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

The Company books sales when vehicles are delivered, so one can predict that there will be a delay in the aforementioned numbers of newly registered vehicles. However, looking at the number of customers visiting dealerships, which is a leading indicator, in April 2020, when the state of emergency was declared, the number of customers visiting dealerships decreased by 12% YoY, and in May it decreased by 14% YoY, but in June the number increased 3% YoY, and it has been growing at a high rate since then. The figures since January 2021 have not been disclosed, but if this momentum is being maintained, the number of customers visiting dealerships is increasing significantly.

Number of customers visiting dealerships by month in 2020



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

2. Financial condition and performance indicators

At the end of 1H FY6/21, total assets were down ¥146mn compared to the end of the previous fiscal year to ¥16,498mn. Current assets decreased ¥69mn to ¥9,199mn. Cash and time deposits rose ¥587mn, while inventories declined ¥705mn. This was due to the decline in products caused by the decrease in procurement, as well as due to the settling down of the increase trend in the number of demonstration cars per dealerships as a result of the effort to respond to the diversification of engines. Total liabilities declined ¥861mn to ¥9,660mn, of which interest-bearing debt decreased ¥254mn to ¥4,871mn. Due to the fact that borrowings increased in the previous fiscal year due to the impacts of the COVID-19 pandemic, the Company increased its cash and time deposits, but in 1H FY6/21 there was a large increase in profits, so interest-bearing debt declined. The current ratio increased 6.9 percentage points (pp) compared to the end of the previous fiscal year to 107.0%. Also, the equity ratio, which is a ratio of long-term financial stability, improved 4.6pp to 41.4%.

Consolidated balance sheet and performance indicators

(¥mn)

	End-FY6/18	End-FY6/19	End-FY6/20	End-1H FY6/21	Change
Current assets	7,212	8,247	9,269	9,199	-69
Cash and time deposits	1,463	1,412	2,522	3,109	587
Accounts receivable - trade	148	217	177	166	-11
Inventories	4,974	5,751	5,853	5,147	-705
Non-current assets	4,100	6,425	7,376	7,299	-77
Property, plant and equipment	3,121	5,228	6,197	6,141	-56
Intangible assets	390	428	342	299	-43
Investments and other assets	588	768	835	858	22
Total assets	11,312	14,673	16,645	16,498	-146
Current liabilities	5,215	7,492	9,261	8,598	-662
Non-current liabilities	1,302	1,759	1,261	1,061	-199
Total liabilities	6,518	9,252	10,522	9,660	-861
(Interest-bearing debt)	2,552	4,429	5,126	4,871	-254
Total net assets	4,793	5,421	6,123	6,837	714
Total liabilities and net assets	11,312	14,673	16,645	16,498	-146
[Stability]					
Current ratio	138.3%	110.1%	100.1%	107.0%	6.9pt
Equity ratio	42.4%	36.9%	36.8%	41.4%	4.6pt

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

Cash and cash equivalents at the end of 1H FY6/21 was ¥3,109mn, up ¥2,266mn compared to the end of the previous fiscal year. Net cash provided by operating activities was ¥1,144mn. Profit before income taxes and the decline in depreciation and inventory assets (¥2,290mn) exceeded the decline in notes and accounts payable-trade (¥1,305mn). Net cash used in investing activities was ¥214mn. This was mainly due to spending of ¥259mn to acquire non-current assets alongside the dealership relocations. Net cash used in financing activities was ¥343mn, with the main factors being repayments of long-term borrowings and dividend payments.

Consolidated statement of cash flows

(¥mn)

	1H FY6/20	1H FY6/21
Cash flows from operating activities	-447	1,144
Cash flows from investing activities	-648	-214
Cash flows from financing activities	526	-343
Cash and cash equivalents at end of period	842	3,109

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

Outlook

Based on the current situation with orders and the results through 1H, the Company upwardly revised its consolidated forecasts for FY6/21

● FY6/21 outlook

Based on the current situation with orders and the results through 1H, the Company upwardly revised its consolidated forecasts for FY6/21. The revised forecasts are for net sales of ¥38,344mn (+9.3% YoY, +6.1% vs. previous forecast), operating profit of ¥1,836mn (+58.2%, +55.5%), ordinary profit of ¥1,830mn (+52.9%, +56.3%), and profit attributable to owners of parent of ¥1,180mn (+47.1%, +60.1%). The Company expects the impacts of the COVID-19 pandemic to continue at least through FY6/21.

The Company is focusing on activities for orders of new vehicles, primarily new models, and will continue to focus on used car sales due to the fact that the supply of new vehicles is unstable. Also, in addition to promoting the expansion of the recurring revenue-based business, the Company will aim to raise its product turnover rate to increase capital efficiency.

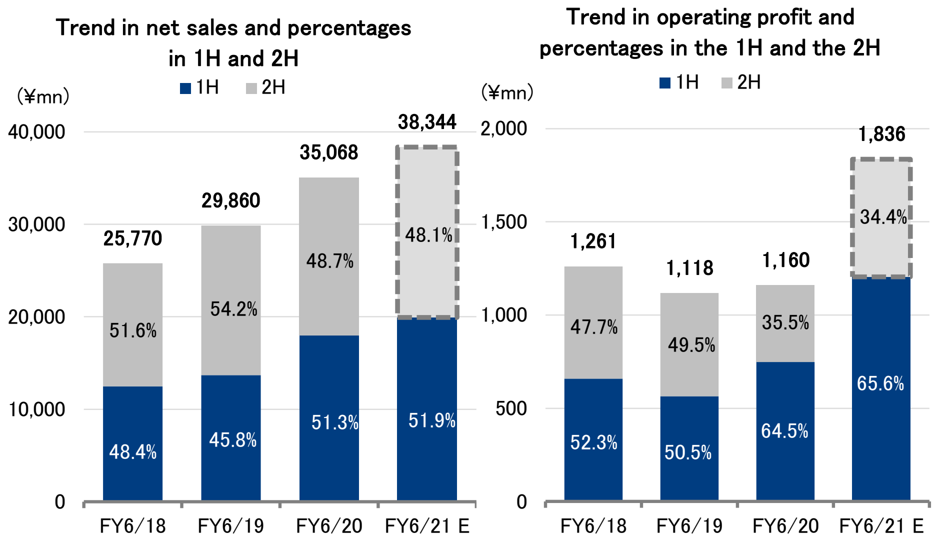
FY6/21 forecasts

(¥mn)

	FY6/20		FY6/21			YoY (revised forecast)	
	Results	vs. net sales	Initial forecast	Revised forecast	vs. net sales	Progress rate	% change
Net sales	35,068	-	36,134	38,344	-	3,275	9.3%
Operating profit	1,160	3.3%	1,180	1,836	4.8%	675	58.2%
Ordinary profit	1,196	3.4%	1,170	1,830	4.8%	633	52.9%
Profit attributable to owner of parent	802	2.2%	737	1,180	3.1%	377	47.1%

Note: FY6/21 revised forecasts are those released on February 10, 2021
Source: Prepared by FISCO from the Company's financial results and press releases

As of the end of 1H, net sales were 51.9% of the upwardly revised full-year forecast, while operating profit was 65.6% of the revised full-year forecast. These are solid progress rates compared with 1H progress rates over the previous three fiscal periods, and we at FISCO think that there is a high possibility that the Company will achieve these forecasts for the full fiscal year. Despite the fact that results sometimes temporarily fall short of forecasts in periods when the Company carried out up-front investments, such as M&A and investment in dealerships, the Company's benchmark for operating profit margin is 5%. In FY6/20, the operating profit margin was 4.2% in 1H, and 3.3% for the full year, while in FY6/21, the 1H operating profit margin was 6.1%, and the forecast for the full-year operating profit margin is 4.8%. Therefore, we think it is highly likely that the Company will be able to achieve its benchmark.



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

The Company's initiative policies include: 1) Safely operate dealerships and increase efficiency; 2) Expand the market share of new car sales; and 3) Adapt to the accelerating shift to EVs.

1) In terms of safely operating dealerships and increasing efficiency, the Company will transition to optimal business activities adapted to changes caused by the COVID-19 pandemic – such as business negotiations conducted online and digitizing documents, etc. – all the while carrying out thorough infection prevention measures, and promote efficiency improvements to its operations. For example, when making an insurance proposal, by using a tablet, anyone can help a client regardless of skill level. In addition, by adding online sales as well as face-to-face customer service as a sales method, sales staff will be able to choose the optimal method and combination aligned with customers' diverse needs. With regard to advertising, it was difficult to quantify the effectiveness of conventional advertising, but it is now possible to measure cost effectiveness by utilizing online advertising.

2) Regarding expanding the market share of new car sales, based on the Company's three growth strategies of the multi-brand strategy, the dominant strategy, and the M&A strategy, the Company will continue working toward increasing its share of sales through proactive dealership openings. In addition, in order to further bolster the management base, the Company will aim to increase the turnover ratio to have good capital efficiency. Specifically, new car sales are the key to a recurring-revenue business, and even amid the COVID-19 pandemic, new cars are still a special purchase, and there is a high level of demand for test drives at dealerships. The Company will pursue a higher level of customer satisfaction by providing high-quality store experiences conforming to the latest CI as added value.

3) Concerning adapting to the accelerating shift to EVs, as discussed above, the Company will be promoting capital investment and being among the first companies where customers can experience EVs, towards the widespread adoption of EVs which is expected going forward.

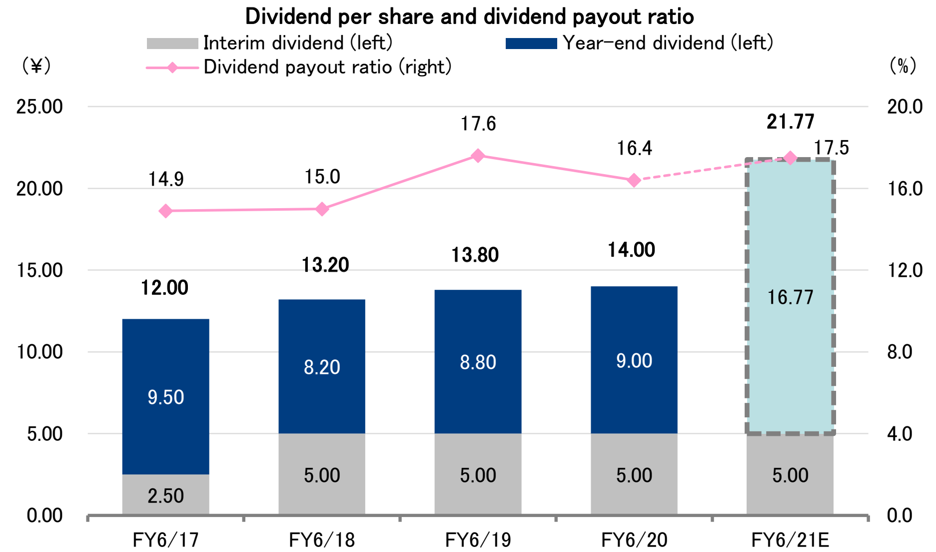
Shareholder returns

Accompanying the upward revision to the FY6/21 results, Company plans to raise the annual dividend to ¥21.77 per share

1. Dividend policy

The Company has positioned returning profits to shareholders as a priority business issue, and its basic policy is to stably and continuously pay dividends while maintaining a balance with securing internal reserves to improve enterprise value. Also, up until recently it targeted a dividend payout ratio of around 15%, but from FY6/21, it has raised the dividend payout ratio target to 17.5%.

In FY6/20, it paid a dividend per share of ¥14.0 (interim dividend of ¥5.0, year-end dividend of ¥9.0) for a dividend payout ratio of 16.4%. For FY6/21, the Company had been forecasting a dividend per share of ¥13.59 (interim dividend of ¥5.0, year-end dividend of ¥8.59), but with the upward revision to the forecast for full fiscal year results, the Company raised its year-end dividend to ¥16.77 per share (up ¥8.18 versus the previous forecast), and the annual dividend to ¥21.77 per share (up ¥8.18). With this the Company's dividend payout ratio will be 17.5%.



Note: The Company conducted a 2-for-1 stock split of common shares with an effective date of April 1, 2017 and November 1, 2017. Dividends per share in the past have been retroactively adjusted.
Source: Prepared by FISCO from the Company's financial results

2. Shareholder benefits program

As part of its measures to return profits to shareholders, the Company has introduced a shareholder benefits program in order to increase the appeal of investing in its shares and so that more people will own its shares. Shareholders registered in the shareholders' register at the end of June in each year and who own 1 unit (100 shares) or more of shares will be given a QUO card worth ¥1,000.

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