COMPANY RESEARCH AND ANALYSIS REPORT

NEC Capital Solutions Limited

8793

Tokyo Stock Exchange Prime Market

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Index

Summary — 01

1. FY3/24 results — 01
2. FY3/25 forecasts — 02
3. Medium-term Plan 2025 and status of progress — 02

Company overview — 04

Business overview — 06

Strength — 08

Results trends — 09

1. FY3/24 results — 09
2. Results trends by business — 11
3. The operating asset balance situation — 15
4. Financial condition — 16

Outlook — 18

1. FY3/25 forecasts — 18
2. Medium-term Plan 2025 and status of progress — 19

Shareholder return — 22

Summary

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

NEC Capital Solutions Limited <8793> (hereinafter, the Company) is an equity-method affiliate of NEC Corporation <6701> that offers leasing, installment and factoring (purchasing sales credits) of information and communications equipment, including NEC products, office equipment, industrial machinery and facilities and other various types of equipment and facilities, as well as lending, and collection agent services. Up until now, it has steadily increased handling of non-ICT products and expanded service areas. Furthermore, it aims to shift to high value-added businesses and pursue diversification with investments and loans, fund formation, and other financial services. The Company also practices "Creating Shared Value (CSV) management," which aims to combine improvement of "social value" with the creation of "economic value" while sustaining growth.

1. FY3/24 results

In the Company's FY3/24 results, revenues were ¥255,857mn (down 0.9% YoY), operating income was ¥11,694mn (down 0.2%), ordinary income was ¥11,818mn (down 5.0%), and profit attributable to owners of parent was ¥7,034mn (up 9.6%). Operating income and ordinary income fell YoY, but net income increased to a record high level. These results were mainly due to the recoil decline from the prior sale of a large-scale real estate property in the Investment Business, while in the Leasing Business the Company posted provision of allowance for doubtful accounts associated with the increase in credit-related costs. Results fell just short of the initial forecasts, with revenues falling short by 1.6%, operating income undershooting by 2.6%, ordinary income falling short by 5.5%, and profit attributable to owners of parent 6.2% less than the initial forecast. Net income was a record high, and although this was directly due to a YoY decrease in the deduction of non-controlling interests related to fund income in the Investment Business, the Company attributes this to the steady accumulation of gross profit through thorough efforts to strengthen profitability in each business. The leasing industry to which the Company belongs is in a strong position, as in FY2023 lease transaction volume was ¥4,570.9bn (up 7.6% YoY)*, due to the resumption of full-scale economic activity after the COVID-19 pandemic. However, the Company's Leasing Business contract execution volume decreased 4.3% YoY, due in part to the end of a large-scale project in the public sector. Meanwhile, there has been steady progress in recent sales activities, and the Company has continued to succeed in receiving orders for large-scale projects in the public sector and solid orders from private-sector demand, resulting in a 10.3% increase in new transactions.

* From leasing statistics published by the Japan Leasing Association (March 2024)

2. FY3/25 forecasts

For the FY3/25 results, the Company forecasts revenues of ¥260,000mn (up 1.6% YoY), operating income of ¥12,000mn (up 2.6%), ordinary income of ¥12,500mn (up 5.8%), and profit attributable to owners of parent of ¥8,000mn (up 13.7%). To achieve these sales and profit forecasts, the Company targets continued sustained growth in the Leasing Business, as well as earnings growth in the Finance Business and the Investment Business, all against a backdrop of a recovery in demand, including both the public and private sectors. Regarding the domestic economic situation, a further recovery in economic activity is expected following the COVID-19 pandemic, but the business environment surrounding the Company remains one that requires close monitoring due to growing uncertainty about the global situation, trends in exchange rates and interest rates, and changes in the credit status of domestic companies. In this environment, the Company intends to achieve its targets by thoroughly implementing necessary risk management to curb increases in credit costs, while also conducting sales activities with an emphasis on profitability.

In its core Leasing Business, the Company plans to execute a large-scale project in the public sector that it was awarded in FY3/24 in partnership with NEC, and with changes in the Bank of Japan's monetary policy, it is expected that customers will be more willing to accept rising lease fees, which will provide a tailwind toward achieving its targets. In the Finance Business, the Company will aim to achieve a more profitable asset mix by promoting new initiatives such as LBO (leveraged buyout) financing. In the Investment Business, the Company plans to expand earnings by investing in rental residences that can ensure stable revenue.

3. Medium-term Plan 2025 and status of progress

In April 2023, the Company unveiled its new Group Vision 2030 "Solution Company leading the next-generation circular economy" and Medium-term Plan 2025 (FY2023–FY2025), based on the results of Medium-term Plan 2020. Towards realizing a next-generation circular economy in the years beyond 2030, the Company has established three steps: to create, develop and make profitable its own cyclical services. As the first step, in Medium-term Plan 2025 (FY2023–FY2025) it aims to create cyclical services. It set financial three-year targets of profit attributable to owners of parent of ¥10.0bn, ROA of 0.9%*, and ROE of 8%. It also set non-financial targets such as a 20% reduction in CO_2 emissions versus its FY2022 result as a benchmark for reducing CO_2 emissions to achieve carbon neutrality, establishing social infrastructure, promoting cyclical use following expansion of ICT businesses, and responding to climate change.

* Consolidated net income / average balance of consolidated operating assets

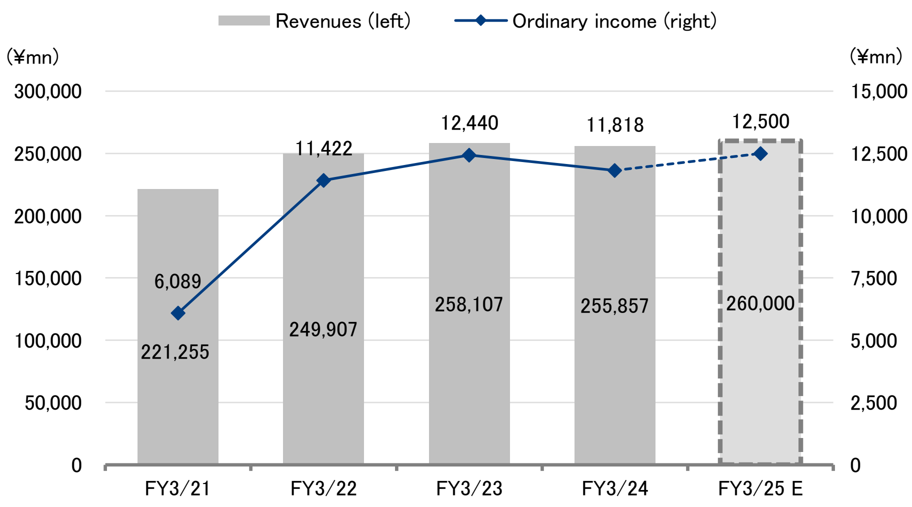
The Medium-term Plan started in FY3/24 with four strategies. The first of these, "Expand service business and create new cyclical services" involved the launch of two collaborative projects in the solar power generation corporate PPA*1 domain, as well as a greater number of PFI*2 contracted projects than planned, and an accumulation of projects in healthcare warehousing. In corporate advisory, the Company has also achieved results, such as being ranked in the Japan M&A Review for the number of announced and completed deals involving Japanese companies. For the second strategy, "Accelerate growth through strategic investment in core businesses," the Leasing Business expanded its PC-LCM service (a service that manages the entire lifecycle of PCs from procurement to disposal) as an ICT-related service, and promoted projects that provide added value through IT asset management and other services. In the Finance Business, the Company expanded into the realm of financial products, and initiatives for joint investment in areas such as LBO finance and equity led to increased earnings in the business. In the Investment Business, the Company acquired some large income-generating assets as planned in order to stabilize revenue. For the third strategy, "Strengthen vendor finance and expand the customer base," the Company made efforts in cloud services and other monthly subscription models in collaboration with vendors, and expanded projects where it supports vendors' customer proposals with financing programs. For the fourth strategy, "Strengthen the management foundation," the Company is making steady progress with measures to strengthen its management foundation, such as bolstering systems to promote DX, receiving an A- score in the CDP Climate Change Report, and obtaining certification as an "Excellent Corporation for Health Management 2024."

*1 A method whereby companies and other consumers, procure renewable energy electricity from power generators at a long-term fixed price. PPA stands for Power Purchase Agreement.
*2 Stands for Private Finance Initiative. This is a public works method that utilizes private sector capital, management and technical capabilities to design, construct, renovate, update, maintain, and operate public facilities.

Key Points

- Promotes collaboration with NEC in a strategic partnership
- In FY3/24 the Company recorded its highest ever net income
- Medium-term Plan 2025 targets profit attributable to owners of parent of ¥10.0bn and ROE of 8%
- The three business strategies in Medium-term Plan 2025 are progressing as planned

Results trends



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

Company overview

Provides services that combine finance with the latest information and communications technologies (ICT)

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

It has cultivated three strengths of “strategic partnership with NEC,” “wealth of ICT knowledge,” and “broad range of financial solutions.” The Company strives to create and supply high-value-added services that integrate these elements and pursue initiatives to realize CSV management that targets sustainable growth while enhancing “social value” and generating “economic value.” Through the practice of CSV management, the Company aims to realize a “next-generation circular economy” by providing services that lead to a virtuous cycle of environment and growth.

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

* Acquired as a wholly owned subsidiary in December 2010.

History

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

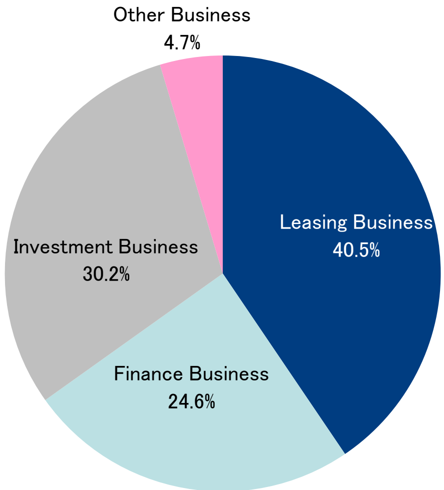
Source: Prepared by FISCO from the Company’s website

Business overview

Provides services integrating ICT equipment and financial solutions. Has a lot of track record of transactions with government offices and local governments throughout the country, and RISA Partners has a network of regional financial institutions nationwide

The Company provides a broad range of financial solutions from leases to corporate loans, securitization, and fund formation and equity investments. The Company has grown while closely collaborating with NEC due to its history of being established to handle sales financing services for NEC products. In the case of transactions with government offices and local governments, which account for the majority of contracts executed by industry (based on FY3/24 results), NEC and other vendors deliver solutions that utilize ICT technology to improve business efficiency and enhance the quality of public services. The Company supports these solutions financially with contract formats tailored to single fiscal-year budgets of government offices and local governments. It has transactions with government offices and local governments, and these are key components of the customer base as seen in its roughly 30 sites around the country and registration as a designated bidder with about 1,800 local entities. The Company has accumulated knowhow on the work process and other characteristics of government offices and local governments through experience in transactions over many years, and it is leveraging those strengths in the PFI and PPP (formats for private-sector participation in provision of public services) business. In contracts executed by product type in FY3/24, ICT equipment accounted for roughly 80%, reflecting the Company's strength in ICT equipment due to its history of having grown alongside NEC. The Company has assembled operations that meet a variety of customer requests, including provision of services that integrate its experience with ICT transactions over many years and financial services such as PIT Managed Service that provides from deployment to management and operation of ICT equipment utilizing a service-fee payment format.

Operating income by business segment (FY3/24)



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

In light of the expansion of its business areas, beginning in 1Q of FY3/22, the Company changed its reporting segments to reflect the reality of its business more accurately. The Leasing and Installment Sales Business was renamed the Leasing Business, while consolidation of profit and loss items related to leasing, previous classified under Other Business, will more accurately present profit and loss in the Leasing Business. Meanwhile, the RISA Business was renamed the Investment Business, consolidating investment business aside from RISA Partners. The aim is to have a precise understanding of segment profit and loss status in consolidated management. Note that the composition of operating income (based on FY3/24 results) will be 40.5% from the Leasing Business, 24.6% from the Finance Business, 30.2% from the Investment Business and 4.7% from Other Business.

(1) Leasing Business

Leasing, rental and installment sales of information and office equipment, industrial and civil engineering and construction equipment, and other equipment. Handles buying/selling of goods, property sales related to leasing contract completion and early terminations, leased equipment maintenance services and others.

(2) Finance Business

Finance Business handles money lending business, factoring business, and investment business for securities owned to obtain business purpose income. It loans funds to established specific purpose companies (SPC), and it also provides funds in the form of investing in SPCs.

(3) Investment Business

Invests in venture companies, etc. with the objective of receiving gains from the sale of securities. Subsidiary RISA Partners will develop business in corporate investment, credit investment, real estate, financial services and the advisory business.

(4) Other Business

New businesses in the fields of energy, tourism, agriculture and healthcare. It also promotes PFI and PPP (formats for private-sector participation in provision of public services) business with support from the customer base of government offices and local governments cultivated in Leasing Business. It mainly participates in projects in forms such as constructing structures optimized for businesses, supporting fund raising with low interest rates, and preparing proposals for government offices and local governments.

Strength

Collaborates with NEC in a strategic partnership. Half of its customer base is government offices and local governments which provides stability

The Company provides services that combine its three strengths, which are “a strategic partnership with NEC,” “wealth of ICT knowledge,” and “a broad range of financial solutions.” It has a strategic partnership with NEC that stems from being established to handle sales financing of NEC products and having grown while collaborating with NEC. The fact that government offices and local governments comprise half of the customer base, which is one of the Company’s main characteristics, is also related to its background of having grown alongside NEC. The Company has extensive knowledge related to ICT as evidenced by the presence of ICT equipment as almost 80% of executed lease contract value (FY3/24 results; contracts executed by equipment type). It hence goes beyond just leasing to provision of a wide range of service utilizing broad knowhow, including procurement and installation as well as operation and management of ICT equipment. It also delivers services coordinated to lifecycle management to meet rising needs because ICT equipment, an area with rapid technology innovation, has a higher frequency of upgrades to the latest model than other equipment. Additionally, it supports one-stop provision of peripheral businesses related to ICT products (above-mentioned PIT Managed Service) via group member Reboot Technology Services and Capitech Limited (CRTS) that handles ICT equipment kitting (set-up work for installing PCs and other products) and sales of ICT-related equipment that has finished the lease period.

Image of the business model

Source: Company’s website

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

The Company has been involved in the venture fund business since 2012, investing in venture companies. In 2012, it established the Innovative Venture Fund Investment Limited Partnership to invest in venture companies with strengths in technology; in 2016 and 2018, it established the CSV Venture Fund and the CSV Venture Fund 2, respectively, with investments targeting venture companies in the social solutions field. The Company has successfully completed multiple exits (sales) via IPO and M&A. Having acquired knowledge and established a solid track record through investments in venture companies, the Company established a new fund in February 2022 called NVC1 fund. It invests in startups in solutions and services whose main focus is to solve social problems, materials and device technologies that contribute toward pioneering new technologies, and new business areas such as digital transformation (DX) and responding to climate change.

Results trends

Achieved record high profit in FY3/24 due to factors including growth in the Finance Business

1. FY3/24 results

In the Company’s FY3/24 results, revenues were ¥255,857mn (down 0.9% YoY), operating income was ¥11,694mn (down 0.2%), ordinary income was ¥11,818mn (down 5.0%), and profit attributable to owners of parent was ¥7,034mn (up 9.6%). Operating income and ordinary income fell YoY, but net income increased to a record high level. These results were mainly due to the recoil decline from the prior sale of a large-scale real estate property in the Investment Business, while in the Leasing Business the Company posted provision of allowance for doubtful accounts associated with the increase in credit-related costs. Results fell just short of the initial forecasts, with revenues falling short by 1.6%, operating income undershooting by 2.6%, ordinary income falling short by 5.5%, and profit attributable to owners of parent 6.2% less than the initial forecast. Net income was a record high, and although this was directly due to a YoY decrease in the deduction of non-controlling interests related to fund income in the Investment Business, the Company attributes this to the steady accumulation of gross profit through thorough efforts to strengthen profitability in each business.

The leasing industry to which the Company belongs is in a strong position, as in FY2023 lease transaction volume was ¥4,570.9bn (up 7.6% YoY)*, due to the resumption of full-scale economic activity after the COVID-19 pandemic. Amid this situation, the Company's Leasing Business contract execution volume decreased 4.3% YoY, due in part to the end of a large-scale project in the public sector. Meanwhile, there has been steady progress in recent sales activities, and the Company has continued to succeed in receiving orders for large-scale projects in the public sector and solid orders from private sector-demand, resulting in a 10.3% increase in new transactions.

* From leasing statistics published by the Japan Leasing Association (March 2024)

FY3/24 results

(¥mn)

	FY3/23 Results	FY3/24	
		Results	YoY
Revenues	258,107	255,857	-0.9%
Operating income	11,715	11,694	-0.2%
Ordinary income	12,440	11,818	-5.0%
Profit attributable to owners of parent	6,418	7,034	9.6%

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

Earnings by business

(¥mn)

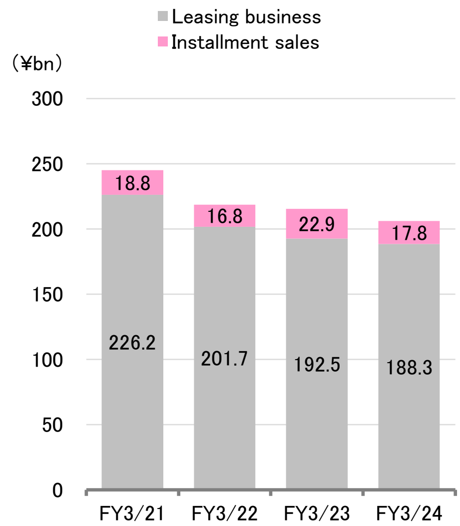
		FY3/23	FY3/24	YoY
Leasing Business	Revenues	224,307	228,437	1.8%
	Gross profit	16,607	16,521	-0.5%
	Operating income	6,368	5,464	-14.2%
Finance Business	Revenues	6,569	9,110	38.7%
	Gross profit	4,830	6,517	34.9%
	Operating income	2,154	3,320	54.2%
Investment Business	Revenues	22,813	13,705	-39.9%
	Gross profit	8,833	7,527	-14.8%
	Operating income	4,412	4,073	-7.7%
Other Business	Revenues	4,462	4,693	5.2%
	Gross profit	1,677	2,065	23.1%
	Operating income	493	627	27.2%
Total	Revenues	258,107	255,857	-0.9%
	Gross profit	31,920	32,589	2.1%
	Operating income	11,715	11,694	-0.2%

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

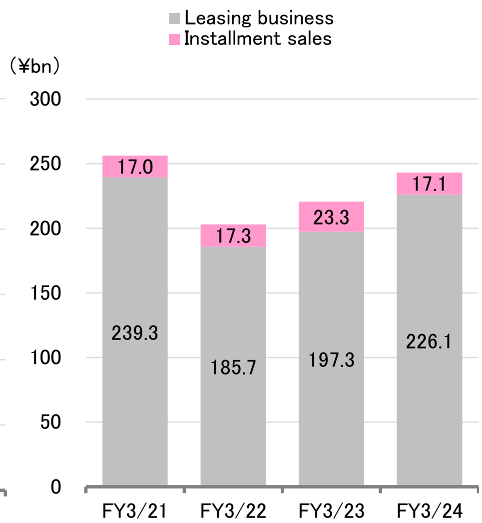
2. Results trends by business

In the Leasing Business, although there were sales of large leased assets in the prior fiscal year, results were supported by steady sales activities, and revenues came to ¥228,437mn (up 1.8% YoY) and gross profit was ¥16,521mn (down 0.5%), and operating income was ¥5,464mn (down 14.2%). The reason for the YoY decline in operating income was the recoil decline from the large leased asset sale in the prior fiscal year as well as the increase in provision of allowance for doubtful accounts for credit-related costs. According to the Company, the basic profitability of the Leasing Business is improving, and looking at the actual net profit margin, which is calculated by deducting cost of sales from sales, it has improved by 0.27pp from 8.49% in the previous fiscal year to 8.76% in FY3/24, which supports this view. Contracts executed totaled ¥206.1bn (down 4.3%) and new transactions in the Leasing Business totaled ¥243.2bn (up 10.3%), but as noted above, the main factor behind the decline in execution volume was the rolling off of large deals in the public sector, while private sector execution volume was solid, increasing 3.8%, centered on the service, distribution, and manufacturing industries.

Contracts executed in Leasing Business

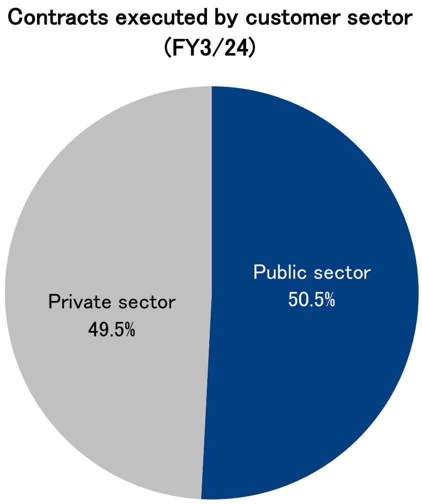


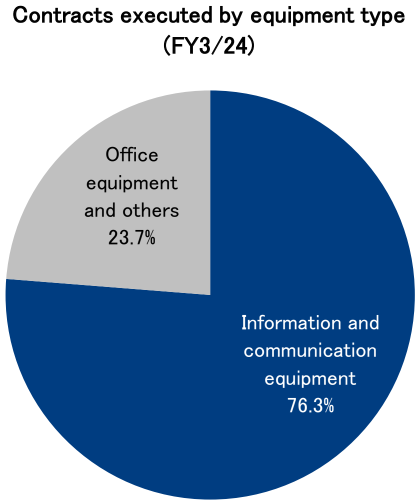
New transactions in Leasing Business



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

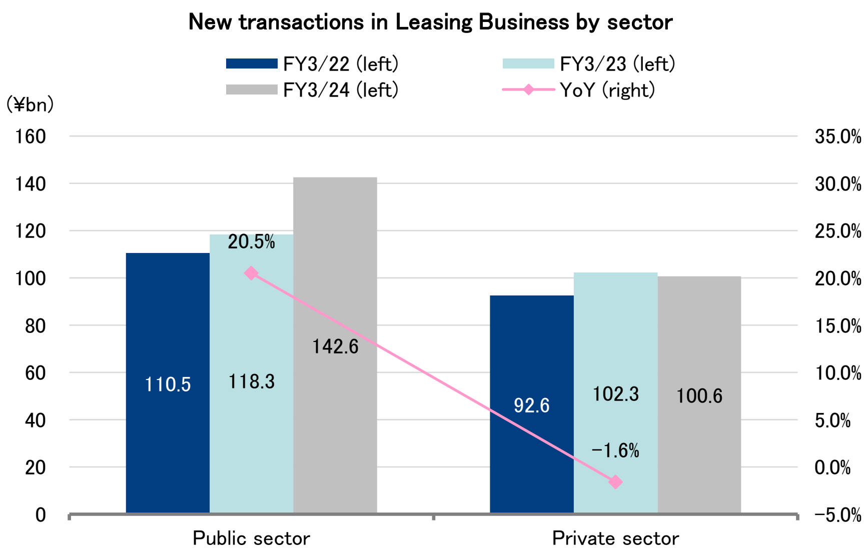
The percentages of Leasing Business contracts executed by customer sector were 50.5% (54.3% in FY3/23) for government offices and local governments, and 49.5% (45.7%) for the private sector (service industry, distribution industry, manufacturing industry, and other), resulting in an increase in the percentage for private sector-demand, coming to almost a 50:50 ratio between the two. There was an 11.1% YoY decline in contracts executed in the public sector due to the recoil decline in conjunction with the posting of large deals in the prior fiscal year, while in private-sector demand there were strong increases of 7.6% for the service industry, 10.9% for the distribution industry, 8.4% for the manufacturing industry, while there was a 10.3% decline for other industries. The percentages of contracts executed by equipment type were 76.3% (77.1%) for information and industries equipment (Computer Hardware, Computer Software, Telecommunications Equipment), and 23.7% (22.9%) for office equipment and other. The share of information and communications equipment decreased, because contracts executed for Computer Software (which has a large weighting) turned down, although those for Telecommunications Equipment increased.



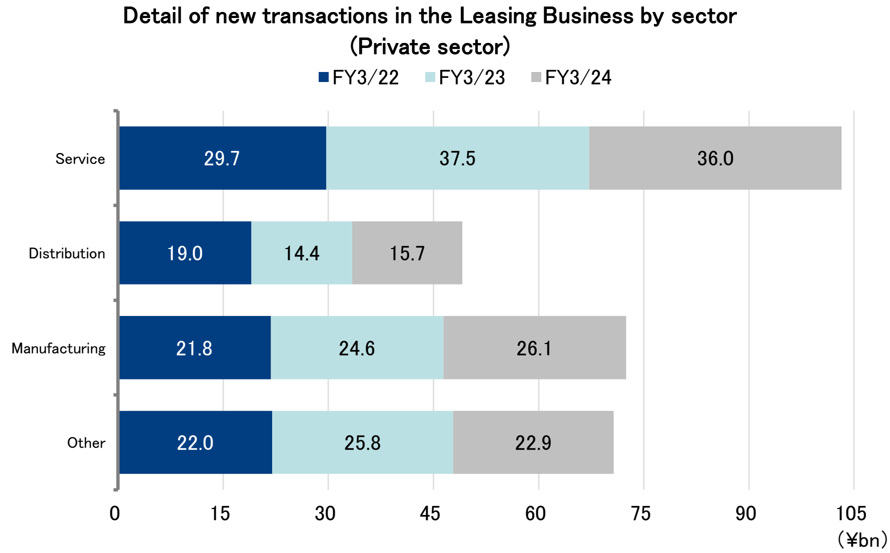


Source: Prepared by FISCO from the Company's results briefing material

The volume of contracts in the public sector grew significantly by 20.5% YoY due to the acquisition of new large projects. For the private sector, the volume of contracts declined a bit by 1.6%. By industry, there was a 8.7% increase in the distribution industry and a 6.0% increase in the manufacturing industry, while there was a 3.9% decline in the service industry and a 11.3% drop in other industries.

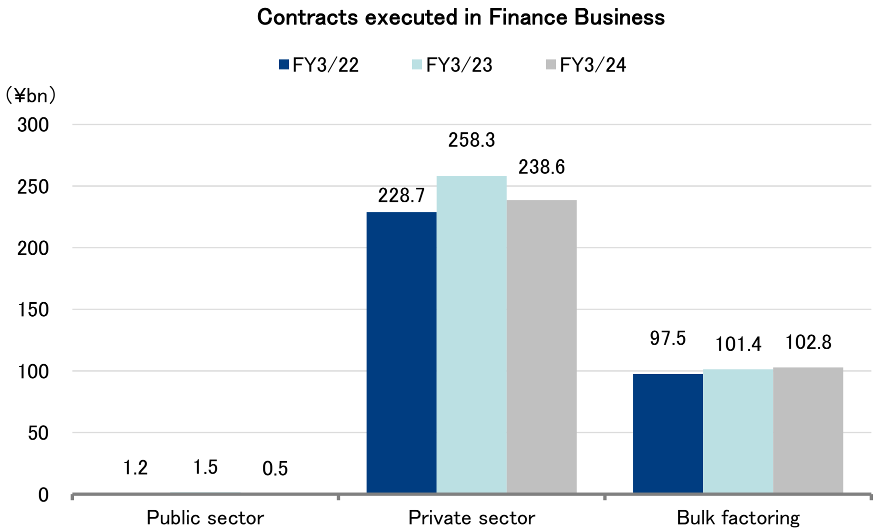


Source: Prepared by FISCO from the Company's results briefing material



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

In the Finance Business, revenues were ¥9,110mn (up 38.7% YoY), with gross profit of ¥6,517mn (up 34.9%) and operating income of ¥3,320mn (up 54.2%), resulting in a large increase in both revenues and profit, due to increases in both dividend income and interest income, as well as from the sale of investment securities. Overall contracts executed in the Finance Business declined 5.3%, and by contract form there was a 1.4% increase in bulk factoring and a 13.9% decline in business loans. This can be said to reflect the fact that progress in initiatives for joint investment in areas such as LBO finance and equity led to advances in asset replacements, which has in turn added new revenue sources such as dividend income and profits from the sale of stocks, thereby contributing to boosting results.



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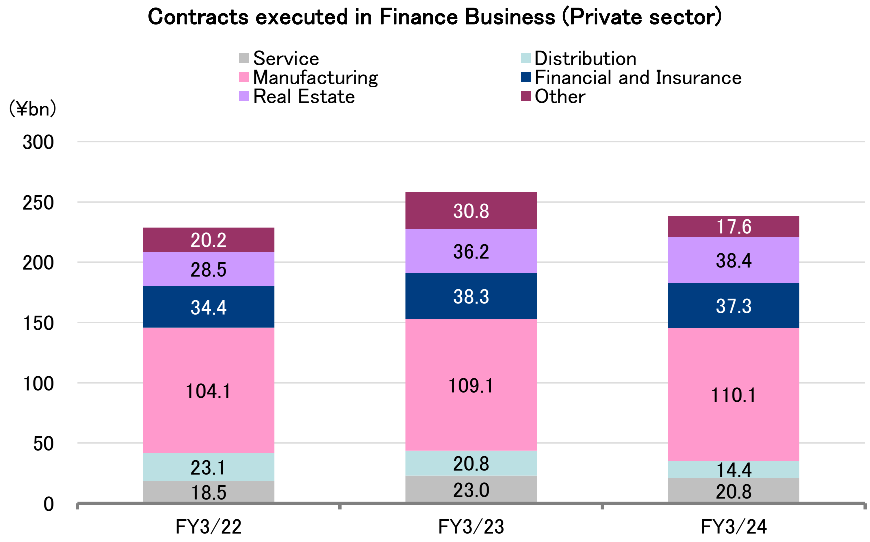


Source: Prepared by FISCO from the Company's results briefing material

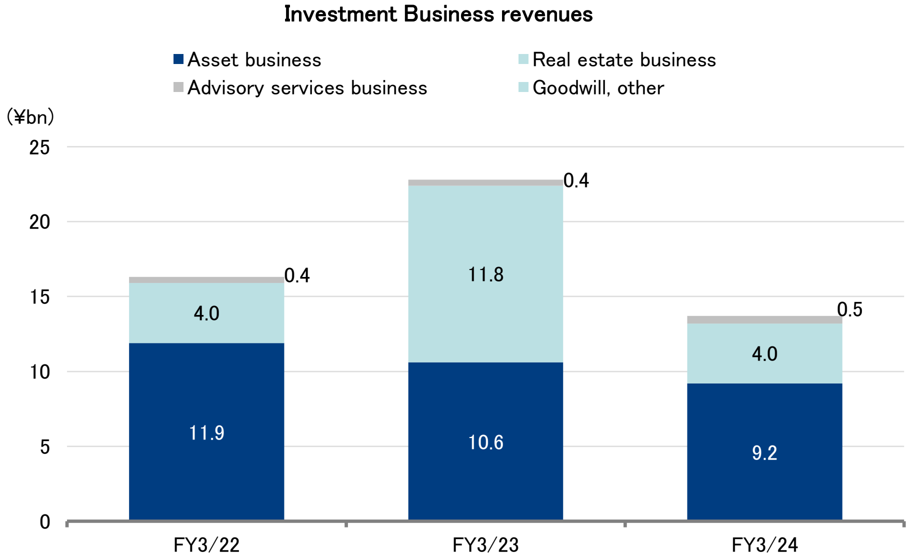
In the Investment Business, due to the recoil decline following the sale of a large property (real estate for sale) in the prior fiscal year, revenues declined 39.9% YoY to ¥13,705mn and operating income dropped 7.7% to ¥4,073mn. The asset business posted a 13.2% decline in revenues at ¥9.2bn due to the exit from a large project in the previous fiscal year, but operating income was ¥3.3bn (up 3.1%) due to the reversal of credit costs. The real estate business recorded a drop in revenues at ¥4.0bn (down 66.1% YoY), because it sold a large property, and operating income was ¥0.8bn (down 42.9%), but recently the business has been steadily booking rental income. Elsewhere, in the advisory services business, revenues were ¥0.5bn, on par with revenues in the previous fiscal year (¥0.4bn).

Investment Business change

(¥bn)

		FY3/22	FY3/23	FY3/24	YoY
Asset business	Revenues	11.9	10.6	9.2	-13.2%
	Gross profit	6.7	6.5	5.3	-18.5%
	Operating income	3.6	3.2	3.3	3.1%
Real estate business	Revenues	4.0	11.8	4.0	-66.1%
	Gross profit	2.5	2.0	1.7	-15.0%
	Operating income	2.0	1.4	0.8	-42.9%
Advisory services business	Revenues	0.4	0.4	0.5	25.0%
	Gross profit	0.4	0.4	0.5	25.0%
	Operating income	-0.1	-0.1	-0	-
Goodwill, other	Revenues	0	0	0	-
	Gross profit	0	0	0	-
	Operating income	-0.1	0	0	-
Consolidated basis total	Revenues	16.4	22.8	13.7	-39.9%
	Gross profit	9.6	8.8	7.5	-14.8%
	Operating income	5.4	4.4	4.1	-6.8%

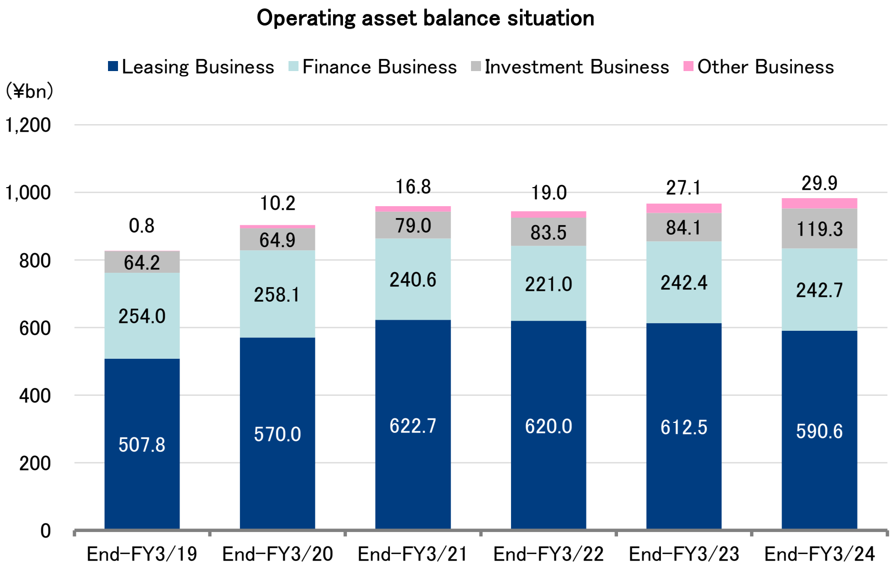
Source: Prepared by FISCO from the Company's results briefing material



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

3. The operating asset balance situation

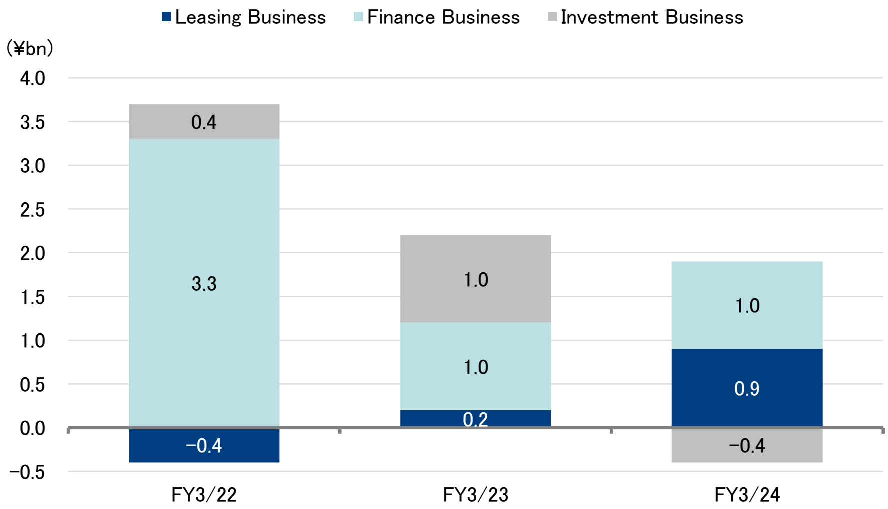
The operating asset balance increased by ¥16.4bn YoY to ¥982.5bn in FY3/24, breaking down as follows. The operating asset balance was down ¥21.9bn YoY to ¥590.6bn for the Leasing Business. Despite diminishing demand after the special demand for GIGA School projects in the prior fiscal year, increases in ICT, small-scale lease, and assets of overseas subsidiaries curbed the decline. The Finance Business increased its operating assets by ¥0.3bn YoY to ¥242.7bn. As noted above, progress was made in replacing operating assets, particularly business loans, into contracts with new finance formats, and future growth in profitability is expected. The operating asset balance for the Investment Business increased by ¥35.2bn at ¥119.3bn, as the business steadily accumulated assets through efforts such as subsidiary RISA Partners acquiring new assets in order to secure stable income. In Other Business, the operating asset balance rose by ¥2.8bn to ¥29.9bn due to increases in healthcare- and solar power-related assets.



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

With respect to credit costs, there was an increase in the Leasing Business, but with the posting of a gain on reversal in the Investment Business, so overall credit costs improved from ¥2.1bn to ¥1.5bn.

Credit costs



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

4. Financial condition

(1) Financial situation

At the end of FY3/24, total assets were ¥1,117,363mn, an increase of ¥61,487mn compared to the end of FY3/23. The main factors were the ¥28,852mn increase in leased assets, the ¥18,362mn increase in cash and deposits, and the ¥10,141mn increase in real estate for sale. Lease receivables and investment in leases declined by ¥28,489mn. Liabilities increased by ¥53,512mn YoY to ¥980,573mn. The main factors were the ¥29,000mn increase in commercial paper and the ¥18,005mn increase in long-term debt.

Net assets increased ¥7,974mn to ¥136,790mn. The main factors were the ¥4,060mn increase in retained earnings, the ¥1,782mn increase in foreign currency translation adjustments, and the ¥1,721mn increase in non-controlling interests. As a result, the shareholders' equity ratio as of March 31, 2024, was 10.4%, the same level as a year earlier.

Simplified balance sheet (consolidated)

(¥mn)

	FY3/23	FY3/24	Change
Current assets	908,292	929,587	21,295
Cash and deposits	35,482	53,844	18,362
Lease receivables and investment in leases	517,945	489,455	-28,490
Accounts receivable, loans	231,611	230,267	-1,344
Fixed assets	147,583	187,775	40,192
Property and equipment, net	63,381	92,953	29,572
Intangible assets	9,173	11,149	1,976
Investments and other assets	75,027	83,672	8,645
Total assets	1,055,875	1,117,363	61,488
Current liabilities	496,394	486,101	-10,293
Accounts payable, trade	15,654	12,009	-3,645
Current portion of long-term debt	149,486	110,145	-39,341
Commercial paper	243,000	272,000	29,000
Long-term liabilities	430,665	494,471	63,806
Long-term debt	335,636	392,982	57,346
Total liabilities	927,060	980,573	53,513
Total net assets	128,815	136,790	7,975
Total liabilities and net assets	1,055,875	1,117,363	61,488

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

(2) Status of cash flows

At the end of FY3/24, cash and cash equivalents were ¥53,722mn, a YoY increase of ¥18,165mn. Net cash used in operating activities was ¥21,344mn (versus net cash provided of ¥29mn in the previous fiscal year). The main factors were ¥11,824mn in income before income taxes and minority interests, a ¥30,091mn decrease in lease receivables and investment in leases, which were offset by factors including ¥46,066mn in purchases of leased assets and a ¥10,583mn increase in real estate for sale.

Net cash used in investing activities was ¥8,313mn (versus net cash used of ¥9,581mn in the previous fiscal year). The main factors were ¥13,089mn in proceeds from redemption of investment securities and ¥21,351 used in purchases of investment securities.

Net cash provided by financing activities was ¥49,343mn (versus net cash provided of ¥7,875mn in the previous fiscal year). The main factors were ¥151,478mn used for the repayment of long-term debt, an increase in long-term debt of ¥167,162mn, and an increase in commercial paper of ¥29,000mn. The funding for leases and financing is primarily procured through long-term debt, corporate bonds, and commercial paper, and the interest rate environment will be fluid going forward, so this needs to be watched.

Simplified cash flow statement

(¥mn)

	FY3/23	FY3/24	YoY
Cash flows from operating activities (a)	29	-21,344	-21,373
Cash flows from investing activities (b)	-9,581	-8,313	1,268
Cash flows from financing activities (c)	7,875	49,343	41,468
Free cash flow (a) + (b)	-9,552	-29,657	-20,105
Cash and cash equivalents at the end of the fiscal year	35,557	53,722	18,165

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

Outlook

Accelerate efforts to improve profitability and promote sustainability management to realize next-generation circular economy

1. FY3/25 forecasts

For FY3/25 results, the Company forecasts revenues of ¥260,000mn (up 1.6% YoY), operating income of ¥12,000mn (up 2.6%), ordinary income of ¥12,500mn (up 5.8%), and profit attributable to owners of parent of ¥8,000mn (up 13.7%). To achieve these sales and profit targets, the Company targets continued sustained growth in the Leasing Business, as well as earnings growth in the Finance Business and the Investment Business, all against a backdrop of a recovery in demand, including both the public and private sectors. Regarding the domestic economic situation, a further recovery in economic activity is expected following the COVID-19 pandemic, but the business environment surrounding the Company remains one that requires close monitoring due to growing uncertainty about the global situation, trends in exchange rates and interest rates, and changes in the credit status of domestic companies. In this environment, the Company intends to achieve its targets by thoroughly implementing necessary risk management to curb increases in credit costs, while also conducting sales activities with an emphasis on profitability.

In its core Leasing Business, the Company plans to execute a large-scale project in the public sector that it was awarded in FY3/24 in partnership with NEC. With respect to the strategic partnership with NEC, which is one of the Company's strengths, the Company will be able to provide integrated solutions by combining NEC's products and services featuring cutting-edge technologies such as biometrics and AI with the Company's financial solutions. With this, the Company is expected to win large projects for government offices and local governments. In addition, with changes in the Bank of Japan's monetary policy, it is expected that customers will be more willing to accept rising lease fees, which will provide a tailwind toward achieving its targets. In the Finance Business, the Company will continue to aim to promote new initiatives such as LBO finance. The Company has been making progress in replacing assets with highly-profitable assets using new financial products as opposed to the operating loan assets for companies that it has used up until now, and with this there has been an increase in opportunities to obtain dividend income and capital gains such as through the sale of stocks. The Company plans to further accelerate its growth by utilizing the know-how it has cultivated in its Investment Business in its Finance Business, and we believe that we can expect to see continued increases in profitability going forward. In the Investment Business, the Company plans to expand earnings by investing in rental residences that can ensure stable revenue, among other initiatives.

FY3/25 forecasts

(¥mn)

	FY3/24 Results	FY3/25	
		Forecast	YoY
Revenues	255,857	260,000	1.6%
Operating income	11,694	12,000	2.6%
Ordinary income	11,818	12,500	5.8%
Profit attributable to owners of parent	7,034	8,000	13.7%

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

2. Medium-term Plan 2025 and status of progress

(1) Overview of Medium-term Plan 2025

In April 2023, the Company unveiled its Medium-term Plan 2025, the first step towards realizing the new Group Vision 2030 "Solution Company leading the next-generation circular economy." This Vision positions the years beyond 2030 as the "next-generation circular economy," assuming not only reducing environmental impact by using resources more efficiently, but also a circular economy and society that continues to create new value through the cyclical use of resources. In order to respond to the realization of this circular economy and society, the Company has drawn up a plan to develop cyclical services in its Next Medium-term Plan (FY2026–FY2030) in order to "establish revenue from cyclical services unique to the Company" by FY2030, and has positioned the Medium-term Plan 2025 as the first stage, during which it will "create cyclical services unique to the Company."

In Medium-term Plan 2025 (FY2023–FY2025), the Company set financial targets for FY2025 of net income of ¥10.0bn, ROA of 0.9%, and ROE of 8%. As a non-financial targets, the Company aims for CO_2 emissions reduction to achieve carbon neutrality, improvement of social infrastructure, the promotion of circular use accompanying the expansion of ICT business, and a 20% reduction in CO_2 emissions versus its FY2022 benchmark as a response to climate change. Business strategies of Medium-term Plan 2025 consist of three business strategies and strategy to strengthen the management foundation. The Company seeks to solve the problems remaining after implementing the Medium-term Plan 2020's initiatives of expanding core areas, harvesting new businesses, and strengthening the management foundation to support its business strategy, while also creating new value.

Business strategies of Medium-term Plan 2025

Business strategy 1: Expand service business and create new cyclical services 1) Expand services in renewable energy power generation, warehousing, IT asset management, and tourism businesses 2) Create new cyclical services • Create services that lead to cyclical use of products Establish subscription service for ICT products and development-type joint service model with vendors • Encourage revitalization of real estate • Services that lead to a virtuous cycle for local economies and societies Expand PFI and PPP businesses, support building of cyclical model for regional finance, form coalition with DX services for local governments offered by local vendors • Create services that lead to virtuous cycle for corporate growth, such as services tailored to companies' life cycle and advisory on fund investment and M&A, etc.
Business strategy 2: Accelerate growth through strategic investment in core businesses 1) Expand scale of business through high added value for ICT-related services • Enhancement of services related to PC-LCM through system tie-ups with customers and vendors and strengthening of planning functions, expansion of rental services, BPO and consulting services 2) Expand and refine fields for financial products in Japan and overseas • Expand financial product and investment targets, with a focus on investment/loans and advisory services, and increase revenue and profit
Business strategy 3: Strengthen vendor finance and expand customer base 1) Provide capital solutions aligned with vendors and customers 2) Improve profitability and create revenue opportunities by strengthening relationships with vendors 3) Cultivate transactions by developing and offering solutions for customers' issues, strategy to strengthen management foundation
Strategy to strengthen management foundation 1) Strengthen foundation for sales operations based on digitalization of operating processes and use of digital information 2) Launch core system as DX foundation and promote DX activities 3) Create organization, and introduce HR management system aligned with management strategies, and create corporate culture conducive to ongoing challenges and innovation 4) Improve effectiveness of corporate governance 5) Implement measures to achieve carbon neutrality in response to climate change (bring Scope 1+2 on a consolidated basis effectively to zero by FY2040)

Source: Prepared by FISCO based on reference materials for presentation on Group Vision 2030 and Medium-term Plan 2025

(2) Status of progress

1) Business Strategy 1: Expand service business and create new cyclical services

The Company expanded new initiatives and collaborations related to solar power generation. For example, in October 2023, the Company agreed to collaborate on the development of off-site corporate PPAs in the Japanese market with Yotsuya Capital GK, which is supported by a global fund managed by Octopus Energy Generation. In March 2024, the Company started a joint on-site PPA business with ShirokumaPower Co., Ltd. Specifically, the Company established NaF GK. with ShirokumaPower to supply solar power to consumers. As the first project, the Company began supplying electricity to Yorozu Oita Corporation. With regard to PFI, the number of contracted projects is exceeding the plan, and projects in which the Company is the representative company are also progressing. With regard to healthcare warehousing, the Company has accumulated deals by diversifying distribution channels, and increased revenue during the fiscal year and achieved gains from the sale of properties. With regard to corporate advisory, the Company steadily achieved results, such as being ranked in the Japan M&A Review for the number of announced and completed deals involving Japanese companies. In order to provide new cyclical services, the Company has begun considering specific projects to expand subscription models and additional functions in the ICT field.

2) Business Strategy 2: Accelerate growth through strategic investment in core businesses

The ICT-related service business is steadily expanding, and in order to further increase added value, the Company is expanding the use of PC-LCM services and providing services that bring added value, such as management of customer IT assets. Also, as noted above, the Company is expanding into the realm of financial products in the Finance Business. By advancing initiatives for joint investment in areas such as LBO and equity, the Company is steadily expanding the scope of its earnings growth and is making progress in replacing assets with more profitable ones. In the Investment Business, RISA Partners made steady progress in acquiring some large income-generating assets for revenue stabilization and sustainable growth investments.

3) Business Strategy 3: Strengthen vendor finance and expand customer base

In terms of expanding its customer base, the Company continued to build on its strong relationships with the public sector, acquiring several large projects and strengthening those ties. The Company is also expanding its revenue-earning opportunities by working with vendors such as NEC on cloud services and other monthly subscription models, and by handling projects to provide financing programs to support vendors.

4) Strategy to strengthen the management foundation

Various initiatives are progressing smoothly, including establishing a DX Promotion Office to work on renewing the Company's certification as a DX business operator and promoting initiatives, acquiring an A- score in the CDP Climate Change Report, and being certified as an "Excellent Corporation for Health Management 2024."

(3) Non-financial targets and status of progress

Under the aforementioned Group Vision, the Company is promoting CSV management, in which its business activities create social value while at the same time creating the economic value that a Company should seek, thereby generating shared value for both society and the Company. The goal for the Group Vision is FY2030, but as the first step toward that goal, the Company has established non-financial targets in its Medium-term Plan 2025, clearly showing the connection between materiality (important issues for the organization) and its business strategy. The non-financial targets consist of five items related to "environmental and social issues" and two items related to "human capital." In FY3/24, the first year of the medium-term plan, the Company achieved results exceeding those of FY3/23 for all items, and the medium-term plan is generally progressing as planned.

Non-financial targets and status of progress

	Objective	Description	FY 2023 (Actual)	FY 2024 (Actual)	FY 2026 (Target)
Environmental and social issues	CO_2 reductions to achieve carbon neutrality	Scope 1+2: Rate of decline compared to FY2023	157t-CO_2	13%reduction *estimate	20% reduction
	Establishment of social infrastructure	Cumulative contracts over three-year period for government offices and local governments	¥127.8bn	¥148.4bn	¥400bn
	Promotion of cyclical use following expansion of ICT business	Total number of disposals of products whose lease has ended over three-year period	200,000 units	250,000 units	700,000 units
	Promotion of response to climate change	Renewable energy power generation capacity (power generators owned)	43MW	59MW	100MW
	Promotion of activities contributing to society with natural capital in mind	School biotope education total increase in number of schools over three-year period	3 schools	3 schools	10 schools
Human capital	Improve employee engagement	Employee engagement score	21%	21%	34%
	Promotion of diversity	Ratio of female managers	5.5%	6.7%	10%

Source: The Company's results briefing material

As an initiative to strengthen DX personnel development, the Company announced in May 2024 that it will launch a Company-wide training program aimed at strengthening the development of DX personnel in order to accelerate the promotion of DX. Since April 2022, the Company has been certified as a "DX Certified Operator" under the Ministry of Economy, Trade and Industry's "DX Certification System," and as a result of efforts to improve employees' IT literacy, approximately 40% of employees have obtained IT Passport*. The training program to be implemented from this fiscal year has three objectives: to acquire the DX necessity and the basic mindset in order to improve work productivity; to master everyday IT tools for business and improve business efficiency and quality; and to learn how to make data-based decisions and learn how to use the tools necessary to improve business processes.

* A national exam that allows people to acquire the basic knowledge necessary for working adults regarding IT and management in general

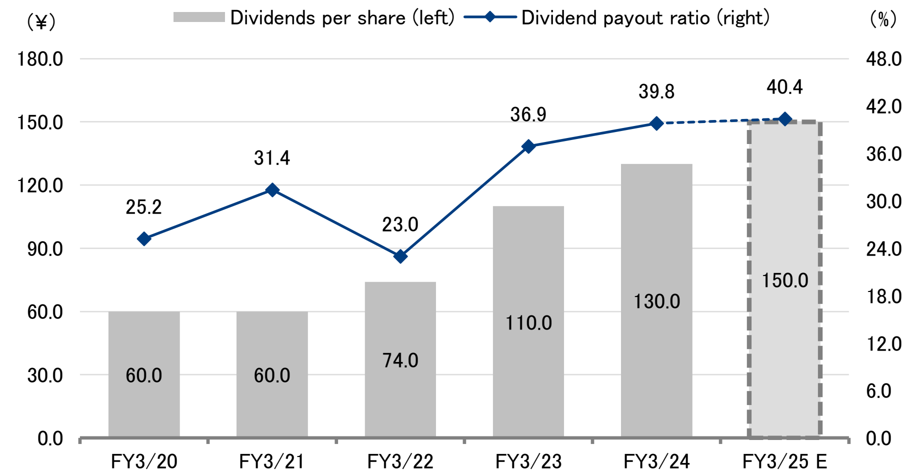
By powerfully promoting DX, the Company will not only improve operational efficiency and profitability, but also build a foundation for creating new businesses that will lead to the realization of the Group Vision.

Shareholder returns

In FY3/25 the Company plans to move to a new stage, paying a dividend of ¥150 with a dividend payout ratio of 40.4%

The Company's dividend policy adheres to sustaining a stable dividend as the core approach and suitably adjusts the dividend based on an assessment of the fair level in consideration of market trends and fluctuations in business results while securing enough retained profits to invest in growth strategy and reinforce its financial standing. In FY3/24, the Company increased the dividend per share by ¥20 to ¥130 (including a ¥65 interim dividend). For FY3/25, to reflect its earnings forecast, the Company plans to increase the dividend per share by ¥20 to ¥150 (including a ¥75 interim dividend). As the Company expects to achieve record profits, it plans to return the profits to shareholders in accordance with its dividend policy, which will bring the Company's dividend payout ratio to 40.4%. Given that its adjusted P/B ratio is in the 0.7x range, below the TSE requirement of 1.0x, it is likely to continue strengthening its shareholder returns measures. We at FISCO accordingly expect the Company to continue raising dividend per share.

Dividends per share and dividend payout ratio



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

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

For those who have requested in advance to decline these shareholder benefits, the Company donates an equivalent amount. In FY3/24, it donated to the National Federation of UNESCO Associations in Japan's Great East Japan Earthquake Children's Aid Fund for the UNESCO Scholarship for School Attendance.

Shareholder returns

Shareholder benefit program

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

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

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

Disclaimer

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