



President Tomoo Imazeki

NEC Capital Solutions Limited (8793)



NEC Capital Solutions Limited

Company Information

Market	TSE 1st Section
Industry	Other financial business (finance and insurance)
President	Tomoo Imazeki
HQ Address	Shinagawa Intercity C building, 15-3 Konan 2-chome, Minato-ku, Tokyo
Year-end	End of March
HOME PAGE	https://www.necap.co.jp/english/

Stock Information

Share Price	Shares Outstanding		Total market cap	ROE Act.	Trading Unit
¥1,751	21,533,400 shares		¥37,704 million	7.4%	100 shares
DPS Est.	Dividend yield Est.	EPS Est.	PER Est.	BPS Act.	PBR Act.
¥60.00	3.4%	¥301.86	5.8 x	¥4,131.64	0.4 x

*The share price is the closing price on May 20. The number of shares issued was taken from the latest brief financial report. ROE and BPS were the values for the previous term.

Earnings Trend

Fiscal Year	Sales	Operating Income	Ordinary Income	Net Income	EPS	DPS
Mar. 2012	232,760	8,096	8,375	3,847	178.68	44.00
Mar. 2013	229,204	9,132	9,350	4,301	199.77	44.00
Mar. 2014	228,262	16,067	16,478	5,009	232.63	44.00
Mar. 2015	213,853	6,043	4,733	2,816	130.81	44.00
Mar. 2016	202,637	4,870	6,031	3,334	154.85	44.00
Mar. 2017	215,718	6,024	6,537	3,517	163.35	44.00
Mar. 2018	231,432	12,674	13,455	6,006	278.93	50.00
Mar. 2019	204,131	8,929	8,900	6,391	296.81	55.00
Mar. 2020 Est.	210,000	10,000	10,000	6,500	301.86	60.00

*The forecasted values were provided by the company. Net income is profit attributable to owners of the parent. Hereinafter the same applies.

This report outlines NEC Capital Solutions Limited, overviews its earnings results for Fiscal Year March 2019 and so on.

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Key Points

- **The sales for the term ended Mar. 2019 were 204.1 billion yen, down 11.8% year on year. The sales dropped, because of large-scale projects, such as the sale of the healthcare-related business and the fund project of the RISA Business in the previous term. Ordinary income declined 33.9% year on year to 8.9 billion yen, due to those large-scale projects, exchange valuation, credit cost, etc. Except the effects of exchange valuation and credit cost (amounting to about 2 billion yen), business performance was unchanged from the previous year. Net income marked a record high for the second consecutive term. Considering these results and payout ratio, the company revised the dividend amount from 50 yen/share to 55 yen/share.**
- **For the term ending Mar. 2020, it is estimated that sales will grow 2.9% year on year to 210 billion yen and ordinary income will rise 12.3% year on year to 10 billion yen. Net income, which hit a record high for the second consecutive term in the previous term, is projected to increase 1.7% year on year to 6.5 billion yen, marking a record high again. Operating assets will be accumulated in the Leasing and Installment Sales Business, which is the mainstay, and gross profit is bottoming out. The other segments, too, are estimated to be healthy. The dividend amount is to be 60 yen/share, up 5 yen/share from the previous term. The estimated payout ratio is 19.9%.**
- **Due to the large-scale projects in the previous term, sales and profit dropped, but net income marked a record high, and the balance of operating assets, which is a revenue base, expanded steadily. We would like to pay attention to how much they will exceed the estimated values for the mid-term plan, namely ordinary income of 10 billion yen and net income of 6.5 billion yen, this term, which is the final fiscal year of the mid-term plan.**

1. Company Overview

NEC Capital Solutions Limited is a financial service company that belongs to the NEC Group in Japan. The Leasing and Installment Sales Business, mainly lease, accounts for about 80% of total sales. Its significant characteristics and strengths include the stable business base underpinned by the relation with NEC Corporation, which has strengths in governmental offices and municipalities, and the integration between ICT and finance. The company aims to achieve CSV-based management in which it can create desirable economic value as an enterprise while creating social value through the business itself.

【1-1 Corporate History】

In Nov. 1978, the company was founded as a financial service provider in the NEC group (corporate name: NEC Leasing, Ltd.).

In Mar. 1996, performing asset balance (on a purchase price basis) reached 1 trillion yen.

In Feb. 2005, the company was listed on the second section of Tokyo Stock Exchange (TSE), and in Mar. 2006, it was designated as a company listed in the first section of TSE.

In Nov. 2008, the company was renamed NEC Capital Solutions Limited.

In Dec. 2010, the company acquired “RISA Partners, Inc.” as a subsidiary, starting the RISA Business.

In Apr. 2012, the company established “Innovative Venture Fund Investment Limited Partnership,” which invests in venture firms that could offer significant value to social innovation.

In Oct. 2012, the company established a Hong Kong subsidiary, “NEC Capital Solutions Hong Kong Limited” and then founded other subsidiaries in Singapore, Malaysia, and Thailand, to expand overseas business actively.

【1-2 Management policies, etc.】

Basic Management Policies	Our corporate philosophy is "Helping Societies Advance through Capital Solutions."
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Each employee understands their own mission, value, and vision based on the corporate philosophy, aiming for making them the best and trustworthy partner of each customer.

In addition, the company developed the following group vision in October 2013.

The vision is the aim put into words as what the entire Group will share and pursue for the next 10 years.

As it is anticipated that the external and internal environments surrounding the company will show constant changes, the company deems the vision as anchorage which makes it steadfast in business operation under any circumstances.

Group Vision	To be a global solution service company that aims to enhance social value with customers
	<p>To enhance social value:</p> <p>Through operation based on the concept of CSV (Creating Shared Value), we aim to enhance social value together with customers.</p>
	<p>Global:</p> <p>Not only in Japan but in other Asian regions, we provide services to customers who are expanding their businesses overseas and to local customers.</p>
	<p>Solution service company:</p> <p>We aim to become a company that provides higher-quality services for solving issues with which customers are confronted. (Services herein collectively refer to finance services and ICT peripheral services that our company provides.)</p>

In the group vision, the company has adopted a plan to carry out business operation based on the concept of CSV (Creating Shared Value) which is defined as creation of economic value that should be pursued as a company, as well as creation of social value, through the business itself.

Lately, in order for a company to exist permanently, it is required from them to create social value that contributes to the creation of a more livable society. Accordingly, NEC Capital Solutions clarifies a 10-year vision and aims for sustainable growth with a central focus given on the idea of corporate operation based on the concept of CSV.

The company has conducted businesses by being conscious highly of the concept of CSR (Corporate Social Responsibility). One example is that taking notice sooner than any other companies that the leasing business is a resource recycling-based industry, the company has engaged in processing of articles whose lease periods have expired based on the principle of 3Rs (Reduce, Reuse, and Recycle) and the augmentation in sales of the “eco-lease” field which leases environmentally-friendly equipment.

In addition, in the business targeting government agencies and municipalities, which is its area of specialty, NEC Capital Solutions provides support for the establishment of social infrastructure itself.

After gaining a foothold through the above-mentioned bases, the company will take one step ahead of the idea of CSR to make contributions to the improvement of social value through its business itself.

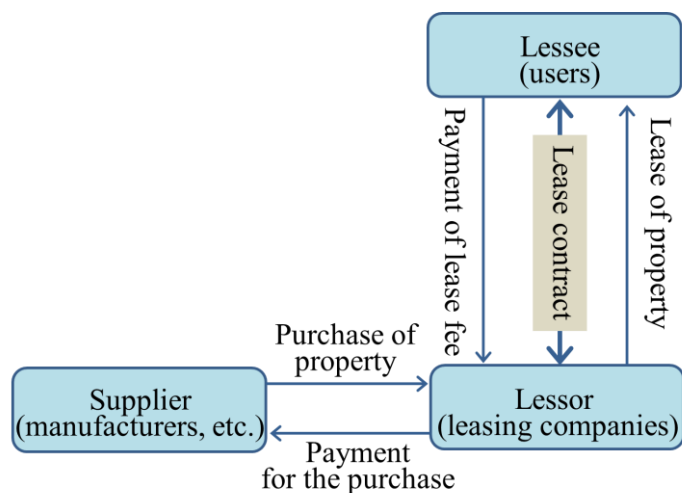
【1-3 Market environment, etc.】

◎ System of lease

The following describes the system of “lease transactions” that account for a majority of net sales of NEC Capital Solutions:

The following 3 parties are involved:

Lessee (users)	A lessee rents and uses a property, and pays lease fees as compensations, in accordance with a lease contract.
Lessor (leasing companies)	A lessor purveys and lends a property that a lessee desires, and receives lease fees as compensations.
Supplier (manufacturers, etc.)	A supplier sells a relevant property to a lessor.



In Japan, lease transactions are divided into 2 categories: “finance lease” and “operating lease,” in accordance with the Accounting Standard for Lease Transactions.

<Finance lease>

Finance lease refers to leases that satisfy the following 2 requirements:

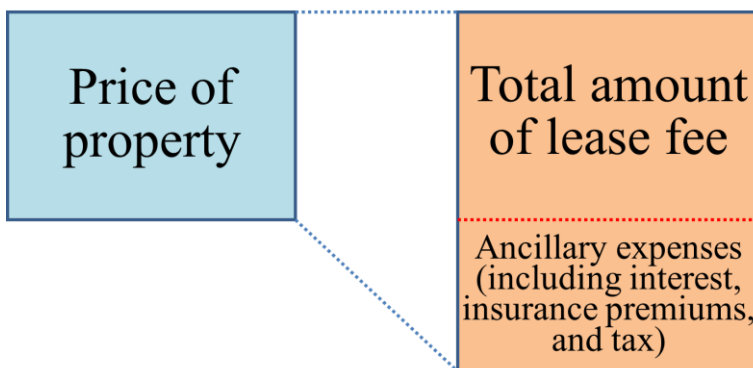
- ① Cancellation of a lease contract during a lease period is banned (prohibition of midterm cancellation).
- ② Almost all (over 90%) of the total amount of the price of a property and ancillary expenses (procurement interest, tax, insurance, commissions, etc.) is recouped through lease fees (full payout). In other words, the total amount of lease fees is composed of “the price of a property + ancillary expenses.”

Diverse advantages will be brought to users, including labor-saving clerical and administrative tasks, cost reduction, and largely reduced initial costs.

Labor-saving clerical and administrative tasks, and cost reduction	Various payments are unified to a single payment of monthly lease fees, allowing users to easily understand costs of capital investment.
Easier understanding of costs	In principle, a lease fee is fixed during a lease period, and therefore, users do not need to prepare huge amounts of funds as initial costs.
Largely reduced initial costs	Lease periods can be set within a certain range according to a scheduled period for equipment use specified by each user, which makes it possible to deal flexibly with obsolete equipment.
Flexibly dealing with obsolescence	Various payments are unified to a single payment of monthly lease fees, allowing users to easily understand costs of capital investment.

Finance lease transactions are further divided into “non-ownership-transfer finance lease” and “ownership-transfer finance lease.” While “ownership-transfer finance lease” is limited, being composed of leases with conditions for ownership transfer, leases with purchase options, and leases of special specification properties, “non-ownership-transfer finance lease” refers to finance leases other than “ownership-transfer finance lease” and accounts for a majority of the finance lease transactions.

Diagram of a total amount to be paid in finance lease transactions



<Operating lease>

Operating lease refers to leases other than finance leases.

In other words, operating lease is leases that do not meet one or either of the above-mentioned 2 requirements, and it usually indicates leases with a system that does not satisfy the requirement of “② full payout.”

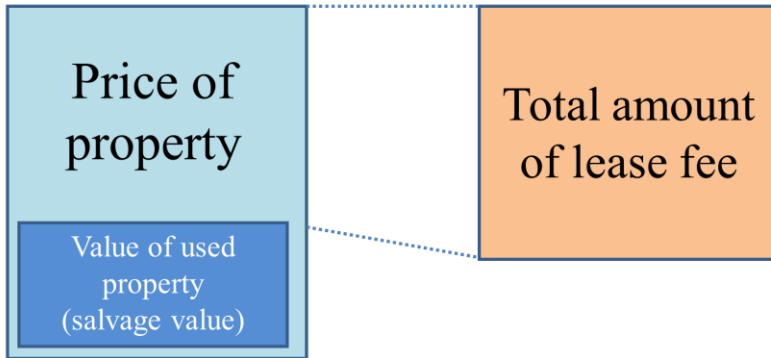
Operating lease has a lease scheme where the potential future value of equipment or a facility is estimated in advance.

Before an operating lease transaction is conducted, the value of a used property for lease at the time of expiration of its lease contract (salvage value) is estimated and then a lease fee is determined based on the amount calculated by subtracting the salvage value from the property price.

Regarding properties for which users desire operating lease transactions, their salvage value is determined based on their future market value which leasing companies have estimated by taking account of “whether or not a used property market exists and the market trend if the market exists,” “economic circumstances,” “past results of the relevant property,” and “use conditions by users.”

Accordingly, the total amount of lease fees in operating lease transactions is smaller than the property price and cheaper than the total lease fees in finance lease transactions.

Diagram of the total amount to be paid in operating lease transactions



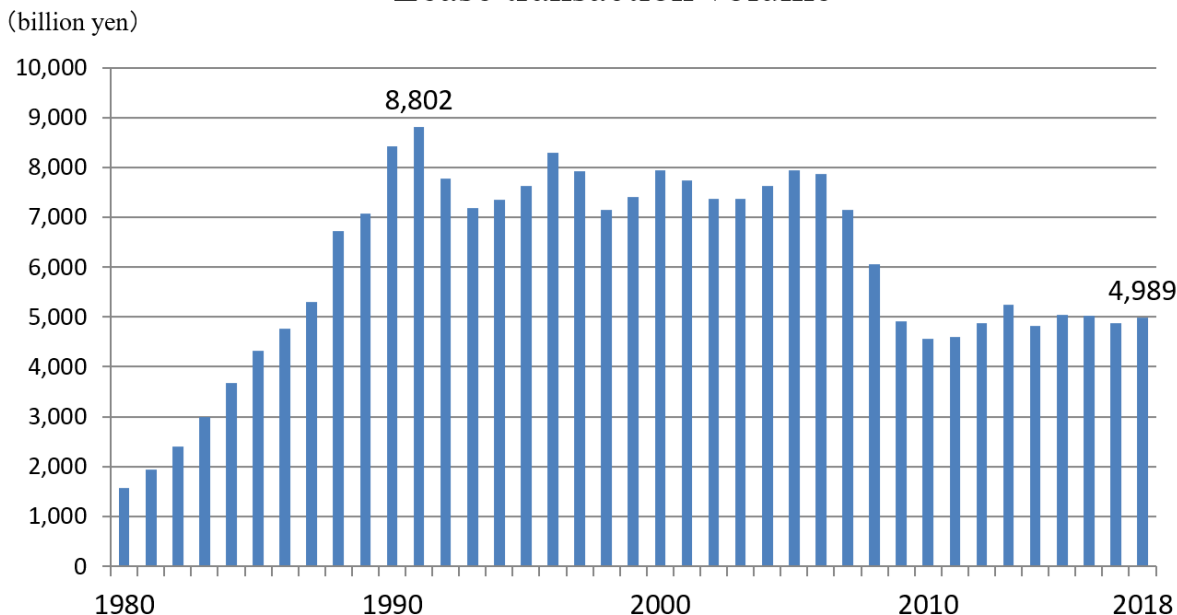
NEC Capital Solutions has engaged mainly in “finance lease” transactions but can deal with operating lease transactions for some aircrafts and buildings.

© Market trend and scale

The statistics released by Japan Leasing Association has shown that the volume of lease transactions (breaking) in fiscal 2018 was about 5 trillion yen, which indicates a considerable decline from the peak in 1991 due to the new Accounting Standard for Lease Transactions (*) introduced in April 2008 and the impact of the financial crisis in September 2008. However, the transaction volume has fluctuated around 5 trillion yen in recent years because the new Accounting Standard does not apply to medium- to small-sized companies and finance lease transactions other than off-balance sheet transactions mentioned above still have attractive advantages.

Meanwhile, competition has intensified among leasing companies, and local financial institutions, who are struggling with a deteriorated business environment attributed to the introduction of the negative interest rate policy, started to proactively grant loans to parties which were not included in their target users, including customers of leasing companies, which has resulted in heightened competition. It has been required for leasing companies to create differentiating factors such as diverse services and high added value.

Lease transaction volume



(*) New Accounting Standard for Lease Transactions: Introduced in April 2008. Before the introduction, it was allowed not to record non-ownership-transfer finance lease transactions (off-balance sheet) because such transactions do not involve transfer of ownership; however, the new Accounting Standard has in principle banned off-balance sheet transactions and required sales and purchase accounting (on-balance sheet). As a rule, “lease assets” and “lease liabilities” are recorded in a balance sheet at the time of commencement of a lease. In addition, depreciation regarding lease assets and interest rate equivalents regarding lease liabilities are posted on profit and loss statements, respectively.

Companies to which the new standard applies include listed companies to which Financial Instruments and Exchange Act applies and their subsidiaries and associated companies, and large corporations as stipulated in the Companies Act (with capital being over 500 million yen or total liabilities being over 20 billion yen).

Medium- to small-sized companies are allowed to continue the conventional lease accounting (off-balance sheet). Companies with capital being less than 500 million yen or total liabilities being less than 20 billion yen, including stock companies, special limited liability companies, general partnership companies, limited partnership companies, and limited liability companies, are not subject to the new Accounting Standard for Lease Transactions and are allowed to conduct the conventional lease accounting (off-balance sheet).

◎Comparison with competitors

Code	Corporate name	Sales	Growth rate	Operating income	Growth rate	Operating income rate	ROE	ROA	Market cap	PER	PBR
7148	FPG	25,035	+13.6	14,524	+11.2	58.0%	33.4	15.0	82,059	8.0	2.8
8424	Fuyo General Lease	700,000	+13.2	39,500	+10.5	5.6%	10.1	1.6	162,039	6.2	0.6
8425	IBJ Leasing	450,000	+16.9	24,200	+5.6	5.4%	10.3	1.2	118,785	7.0	0.7
8439	Tokyo Century	1,100,000	+3.0	79,300	+2.0	7.2%	12.7	2.2	504,334	9.3	1.2
8566	RICOH LEASING	321,400	+2.4	17,700	+2.5	5.5%	7.0	1.7	103,102	8.6	0.6
8586	Hitachi Capital	460,500	+14.0	52,000	+17.4	11.3%	-	-	293,342	7.4	0.7
8591	ORIX	2,434,864	-14.9	329,438	-2.0	13.5%	11.6	3.4	2,053,175	6.1	0.7
8593	Mitsubishi UFJ Lease & Finance	865,000	+0.1	178,000	+12.4	20.6%	9.4	1.5	503,458	7.1	0.7
8793	NEC Capital Solutions	210,000	+2.9	10,000	+12.0	4.8%	7.4	1	37,704	5.8	0.4

*The sales and operating income are forecasts for this term with the unit being million yen. ROE and ROA are the results from the previous term with the unit being %. The market cap, PER (estimate), and PBR (results) are the closing price on May 20 with the unit of PER being million yen and PBR being times. The earnings values for ORIX are for the previous year's results.

Many lease companies' PBR values are under 1 times.

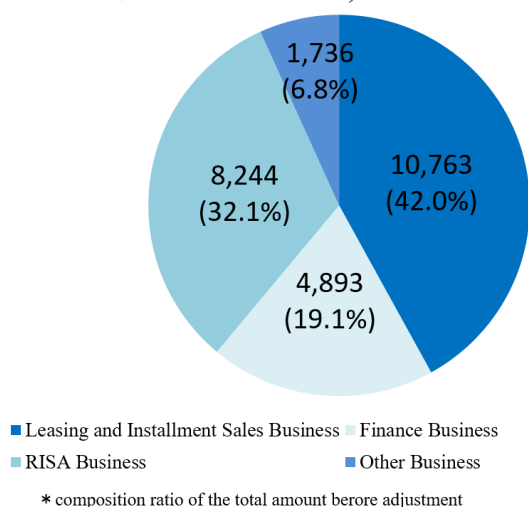
In addition to increasing profitability, it is essential for the company to raise investor awareness and promote an understanding of its characteristics, strengths, competitive advantages, and path to sustainable profit expansion.

【1-4 Business contents】

(1) Segments

The company's business consists of the following 4 segments: Leasing and Installment Sales Business, Finance Business, RISA Business, and Other Business.

Composition ratio of gross profit
(FY March 2019 ; unit : million yen)

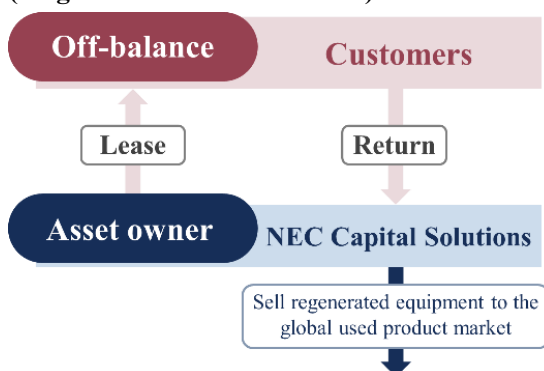


◎Leasing and Installment Sales Business

In this segment, the company engages in the Leasing Business and the Installment Sales Business. In addition to finance lease transactions, the company provides various services, including “maintenance lease” which is a scheme coming with maintenance contracts, “operating lease” where off-balance sheet transactions are allowed, and the “N rental” service which is the remaining value setting type and cancellable operating lease transactions covering ICT equipment.

In general, operating lease transactions deal with assets that can be sold at a certain price even after lease contracts have ended because a decline in their value due to lapse of time is gradual, including aircraft and vessels, but ICT equipment which becomes obsolete quickly, such as computers, is difficult to be subject to operating lease transactions. The company’s “N renta” lease service, however, has solved the issue by increasing the value of ICT equipment through regeneration and sold such regenerated equipment to the global used product market.

(Diagram of the N rental service)

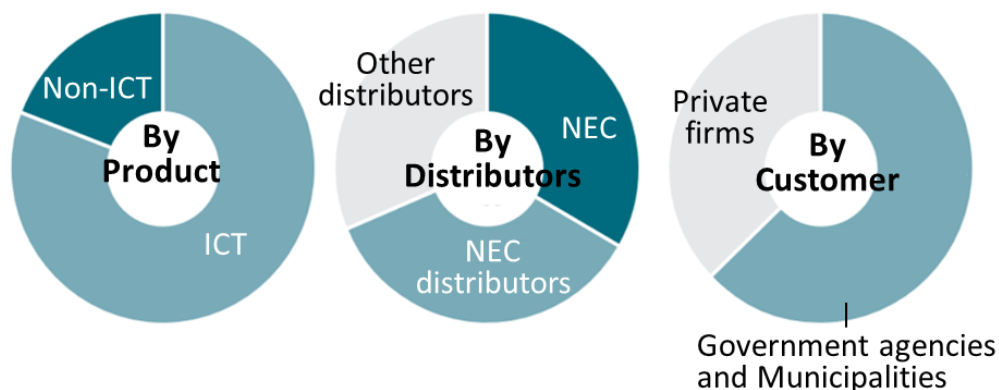


(Taken from the company’s website)

As described above, it is certain that leased products are returned. Therefore, NEC Capital Solutions deems lease transactions as a service that contributes to a resource recycling-based society and, in accordance with the principle of 3Rs (mainly Reuse), regenerates ICT equipment with lease contracts expired which can be sold again. This has led to creation of a resource recycling-based society.

In the Installment Sales Business, according to users’ financial needs and needs for possessing facilities, the company purchases facilities on their behalf and sells such facilities by installments to them. Costs of such purchase, interest, and the like are collected in installments.

Proportion of contracts executed



(Taken from the company's website)

Lately, the company endeavors to diversify operating assets that it handles, including renewable energy related facilities such as solar panels, buildings, and aircraft.

◎Finance Business

This segment is composed mainly of “business loans” and “factoring.”

Principally, business loans refer to “provision of a liquidation program for various receivables” and “provision of structured financing schemes for capital investment.”

Factoring is a service that realizes recovery of accounts receivable as quick as possible and alleviates burdens of fund procurement imposed on companies.

These services take another role as an opportunity to link new customers with its major Leasing Business.

The company engages in a business of securities investment as well.

◎RISA Business

This segment is a business of RISA Partners, Inc., (RISA for the rest) which was acquired as a consolidated subsidiary in December 2010 with the aim of diversifying NEC Capital Solutions' financial services.

The company provides client companies with solutions to their management issues in the form of “investment and loans” which provides financial support and in the form of “advisory” which gives advice from the professional perspectives mainly in the fields of finance and real estate.

The capabilities for providing one-stop solutions to a wide range of issues, including support for business growth, improvement of capital efficiency, achievement of liability soundness, and effective utilization of real estate, are the unique strength of the company with a number of experts in various special fields.

What the company is particularly skilled at is support for revitalization of local companies by taking advantage of its network with more than 180 regional financial institutions.

Using that strength, NEC Capital Solutions set up “Tourism Revitalization Mother Fund” in March 2014 jointly with Development Bank of Japan Inc. and Regional Economy Vitalization Corporation of Japan.

The aim of the fund is to revitalize the tourism industry all across Japan and to invest funds in a broad range of tourism related businesses, including hotels, restaurants, local manufacture and sale of products, and local traffic. The company strives to support economic growth of Japan as a tourism-oriented country by contributing to economic revitalization through rich tourism resources in each region all over Japan.

◎Other Business

In addition to posting of various fee revenues such as structuring fees for structured finance, this segment includes a service where the company engages, on behalf of customers, in trades of used properties with lease contracts expired or cancelled that the company has

owned in its Leasing Business, collection of maintenance fees, improvement of business efficiency regarding customers' loan asset management, response to customers' needs for outsourcing, and the like.

Fees in the solar power generation business, PFI business, and health-care business, which the company decided to strive for in the course of searching for new needs from the CSV perspective and propelling commercialization are also contained in this segment.

(ICT related business)

The company supports optimization of operation and management of customers' ICT assets at each step of the lifecycle of ICT equipment, ranging from introduction to use and disposal, with the BPO (Business Process Outsourcing) format cloud service.

In addition, Reboot Technology Services and Capitech Limited, a subsidiary of NEC Capital Solutions, regenerates used ICT equipment whose lease contracts have ended and sells regenerated equipment via its own sales channels including overseas.

(PFI business)

PFI (Private Finance Initiative) refers to improving social capital by using private funds; in other words, it is a public-private collaborative project for constructing, maintaining, managing, and operating public facilities, etc. by using private funds, management skills, and technical capabilities.

As it is generally required to structure fund procurement through project finance, dedicated staff establishes a structure best suited to a business in order to provide services from the business operators' perspective, including assistance in low-interest fund procurement and production of written proposal for government agencies and municipalities.

(Health-care business)

This business is developed mainly with "health-care REITs," real estate investment trusts, where funds raised from investors are invested specially in health-care facilities.

(Energy business)

As one of the strategies of corporate operation based on the idea of CSV, the company engages not only in the solar power generation business through SPCs (specific purpose companies) but also in the operation of regional power producers and suppliers (PPSs) and in the purchase and sale of electricity.

In October 2015, under the concept of "local production and consumption of energy," the company established a regional PPS, "Hamamatsu New Electric Power Co.," jointly with Hamamatsu City, NTT FACILITIES, INC., and financial institutions and private companies in the city.

Hamamatsu New Electric Power Co. purchases electricity from solar power generation companies in Hamamatsu City and sells the electricity principally to public institutions including elementary and junior high schools in the city. Local consumption of locally produced energy enables stable supply of electricity without relying on supply from the outside of the city, and besides, funds and resources for electricity supply are circulated within the city, revitalizing the local economy.

(2) Overseas business expansion

NEC Capital Solutions has propelled business expansion overseas with local subsidiaries currently established in Hong Kong, Singapore, Malaysia, and Thailand.

Quite a few efforts with respect to preparation and time are generally demanded for the establishment of overseas bases; however, as NEC has already focused on some overseas regions and expanded its business there, the company decided to provide financial support to such overseas markets in response to the overseas business strategies of NEC, in order to mitigate risks.

The company plans to expand its business, including dealing with local companies and providing assistance for Japanese companies aiming to enter the Asian markets.

【1-5 Characteristics and strengths】

① Stable business foundation based on the relationship with NEC

As one of the affiliated companies of the NEC Group, NEC Capital Solutions is a finance services company in Japan and has shared the customer base with NEC since its establishment. The customer base is sound, with the main customers being government agencies and municipalities (which account for over 50% of its customers), and large companies.

In addition, nearly two-third of the volume of contracts executed is attributed to NEC and NEC affiliated distributors. Regarding NEC

products, the company provides leases in combination with NEC's products and services, which is unique to a manufacturer-affiliated company, including maintenance leases and vendor finance programs.

The company has propelled the establishment of a strategic partnership with NEC.

Regarding proposal for systems to customers by NEC, NEC Capital Solutions has given consideration to sales techniques and made proposals as a member of "Team NEC."

Both companies enjoy advantages: NEC can make proposal which distinguishes it from competitors, and NEC Capital Solutions can enter into negotiations without vying with other finance services companies.

Lease contracts are a business involving transactions with customers for a long period of time with the average contract period being 5 years.

Transactions between NEC Capital Solutions and customers continue even after manufacturers sold equipment, which allows the company to understand new issues which customers are faced with. Through such relationships with customers, NEC Capital Solutions in some cases introduces NEC to new business opportunities.

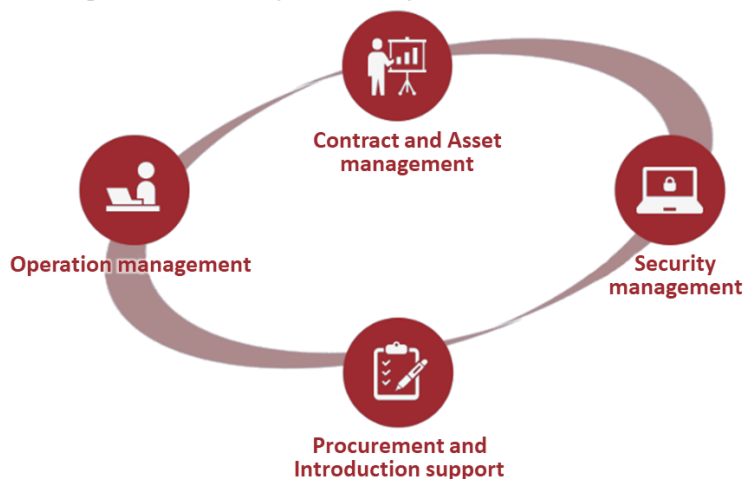
② Integration between "ICT" and "finance"

Although the company leases various facilities, due to its background as a financial company established for the purpose of pushing up sales of NEC, the ratio of lease transactions of ICT products is large, accounting for almost 80%.

With such a backbone, the keyword characterizing the presence of NEC Capital Solutions among a myriad of leasing companies is 'integration between "ICT" and "finance."'

One service that represents the company which has integrated "ICT" and "finance" is "PIT managed Service."

This is a BPO format cloud service that provides multifarious one-stop services to manage lifecycles "from procurement and development to operational management and asset disposal" of ICT assets, including a variety of devices such as computers and software, which require a lot of settings and management before use.



(Taken from the company's website)

The company deals flexibly with multiple devices including smartphones and tablets as well as computers and handles equipment manufactured by not only NEC but also various manufacturers in order to make the best proposal according to each circumstance of customers.

In addition, the cloud service into which cutting-edge technology and services are incorporated contributes to the curtailment of total cost and the maintenance of quality.

Besides, the company operates a service desk for providing a variety of services by taking into consideration compliance and security and undertaking back-office functions on behalf of each customer.

With the sound business foundation formed through a strategic collaboration with NEC, NEC Capital Solutions provides a wide range of financial solutions by using its profound knowledge of ICT equipment.

③ CSV-based management

Another keyword that characterizes NEC Capital Solutions is CSV-based management.

The company considered it important to set a policy that always remains steadfast in order to clarify the significance of the company's presence and to pursue sustainable growth, and thus, adopted the idea of CSV in October 2013.

As mentioned above, the concept of CSV is that a business itself creates not only social value but also economic value that a company should pursue.

Prof. Michael Porter, who is known for his book "Competitive Strategy," put forward the idea of CSV on Harvard Business Review in 2011.

While CSR, which is widely known as responsibilities and activities toward society, refers to activities performed around companies' regular business, including compliance, environmental management, and philanthropy (activities contributing to society), CSV attaches weight to strategic expansion of the regular business itself.

It is starting to be understood that CSV is a new movement for taking one step ahead of the idea of CSR and boost corporate value, business value, and competitiveness through the realization of social value.

The company has been operating business while being vividly aware of corporate social responsibility (CSR).

For example, the company paid attention to the fact that the lease business is recycle-based earlier than any other companies, and has promoted "eco-lease," which leases devices for 3Rs (Reduction, Reuse, and Recycling) of items whose lease contracts have expired and environmentally friendly equipment.

In the business targeted at the public sector, which is the company's specialty, the company supports the development of social infrastructure.

Using them as footholds, the company hopes to go beyond CSR and contribute to the improvement of social value through business.

The concept of CSV-based management has taken deep root in the company as a result of the efforts at broadening the understanding of the idea and penetrating it through discussion among all the employees about what should be done in each department and discussion by the president with all the departments including branch offices. With the establishment of the new Medium-term Plan 2017, the president took the opportunity to once again discuss its concept with all employees and brush up their understanding.

The following are the main approaches towards CSV-based management.

Example (1): Arrangement of a syndicated loan for optical submarine cable projects

In April 2018, as a lead arranger, the company arranged a syndicated loan for a high-capacity optical submarine cable project which will connect Japan, Guam, and Australia.

This project entails the construction and operation of a high-capacity optical submarine cable system which will connect Japan, Guam, and Australia. NEC will contract its construction, while RTI Connectivity Pte. Ltd. (Singapore) will carry out its operation.

Project funds will be procured using a syndicated loan arranged by eight domestic financial institutions, and NEC Capital Solutions Limited will arrange this syndicated loan as main arranger, while participating as a lender.

With the growth of cloud services and new industrial applications, the demand for communications continues to expand. 99% of international communications are made possible by undersea cables, highlighting how undersea cables have become an indispensable piece of communications infrastructure for today's digital society.

The project plays an important role, as it is expected to meet the increasing demand for communications and be a detour route for the Asian and Australian regions.

In addition to contributing to social progress, one can say that this project will further improve the presence of NEC Capital Solutions Limited at NEC, in addition to playing an important role in "Establishing and deepening a strategic partnership with NEC," which is an important business strategy for the new Medium-term Plan 2017.

Example (2): Conclusion of a business contract concerning the “Tea and Uji city historical park maintenance project” (provisional name)

In November 2018, through a consortium arranged by seven other companies, they established a special purpose company (SPC), Uji Community Development Creation Network Co. Ltd., and on October 16th of the same year, they concluded a business contract with Uji city concerning the “Tea and Uji city historical park maintenance project” (provisional name).

This project is a private finance initiative business in which Uji Community Development Creation Network performs duties ranging from facility design and construction to maintenance and operation in an integrated fashion.

In addition to acting as a representative company for the project, it shall be the policy to actively promote the project, carrying out investments and the management of statistical process control.

Takashi Hayashi, executive officer of NEC Capital Solutions Limited, was appointed as the representative of Uji Community Development Creation Network Co. Ltd.

The meaning of the company name “Uji Community Development Creation Network” entails working with local organizations and enterprises to promote community development of the area as a whole, in addition to moving toward regional revitalization and improvement in Uji’s branding in partnership with citizens and local organizations, with this institution at the center of this effort.

Regarding the Medium-term Plan 2017, which was announced in April 2017, one of its strategies is to expand the PFI and PPP business*, and this project is its first initiative to participate in these projects as a representative company.

*PFI and PPP business

"PFI" is an acronym for Private Finance Initiative, and entails the maintenance of social capital by utilizing private sector funds – that is, a public-private partnership which carries out activities such as construction, maintenance, operation of public facilities, etc. using private sector funds, management ability, and technical ability. "PPP" is an acronym for Public Private Partnership, and entails the carrying out of projects through the partnership of government agencies and private enterprises. It refers to a method in which private enterprises participate in the planning stages of projects which were conventionally carried out through public management, with facilities being retained by public agencies, and in which investment for facilities and operation is entrusted to private enterprises.

【1-6 ROE analysis】

	FY 3/14	FY 3/15	FY 3/16	FY 3/17	FY 3/18	FY 3/19
ROE (%)	7.2	3.9	4.4	4.5	7.3	7.4
Net income margin (%)	2.19	1.32	1.65	1.63	2.60	3.13
Total asset turnover [times]	0.32	0.28	0.25	0.26	0.26	0.23
Leverage [times]	10.32	10.36	10.89	10.89	10.79	10.39

The net income margin increased about 0.5% in FY 3/19. The forecast for this term is at the same level.

Because it is necessary to keep a fixed scale of lease assets, it is hard to raise the total asset turnover in this type of business, but it is desirable to raise the ROE by steadily improving margins.

【1-7 Shareholder return】

The Leasing Business, which is the company’s core business, is based on a business model with long contract periods during which the company receives lease fees on a regular basis; therefore, its business results remain stable. Because of such business characteristics, the dividend policy is to prioritize stable dividends, and the company had been paying 44 yen/share since it was listed, but in the term ended Mar. 2018, it posted the highest profit since listing, and considering the recent trend of payout ratio in the stock market, the company raised the dividend amount for the first time to 50 yen/share (payout ratio: 17.9%). In the previous term ended Mar. 2019, too, the company raised the dividend amount to 55 yen/share (payout ratio: 18.5%), and in this term ending Mar. 2020, it plans to increase the dividend amount by 5 yen/share to 60 yen/share (payout ratio: 19.9%).

From now on, the company will stick to the basic policy of stable dividends, and determine the dividend amount with the aim to achieve a payout ratio of 25%.

In addition, it has established a shareholder benefit plan where benefits are granted once a year to shareholders who hold the company’s shares as of the end of every March. The company will send out shareholder benefits in early July.

Subject shareholders	Complimentary goods
Holding 1 trading unit (100 shares) or more for less than 1 year	Catalog gift (worth 2,000 yen)
Holding 1 trading unit (100 shares) or more for over 1 year	Catalog gift (worth 3,000 yen)
Shareholders holding 5 trading units (500 shares) or more for less than one year	Catalog gift (worth 10,000 yen)
Shareholders holding 5 units (500 shares) or more for a year or longer	Catalog gift (worth 15,000 yen)

If a shareholder declines to receive a gift in advance, the company will donate the amount equivalent to the gift (the donation target is to be determined).

2. Fiscal Year March 2019 Earnings Results

(1) Business Results

	FY 3/18	Ratio to sales	FY 3/19	Ratio to sales	YoY	Difference from the forecast
Sales	231,432	100.0%	204,131	100.0%	-11.8%	+2.1%
Gross profit	28,957	12.5%	25,588	12.5%	-11.6%	-
SG&A expenses	16,283	7.0%	16,659	8.2%	+2.3%	-
Operating income	12,674	5.5%	8,929	4.4%	-29.5%	+11.6%
Ordinary income	13,455	5.8%	8,900	4.4%	-33.9%	+11.3%
Net income	6,006	2.6%	6,391	3.1%	+6.4%	+59.8%

*Unit: million yen

Sales dropped due to the large-scale projects in the previous term, etc., but net income hit a record high for the 2nd consecutive term.

Sales were 204.1 billion yen, down 11.8% year on year. The sales dropped, because of large-scale projects, such as the sale of the healthcare-related business and the fund project of the RISA Business in the previous term.

Ordinary income declined 33.9% year on year to 8.9 billion yen, due to those large-scale projects, exchange valuation, credit cost, etc. Except the effects of exchange valuation and credit cost (amounting to about 2 billion yen), business performance was unchanged from the previous year.

Net income marked a record high for the second consecutive term. Considering these results and payout ratio, the company revised the dividend amount from 50 yen/share to 55 yen/share.

(2) Trends by segment

	FY 3/18	Ratio to sales	FY 3/19	Ratio to sales	YoY
Sales					
Leasing and Installment Sales	164,011	70.9%	166,847	81.7%	+1.7%
Finance	6,127	2.6%	6,644	3.3%	+8.4%
RISA	17,442	7.5%	14,051	6.9%	-19.4%
Other	43,898	19.0%	16,649	8.2%	-62.1%
Adjustment	-48	-	-62	-	-
Total	231,432	100.0%	204,131	100.0%	-11.8%
Operating Income					
Leasing and Installment Sales	4,496	2.7%	4,087	2.4%	-9.1%
Finance	3,132	51.1%	3,321	50.0%	+6.0%
RISA	6,618	37.9%	3,634	25.9%	-45.1%
Other	137	0.3%	-354	-	-
Adjustment	-1,711	-	-1,758	-	-
Total	12,674	5.5%	8,929	4.4%	-29.5%

*Unit: million yen. The composition ratio for operating income is a ratio of operating income to sales.

* Leasing and Installment Sales Business

Sales grew, but profit declined.

The number of lease transactions in the entire business field in fiscal 2018 rose 2.8% year on year, becoming positive for the first time in 3 terms. The number of lease transactions for information and communications devices, which are the mainstay of the company, increased 7.3% year on year, indicating that the market environment is healthy. As the number of bankruptcy cases dropped from the previous term, the business environment was stable as a whole.

Sales grew, due to the increase in the balance of operating assets. Operating income dropped, due to the decrease of reversal of allowance for doubtful accounts.

The number of contracts executed increased 4.3% year on year, being healthy, as the demand from the private sector was favorable and the sales from the public sector grew slightly, thanks to the measures for strengthening ICT rental, etc.

The number of contracts concluded was healthy in both the public and private sectors, and increased 7.4% year on year.

* Finance Business

Sales and profit increased.

Sales grew, as revenue from dividends, interest rates, etc. were healthy.

Operating income rose, thanks to the increase in credit-related reversal.

The number of contracts executed declined for factoring. For business loans, it nearly unchanged from the previous term, in which the performance was solid. The number of contracts executed increased from the previous year in the fields of finance, insurance, and real estate, mainly for short-term loans, and was nearly unchanged as a whole.

* RISA Business

Sales and profit declined, because there were large-scale projects in the previous term.

(Asset Business)

Sales and profit decreased, due to the large-scale sale of investment securities in the previous term.

(Real estate)

Sales grew, thanks to the sale of real estate for sale, but operating income dropped, due to the decrease in revenue from commissions and dividends.

(Advisory)

The company secured the same level of revenue as that in the previous term, due to stable M&A-related fees, etc.

(3) Financial standing and cash flows

◎Balance Sheet Summary

	End of Mar. 18	End of Mar. 19		End of Mar. 18	End of Mar. 19
Current assets	794,998	780,629	Current liabilities	416,387	415,890
Cash on hand and in banks	35,036	21,041	Trade payables	17,579	20,351
Leases receivables and investment in leases	422,720	431,727	Short-term interest-bearing debts	378,310	376,238
Accounts receivable, loans	250,715	243,682	Long-term liabilities	379,117	373,793
Fixed assets	111,496	115,054	Long-term interest-bearing debts	369,441	365,100
Property and equipment, net	54,810	59,546	Total liabilities	795,505	789,684
Leased assets	50,282	54,703	Net assets	110,989	105,999
Intangible assets	6,269	5,910	Shareholders' equity	83,330	88,577
Investments and other assets	50,415	49,596	Total liabilities and net assets	906,495	895,683
Investment securities	38,054	39,247	Balance of interest-bearing debts	747,751	741,338
Total assets	906,495	895,683	Equity ratio	9.3%	9.9%

*Unit: million yen

Total assets decreased 10.8 billion yen from the end of the previous term to 895.6 billion yen, due to the decline in cash on hand and in banks, loans, etc.

Liabilities dropped 5.8 billion yen to 789.6 billion yen, due to the decrease in interest-bearing liabilities. Net assets declined 4.9 billion yen to 105.9 billion yen, as shareholders' equity increased, but valuation difference on available-for-sale securities and non-controlling shareholders' interest decreased.

Capital-to-asset ratio rose 0.6 points from the end of the previous term to 9.9%.

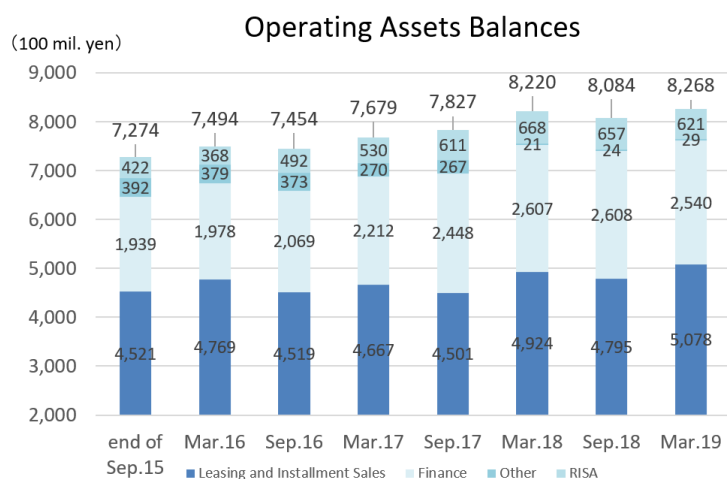
◎ Operating Assets Balances

The balance of operating assets in the Leasing and Installment Sales Business increased from the end of the previous term for the public and private sectors, as the balance of operating assets in Leasing and Installment Sales Business in the public sector were healthy and the measures for strengthening ICT rental, etc. bore fruit. It exceeded 500 billion yen for the first time in 9 years.

The balance of operating assets in the Finance Business declined, as business loans, including foreign-currency ones, increased, but factoring decreased.

The balance of operating assets in the RISA Business dropped, due to the sale of real estate for sale, etc.

The total balance grew 4.8 billion yen from the end of the previous term. As shown in the graph below, operating assets have been accumulated steadily.



◎ Situation of fund procurement

Due to the rise in the market interest rate in foreign currency procurement, fund procurement cost rate (fund procurement cost ÷ average balance of interest-bearing debts) increased 0.03 points year on year to 0.66%. However, since it is linked with lending rates, its impact is not so significant.

Direct procurement ratio, which is the ratio of CP, corporate bonds, and liquidation of receivables to total interest-bearing liabilities, dropped from 39.0% at the end of the previous term to 36.5%, due to the decline in the balance of CP.

◎ Cash Flow

	FY 3/18	FY 3/19	Increase/decrease
Operating Cash Flow	-31,596	5,661	+37,257
Investing Cash Flow	-12,922	-97	+12,825
Free Cash Flow	-44,518	5,564	+50,082
Financing Cash Flow	36,196	-19,999	-56,195
Term End Cash and Equivalents	35,124	20,686	-14,438

*Unit: million yen

Operating cash flow turned positive, due to the decrease in operating loans, real estate for sale, etc.

As the purchase of investment securities decreased, and the revenue from redemption grew, the deficit of investing cash flow shrank, and free cash flow turned positive.

CP grew in the previous term, but dropped in the current term, so financing cash flow turned negative. The cash position declined.

(4) Topics

◎ Investment for the expansion of the domestic hydropower business

In April 2019, they acquired shares of Mirai Energy Partners Co., Ltd. (hereafter referred to as Mirai Energy) and agreed to jointly work together to advance Mirai Energy with SMFL Mirai Partners Co., Ltd. (100% subsidiary of Sumitomo Mitsui Finance and Leasing Company, Limited) and Sumitomo Mitsui Banking Corporation.

As for shareholding ratio, Representative affiliated companies hold 45.04%, SMFL Mirai Partners holds 30%, NEC Capital Solutions Limited holds 20%, Sumitomo Mitsui Banking Corporation holds 4.88%.

Based on the knowledge and experience accumulated thus far in the renewable energy field, Mirai Energy supports private enterprises and local governments to arrange and develop power generation projects, mainly hydropower.

In particular, in the business of hydropower plant renovation, they provide integrated services ranging from project planning and the acquisition of permits and licenses to civil engineering design, procurement of equipment, and the implementation of construction planning and supervision. In addition, through the hydropower fund “Mirai Hydropower Investment Project Limited Liability Association,” of which Mirai Energy is a general partner, funding is provided for renovation and development projects of hydropower plant.

Based on its achievements and experience in investments and lending towards renewable energy projects including PPP/PFI business * and hydropower, NEC Capital Solutions Limited will contribute to the revitalization of regional economies through the creation of next-generation energy infrastructure. This will be done through the provision of comprehensive financial services such as financial advisory services, investment, and lending towards hydropower projects, including public hydropower concessions, which are run by local governments and others.

◎ Investment in “Revitalization of Hakuba Iwatake City, Where Nature and Tradition are Fused, Co. Ltd.”

In September 2018, the company made an investment in “Revitalization of Hakuba Iwatake City, Where Nature and Tradition are Fused, Co. Ltd.” in Kitaazumi-gun, Nagano Prefecture.

(Outline of “Revitalization of Hakuba Iwatake City, Co. Ltd.”)

“Revitalization of Hakuba Iwatake City, Where Nature and Tradition are Fused, Co. Ltd.” was established in August 2018 with investment from Hakuba Tourism Development Co., Ltd. (Kitaazumi-gun, Nagano Prefecture), ALL Shinshu Tourism Revitalization Fund (Nagano City, Nagano Prefecture, general partners: REVIC Capital Co., Ltd. and Hachijuni Capital Co. Ltd.), FUNNY Co. Ltd. (Minato-ku, Tokyo) and NEC Capital Solutions Limited.

The aim is to revitalize tourism resources in the Iwatake area of Hakuba village in Nagano Prefecture by promoting a new business model in which the township as a whole is integrated in resort development.

(Background of investment, etc.)

In order to transform Hakuba, well known as a ski resort, into a mountain resort which can be enjoyed in all seasons, they have been working proactively to attract and develop both domestic and overseas-originating contents, and the number of visitors to Japan from overseas has been steadily increasing.

On the other hand, accommodation facilities in the area have been on the decline due to the aging of business owners, a lack of successors, and a labor shortage. In particular, there is a shortage of facilities aimed at high-class tourists, and it is becoming difficult to accept guests during the busy season.

With Revitalization of Hakuba Iwatake City, Co. Ltd., by renovating and utilizing lodging facilities such as the old Japanese-style houses which dot the landscape of Hakuba Iwatake, they will attract high-class tourists (including foreign tourists), and they will develop “luxurious old Japanese-style resorts” which meet the needs of high-class tourists.

Renovation of all facilities began in September 2018, and the facilities are expected to open one-by-one beginning in December 2018.

After opening the facilities, they will contribute to the revitalization of Hakuba by carrying out attractive community development projects and events while making use of the area’s tourism resources and operating each facility.

Regarding their currently underway Medium-term Plan 2017, NEC Capital Solutions Limited is working on the establishment of a new project which focuses on the four areas of “energy, healthcare, agriculture, and tourism.” To date, they have contributed investments to

DMC* and other similar companies, and in conjunction with local officials, they are developing projects which are helping resolve regional issues.

Regarding the current project as well, they will not limit themselves to investment – rather, they will cooperate with the local government and other investors and focus on revitalizing the Hakuba area and enhancing its attractiveness as a tourist destination.

*DMC: Destination Management / Marketing Company

This refers to a profit-making business entity with a corporate body, known as a DMO (Destination Management / Marketing Organization) which is equipped with the coordination functions to steadily implement a strategy. In this case, the strategy is formulated to realize the development of tourist areas based on clear concepts as a steering authority of the development of tourist areas with the perspective of “tourism management,” while cooperating with stakeholders.

3. Fiscal Year March 2020 Earnings Estimates

(1) Full-year earnings forecast

	FY 3/19	Ratio to sales	FY 3/20 (Forecast)	Ratio to sales	YoY
Sales	204,131	100.0%	210,000	100.0%	+2.9%
Operating Income	8,929	4.4%	10,000	4.8%	+12.0%
Ordinary Income	8,900	4.4%	10,000	4.8%	+12.3%
Net Income	6,391	3.1%	6,500	3.1%	+1.7%

*Unit: million yen. The forecast was announced by the company.

Sales and profit estimated to grow. Net income projected to hit a record high for the 3rd consecutive term.

It is estimated that sales will grow 2.9% year on year to 210 billion yen and ordinary income will rise 12.3% year on year to 10 billion yen. Net income, which hit a record high for the second consecutive term in the previous term, is projected to increase 1.7% year on year to 6.5 billion yen, marking a record high again.

Operating assets will be accumulated in the Leasing and Installment Sales Business, which is the mainstay, and gross profit is bottoming out, and re-leasing is increasing steadily. The other segments, too, are estimated to be healthy.

The dividend amount is to be 60 yen/share, up 5 yen/share from the previous term. The estimated payout ratio is 19.9%.

4. Progress of Medium-term Plan 2017

(1) Overview of the Medium-term Plan 2017

The company’s group vision is “To be a global solution service company that aims to enhance social value with customers.”

In order to accomplish this, they have divided the task into three stages, taking place over a 10-year period. In Mar. 2018, they began promoting the “Medium-term Plan 2017,” which corresponds to the second stage.

The “Medium-term Plan 2017” positions the next three years as **a period for building a business foundation that can be sustained by “completion of core areas” and “development of new businesses.”**

(*For details of the “Medium-term Plan 2017,” see “Reference” below)

(2) Status of efforts

<Completion of core areas>

The company will pursue the lease business, which can earn additional revenue, and strive to establish “services” which utilize the company’s competitive advantage while using its capabilities to combine a variety of services and inducing synergy inside and outside the company.

Theme	Status of efforts
Deepen strategic partnerships with NEC	<ul style="list-style-type: none"> * To increase transactions by cementing the cooperation with NEC * To expand the private-sector market by enhancing new initiatives for Vendor Finance Solution * To launch a new rental service utilizing NEC products
Expand customer base in own sales channels	<ul style="list-style-type: none"> * To expand the Vendor Finance Business centered around foreign-affiliated vendors * To further increase small-ticket lease transactions by enhancing collaborative activities with large-scale distributors
Ensure a source for high-profit growth	<ul style="list-style-type: none"> * To secure revenue from the Asset Solution Business of RISA * Steady progress of investment based on the next funds of RISA * To established CSV Venture Fund 2 Limited Liability Partnership * To join the PFI project as a representative enterprise

<Development of new businesses>

The company will establish new, sustainable businesses, including ones not related to finance.

Theme	Status of efforts
Establish new business models in new areas and develop new businesses without any investments and financing required.	<ul style="list-style-type: none"> * Start of initiatives in the hydropower generation field (investment in Mirai Energy Partners) * Trial operation of the combined agriculture growing rice and onion in Mirai Kyouso Farm Akita * Development of a warehousing business for REIT of healthcare facilities * Business creation and town development through the vitalization of sightseeing resources by investing in Akan Adventure Tourism and Revitalization of Hakuba Iwatake City, Co. Ltd..

The company is focusing on new businesses in 4 fields: energy, healthcare, agriculture, and sightseeing.

<Strengthen corporate management supporting business strategies>

The company will strengthen the management foundation that supports business strategies.

The company actively works on “the improvement of the sales support system,” “the promotion of measures for improving business operation quality,” “further strengthening of compliance systems,” etc.

(3) Progress of the profit plan

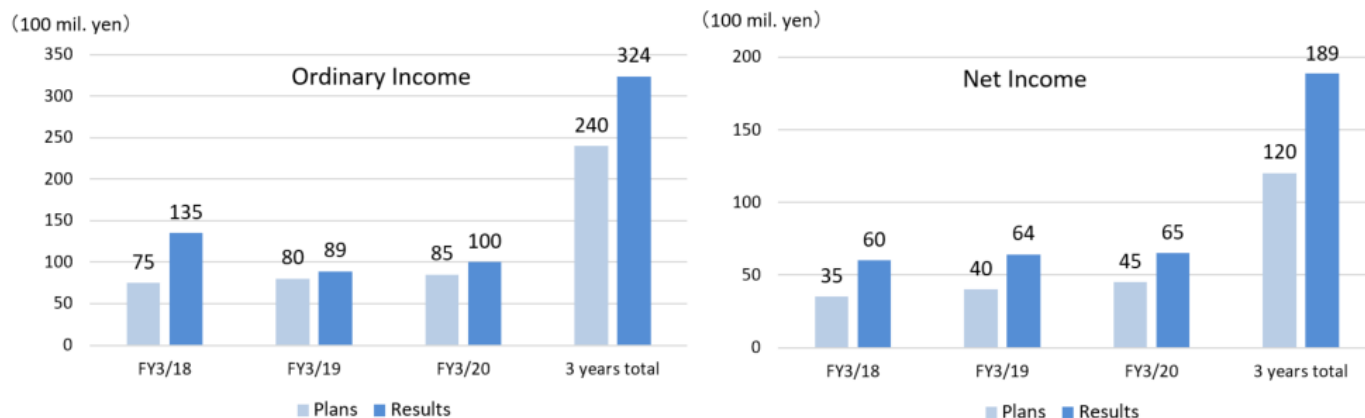
The progress of the profit plan of Medium-term Plan 2017 was healthy.

For both the term ended Mar. 2018 and the term ended Mar. 2019, ordinary income and net income exceeded the estimates, and those for the term ending Mar. 2020 are also expected to exceed the estimates.

The differences between the estimates and results (for the term ending Mar. 2020, the estimates are used) of the 3-year cumulative amounts are estimated to be 8.4 billion yen for ordinary income and 6.9 billion yen for net income, both significantly exceeding the estimates.

ROA was 1.6% in the term ended Mar. 2018, 1.1% in the term ended Mar. 2019, and first estimated to be 1.0% in the term ending Mar. 2020, and now projected to be 1.2%, 0.2% higher than the initial estimate.

Plans and Results of Medium-term Plan 2017



* Figure for results in FY3/20 is estimate.

5. Interview with President Imazeki

We asked President Imazeki about the financial results of FY 3/19, the progress of the Medium-term Plan, and his message to shareholders and investors.

Q: “How do you evaluate the financial results for the fiscal year ended in March 2019?”

A: “Net income was 6.4 billion yen as it has increased for four consecutive terms. In addition, we made record profits for two consecutive terms. Furthermore, the accumulation of operating assets exceeded that at the end of the previous fiscal year with a total balance of 826.8 billion yen. In our mainstay Leasing and Installment Sales Business, we passed the 500-billion-yen mark for the first time in nine terms. I think these financial results have earned a passing mark.”

In the previous term, operating income and ordinary income decreased due to the decrease in sales caused by the fact that there was a selling-off of healthcare-related products and the exit of a large-scale project in the RISA project. However, the net income, that we have been focusing on in the sense that it ultimately belongs to our shareholders, reached 6.4 billion yen and has increased for four consecutive terms, and we made record profits for two consecutive terms.

In addition, with a business environment in which the number of leases in the whole industry was positive for the first time in two terms backed by the demand for a new POS which can respond to the replacement of computers and the shortage of labor coinciding with the end of the support period of Windows 7, the contract execution volume in the mainstay areas of Leasing and Installment Sales Business has progressed steadily, and the balance of operating assets also exceeded 500 billion yen. With regard to the accumulation of total operating assets, we exceeded that at the end of the previous fiscal year with a total balance of 826.8 billion yen. I think these financial results as a whole have earned a passing mark.

Q: “Next, please tell us your thoughts on dividends as well as the outlook for the fiscal year ending in March 2020.”

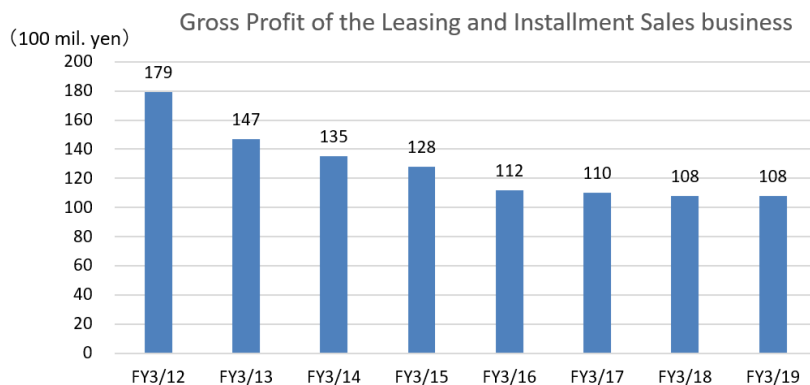
A: “We are expecting sales and profits to increase, and net income is expected to reach a record for the third consecutive year. With the four segments, starting with the Leasing and Installment Sales Business, contributing to each other, we plan to increase sales and profits.

Regarding dividends, while maintaining stable dividends, we believe that it will also be necessary to pay dividends according to profits from the perspective of returns to shareholders, and thus will aim for a payout ratio of 25%, and will consider increasing dividends in accordance with profits.”

We are expecting a slight increase in sales and profits in the fiscal year ending March 2020, and with regard to net income, we expect to reach a record for the third consecutive year.

We believe that we will be able to grow all four of our segments in a balanced manner. In particular, regarding our Leasing and Installment Sales Business, the gross profit of which had been in decline for a long time bottomed out in fiscal 2018. One can say that this is the

result of having worked closely over the past few years with NEC and IT vendors on medium-term plans such as the provision of ICT equipment which we are adept at, in particular, system updates and the replacement of main servers. Although a further increase is needed to reverse the trend, hereafter, we would like to strongly focus on creating an upward trend.



Regarding dividends, we have paid a stable dividend of 44 yen per share since our listing. Taking into account the average of other companies in the industry, while maintaining stable dividends, we believe that it will also be necessary to pay dividends which correspond to profits and thus will aim for a payout ratio of 25%, and will consider increasing dividends in accordance with profits.

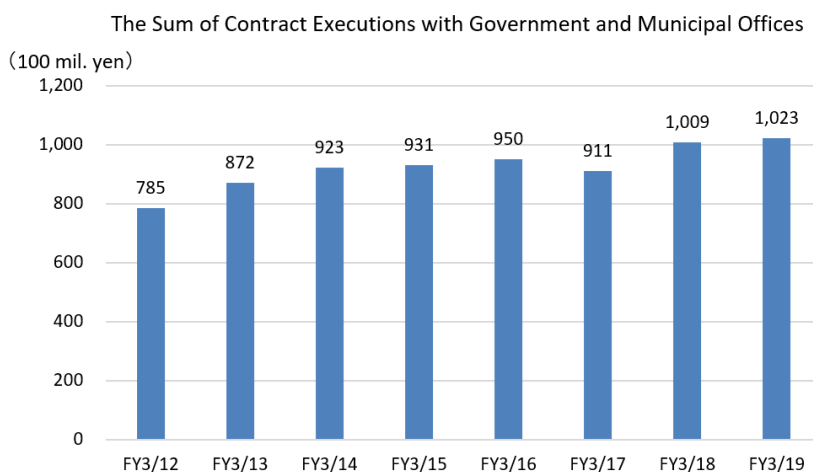
Furthermore, with the current stock price, the dividend yield is in the 3% range. We would like shareholders and investors to take note of this point as well.

Q: “How is the progress of the Medium-term Plan 2017?”

A: “The deepening of the relationship with NEC is progressing steadily. Moreover, regarding business with foreign-owned IT vendors, transactions are growing, due to the acknowledgement of our many years of accomplishments and experience with ICT equipment. Additionally, regarding PFI projects, we were able to participate as a representative company for the first time. With regard to “developing new businesses,” I think it will take some time before one can “establish new businesses” in the sense of contributing to earnings. We are still at the stage of searching for opportunities and expanding our scope - we would like to work on unique projects which reflect our company’s values.”

Regarding the “completion of core areas,” the deepening of the relationship with NEC is progressing steadily.

The sum of contract executions with government and municipal offices, the majority of which are occupied by NEC’s products and services, lay at 102.3 billion yen this term, but as can be seen from the changes over the past few years, there has definitely been a step up, this being the result of progress in collaboration with NEC.



Hereafter, we will work towards expanding the private market by increasing our efforts towards vendor finance solutions. Additionally, we have begun trials of a new rental service which utilizes NEC products. While the details cannot yet be disclosed, I would like to disclose these details if we reach a full-scale planning stage.

Moreover, regarding business with foreign-owned IT vendors, transactions are growing, due to the acknowledgement of our many years of accomplishments and experience with ICT equipment.

Additionally, regarding PFI projects, we have already participated in about 30 PFI projects, but in November 2018, for the first time, we were able to participate as a representative company, in the “Uji city historical park maintenance project”. By making use of this experience, we plan to continue to actively take part in PFI and PPP projects which contribute to the revitalization of regional economies. With regard to “developing new businesses,” we are promoting new initiatives in energy, healthcare, agriculture, and tourism.

I think it will take some time before we can “establish new businesses” in the sense of contributing to earnings, but some projects have advanced to the halfway point.

However, we are still at the stage of searching for opportunities and expanding our scope - We would like to work on unique projects which reflect our company’s values.”

Q: “Lastly, please tell us your message to shareholders and investors.”

A: “Rather than leaning towards a specific segment, we plan to work to expand profits in all four segments. Additionally, regarding dividends, while basing ourselves on stable dividends, we plan to aim for a dividend payout ratio of 25% and will consider increasing dividends concurrently with the increase in profit. We would like to encourage our shareholders and investors to continue their support for our company.”

This is the last term of the Medium-term Plan 2017. With your help, the three-year targets we set for ordinary income and net income were achieved in two years, and the total at the three-year mark is expected to greatly outpace our initial schedule.

We will start working on the development of the next medium-term plan, but I cannot currently say precisely how it may look, since there are all kinds of opaque factors and risks. However, since our core segments of Leasing and Installment Sales Business as well as our Finance Business were able to improve our profitability by accumulating operating assets, in the next medium-term plan, we plan to work on expanding profits with these two segments at the core of our efforts.

In addition, as I mentioned earlier, regarding dividends, while basing ourselves on stable dividends, we plan to aim for a dividend payout ratio of 25% and will consider increasing dividends concurrently with the increase in profit, so we would like to encourage our shareholders and investors’ continued support for our company.

6. Conclusions

Due to the large-scale projects in the previous term, sales and profit dropped, but net income marked a record high, and the balance of operating assets, which is a revenue base, expanded steadily.

We would like to pay attention to how much they will exceed the estimated values for the mid-term plan, namely ordinary income of 10 billion yen and net income of 6.5 billion yen, this term, which is the final fiscal year of the mid-term plan.

<Reference1: Regarding Medium-term Plan 2017>

In the group vision, the company aims to achieve CSV-based management, in which business activities themselves create social value and also economic value for both society and the enterprise.

Based on this vision, the 10-year roadmap for actualizing CSV-based management is divided into three stages. As the first stage “Medium-term Plan 2014” has ended, the company formulated the “Medium-term Plan 2017.”

(1) Review of the Medium-term Plan 2014

During the period of the “Medium-term Plan 2014” under the theme of “redeveloping the base for core business and designing strategies for actualizing the vision,” the performance of lease & finance was sluggish, due to the fierce competition fueled by the extraordinary monetary easing, and numerical results did not reach the initial estimates. Nevertheless, the revenue of each business domain increased and new earning sources were secured, achieving the revised estimates in fiscal 2016.

		FY 3/15	FY 3/16	FY 3/17 (initial)	FY 3/17 (revised)
Ordinary Income	Goal in the medium-term plan	40	55	70	60
	Results	47	60	-	65
Net income	Goal in the medium-term plan	20	35	45	35
	Results	28	33	-	35

*Unit: 100 million yen

Each measure progressed steadily, and the redevelopment of the base for core business and the design of strategies for new business bore some fruit.

Business strategy	<ul style="list-style-type: none"> To cement the cooperation with the NEC Group inside and outside Japan To continuously increase the revenue from the RISA Business To fortify the customer base on each scale and in each region To diversify assets, including renewable energy-related equipment, aircraft, and buildings To design strategies for new business, to achieve CSV-based management
Financial foundation	<ul style="list-style-type: none"> The fund procurement base was strengthened, as CP increased and the procurement of funds, including foreign ones, was diversified.
Management foundation	<ul style="list-style-type: none"> The in-company system for promoting business diversification was developed and improved.

(2) Overview of the new Medium-term Plan 2017

This three-year period is recognized as “the period for ‘completing core business domains’ and ‘launching new business for actualizing the vision.’”

① Business Strategies

<Completion of core business domains>

The company will pursue the lease business that can earn additional revenue, and strive to establish “services” which utilize the company’s competitive advantage, while using the capabilities to combine a variety of services and inducing synergy inside and outside the company.

To develop and enhance strategic partnership with NEC	As cloud services are spreading, the company will promote the PFI/PPP* business while offering high value-added lease and financial services, including vendor finance and advanced proposals, in the public and private sectors, for the business of the NEC group. In addition, the company will create NEC-related business opportunities in its new business.
Expand customer base in our own sales channels	The company will enhance sales activities targeted at small to medium-sized enterprises through vendor finance and proposal-based promotion, to enrich its original customer base while fortifying the existing customer base, and boost its profitability.
Securing of sources for high profit growth	While proceeding with the collaborative projects with NEC outside Japan, the company will brush up its original business know-how and ability to foster partnership, to accelerate its global business. In addition, the company will offer competitive services in the promising field where expertise is required, and enhance sales promotion for financial corporations by utilizing RISA Partners’ network with local financial institutions.

* PPP (public-private partnership): a scheme for offering public services based on the collaboration between the public and private sectors. PFI is one of the representative methods for PPP.

<Launch of new businesses>

The company will engage in business activities for tackling social issues, such as local revitalization and the aging society.

To establish new business models for new businesses and develop new businesses without any investment and financing required	Considering the 4 fields: “energy,” “agriculture,” “healthcare,” and “tourism” as new business domains, the company will launch new business and secure future earning sources while utilizing the ICT technology and know-how of the NEC Group.
To operate the rental businesses of ICT/IoT, non-ICT commercial products	In addition to the LCM (Life Cycle Management) service regarding existing ICT devices, the company will conduct the rental business handling equipment for IoT and using big data, etc.

The company will implement business strategies in the following 5 fields.

Field of the NEC Group	<ul style="list-style-type: none"> To offer its unique high value-added services, including PFI, to the public and private sectors To create new collaborative business opportunities in new business
Global field	<ul style="list-style-type: none"> To finance large-scale projects and expand the NEC vendor finance of overseas affiliates To expand revenue opportunities by improving its unique business know-how and capability of fostering partnership
Business corporations field	<ul style="list-style-type: none"> To fortify the existing customer base, and improve vendor finance by increasing business partners To promote sales by giving proposals mainly to small or medium-sized enterprises, and offer products to them on a full-scale basis
Specialized field	<ul style="list-style-type: none"> To conduct and grow new business To enhance environment/energy-related business and strategic assets To upgrade the venture fund functions
Field of the NEC Group	<ul style="list-style-type: none"> To expand the investment, financing, and advisory business of RISA Partners To offer solutions for local vitalization based on the cooperation with local financial institutions

<Strategies for fortifying the management foundation>

The company will strengthen the management foundation that supports business strategies.

To develop a strong support system for the management and marketing fields
To further strengthen the compliance system, improve business quality and efficiency, and increase the risk control level for the execution of business strategies
To improve the management function for making appropriate decisions, including the sophistication of management accounting
To reform the human resources systems for improving the satisfaction level of employees

② Numerical goals

	FY 3/17 Results	FY 3/20 Plan	Increase/decrease
Ordinary Income	65	100	+35
Net Income	35	65	+30
ROA	0.8%	1.2%	+0.4%

*Unit: 100million yen

The company will produce good results by improving profitability, and increase profit steadily.

<Reference2: Regarding Corporate Governance>

◎ Organization type and the composition of directors and auditors

Organization type	Company with an audit and supervisory board
Directors	8 directors, including 4 outside ones
Auditors	4 auditors, including 3 outside ones

◎ Corporate Governance Report

Last update date: Jun. 28, 2018

<Reasons for Non-compliance with the Principles of the Corporate Governance Code (Excerpts)>

It is mentioned that “We follow all of the principles of the Corporate Governance Code.”

<Disclosure Based on the Principles of the Corporate Governance Code (Excerpts)>

Principles	Disclosure contents
<p>【 Principle 1-4 The so-called strategically held shares】</p>	<p>Our company may hold the shares of listed companies as strategically held shares, if we consider that it will contribute to the business growth of our corporate group, such as the increase of our business transactions and the strengthening of business tie-ups.</p> <p>For each stock, we specify the criteria for continuing strategic shareholding, and the board of directors checks the suitability of the criteria once a year.</p> <p>As a result of deliberation, the company decided to sell strategically held shares timely according to share prices and market trends, if they do not satisfy the criteria for continuing strategic shareholding.</p> <p>When exercising the voting rights of strategically held shares, we make a judgment for each bill while considering whether or not it would contribute to the business development of our corporate group.</p>
<p>【Principle 5-1 Policy for constructive dialogue with shareholders】</p>	<ul style="list-style-type: none"> •Policy for constructive dialogue with shareholders <p>Our company appoints executives in charge of IR, defines the communication division as the one in charge of IR, and executes, summarizes, and improves various IR activities.</p> •Organic cooperation among the IR division and other divisions <p>The communication division strives to foster organic cooperation with the management planning, accounting, financial, and legal affairs divisions by sharing the information related to IR.</p> •Enrichment of means for dialogue <p>The communication division has individual meetings with shareholders and investors and deal with their inquiries, and the representative director directly gives explanations to shareholders, investors, and analysts at results briefing sessions, etc. In addition, we proactively use a comprehensive report in explanatory material for the purpose of promoting dialogue from the medium or long-term viewpoint.</p> •Feedback to the management <p>The information on IR activities, feedback, etc. is reported at a meeting of the board of directors to share information once a quarter.</p> •Insider information management <p>We will not offer any insider information when dialoging with shareholders, investors, and analysts.</p>

BRIDGE REPORT



	In addition, we enacted the regulations for preventing insider trading, to control information thoroughly.
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