FPG Consolidated Financial Results

First Half of the Fiscal Year Ending September 30, 2019 (October 1, 2018 – March 31, 2019)

Financial Products Group Co., Ltd.

(Tokyo Stock Exchange First Section Code: 7148)



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Summary



Performance Highlights

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- ◆Recovered equity placement in the 2nd Quarter sharply from the previous quarter. Continuing to expand Diversified Business steadily
- ◆Recorded highest ever of assets arranged by reaching 384.7 billion yen in the first half. Revised upward the amount of assets arranged, increasing by 30.0 billion yen from the previous full-year forecast
- ◆Secured abundant inventory to achieve full-year targets for both net sales and profit

(JPY billions)

	FY2018 1H		FY2019 1H			FY2019 Full-year forecast	Progress rate
		% of Net sales		% of Net sales	Y on Y Change		
Net sales	11.02	100.0%	11.25	100.0%	+2.0%	25.03	44.9%
Lease Arrangement Business	9.64	87.5%	9.68	86.1%	+0.4%	21.13	45.8%
Diversified Business	1.37	12.5%	1.56	13.9%	+13.7%	3.90	40.1%
Gross profit	9.35	84.9%	9.22	82.0%	▲1.4%	-	-
SG&A cost	2.80	25.5%	3.04	27.0%	+8.3%	-	-
Operating income	6.55	59.4%	6.18	54.9%	▲5.6%	14.52	42.6%
Ordinary income	6.26	56.8%	5.67	50.4%	▲9.4%	14.45	39.3%
Profit attributable to owners of parent	4.35	39.5%	3.93	34.9%	▲9.7%	10.03	39.2%
Total amount of equity placement in operating leases	76.11	-	71.02	-	▲6.7%	166.50	42.7%
Total amount of assets arranged in operating leases	203.00	-	384.73	-	+89.5%	450.00	85.5%

Lease Arrangement Business (1) Outline

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◆Achieved record high of equity placement in the 2Q on a quarterly basis (refer to page 8)

◆Recorded highest ever reached 384.7 billion yen by increasing in the amount of assets arranged in the first half by 89.5% Year-on-Year

◆Secured certain level of inventory for selling after next fiscal year due to the favorable result for arrangement

(JPY billions)

		FY2018 1H		FY2019 1H		Y on Y Change
Lease Arrangement Business Net sales		9.64		9.68		+0.4%
Total amount of equity placement in operating leases		76.11	Component Ratio	71.02	Component Ratio	▲6.7%
	Aircraft	55.85	73.4%	32.56	45.8%	▲41.7%
	Ships	7.76	10.2%	31.51	44.4%	+305.9%
	Marine containers	12.50	16.4%	6.95	9.8%	▲44.3%
Fee on equity (Sales/Equity placement)※1		15.0%		15.6%		-
Total amount of assets arranged in operating leases		203.00		384.73		+89.5%
Inventory amount in operating leases※2		39.39		130.98		+232.5%

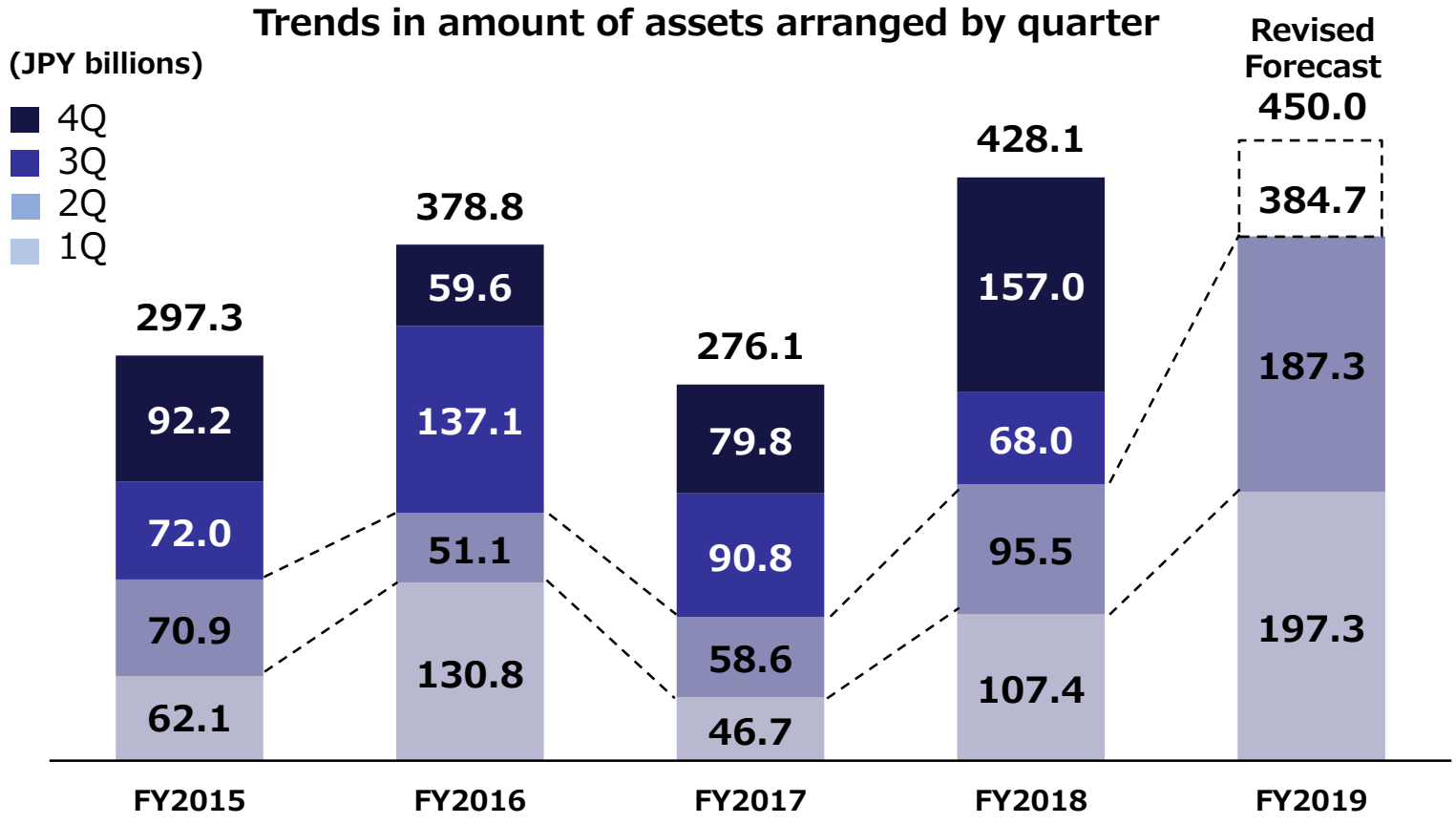
※1 Equity placements for full equity projects converted at 34%

※2 Total for equity underwritten and money in trust (aircraft assets)

Lease Arrangement Business (2)
Trends in amount of assets arranged by quarter

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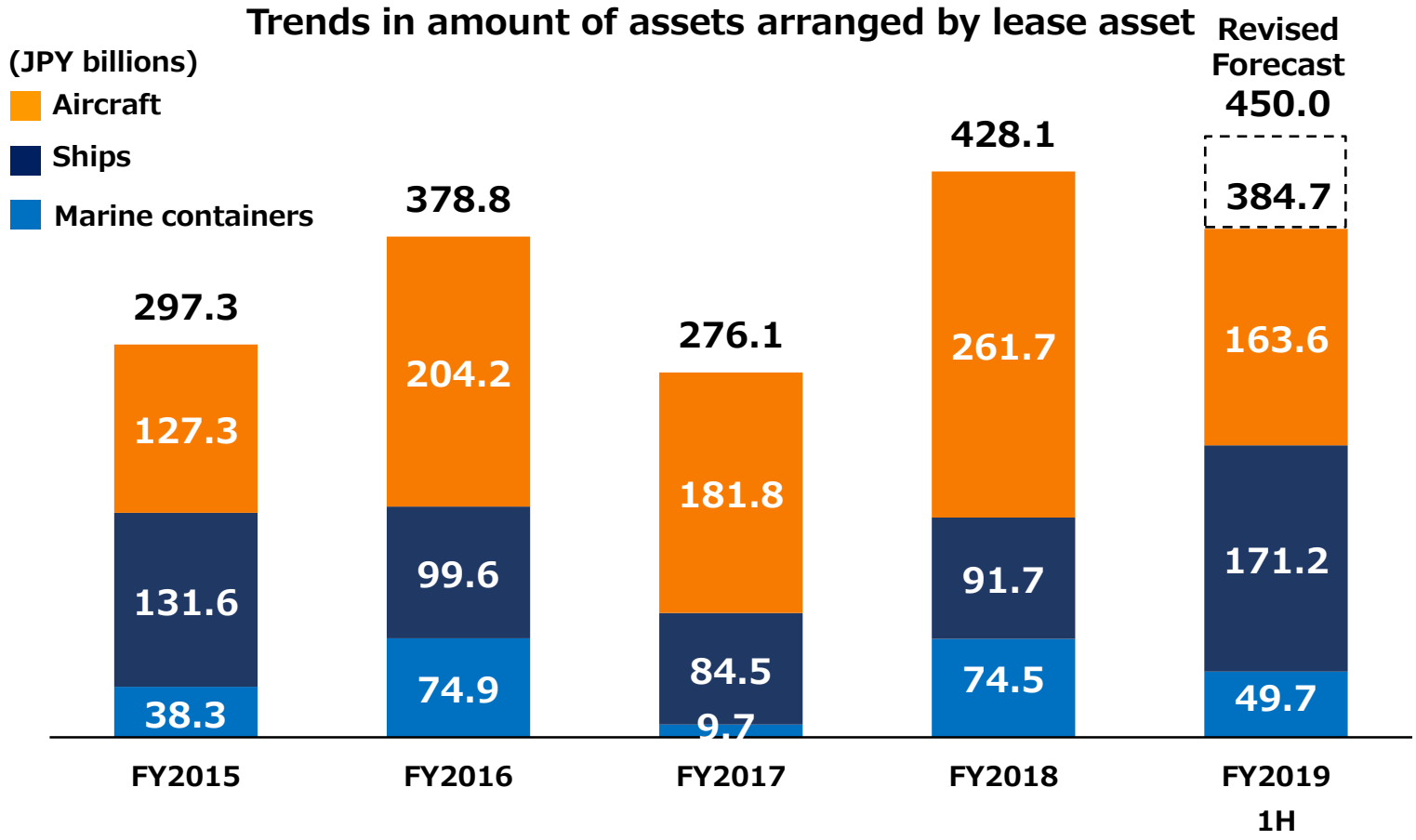
- ◆Extremely solid growth as the amount of assets arranged continued to be over 150 billion yen on a quarterly basis for three consecutive quarters from the 4th Quarter of FY 2018
- ◆Revised upward the full-year forecast amount of assets arranged from 420.0 billion yen to 450.0 billion yen due to the favorable situation of arrangement



Lease Arrangement Business (3)
Trends in amount of assets arranged by lease asset

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- Aircraft: Expanded the range of lessees by gaining 4 new lessees
- Ships: Recorded highest ever of the amount of assets arranged by earning large series deals from existing lessees
- Marine containers: Gained a new lessee



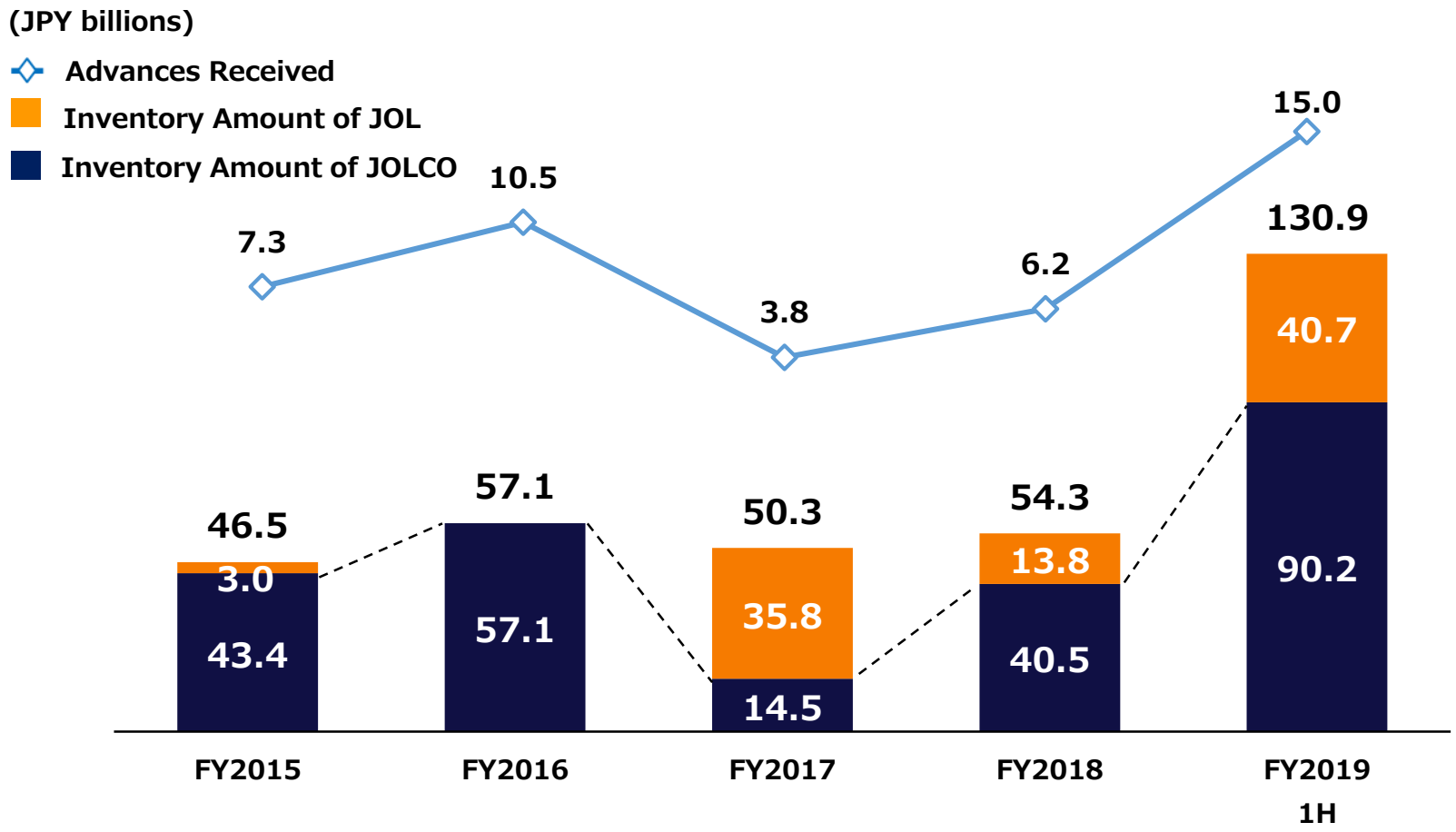
Lease Arrangement Business (4) Product Inventory

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◆Secured abundant inventory for reaching the full-year forecast

- Increased significantly advances received which are transferred to net sales in the future
- Secured abundant inventory in both JOLCO and JOL for selling after next fiscal year

Trends in inventory amount and advances received

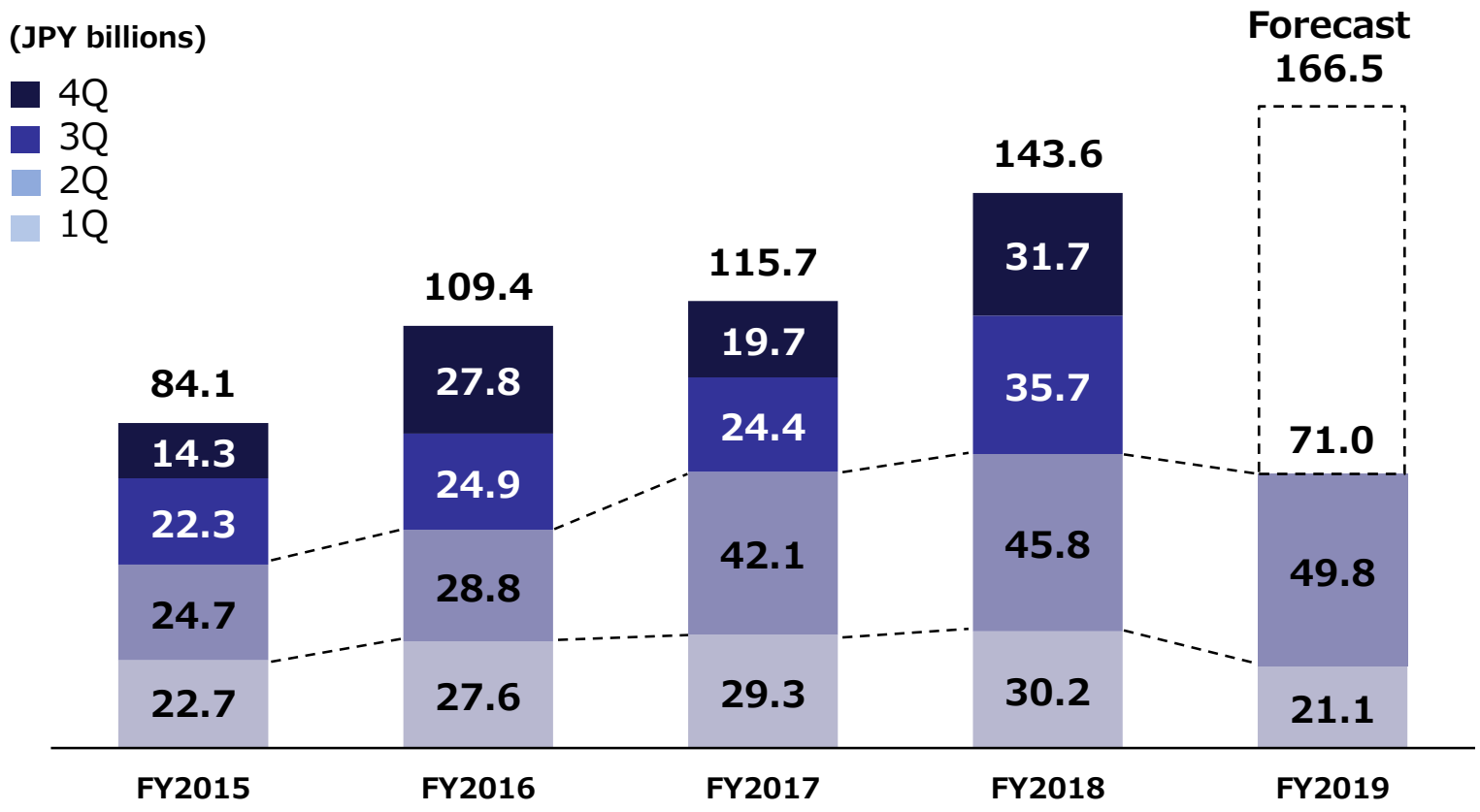


Lease Arrangement Business (5) Equity Placements

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- ◆Achieved highest ever of equity placements on a quarterly basis
- ◆Recovering equity placement sharply due to the favorable result for arrangements, aiming to keep this favorable sales level

Trends in equity placements by quarter



Lease Arrangement Business (6) JOL Results

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◆Aim to be the industry's No. 1 player even in JOL business as we are the No. 1 in JOLCO

- Arranged 8 aircraft in the 2Q, 10 aircraft in total of the first half
- Sold 3 aircraft in the 2Q, 4 aircraft in total of the first half
- Succeeded in gaining a new lessee in the USA by developing a new scheme using beneficiary trust rights

● Arrangement and Sales transition for JOL

Fiscal year	FY2015	FY2016	FY2017	FY2018	FY2019 1H
Number of aircraft arranged	4	3	15	4	10
Number of aircraft sold	2	5	4	12	4
Of which trust beneficiary rights system	-	-	(2)	(7)	(3)

(Reference) JOLCO vs. JOL

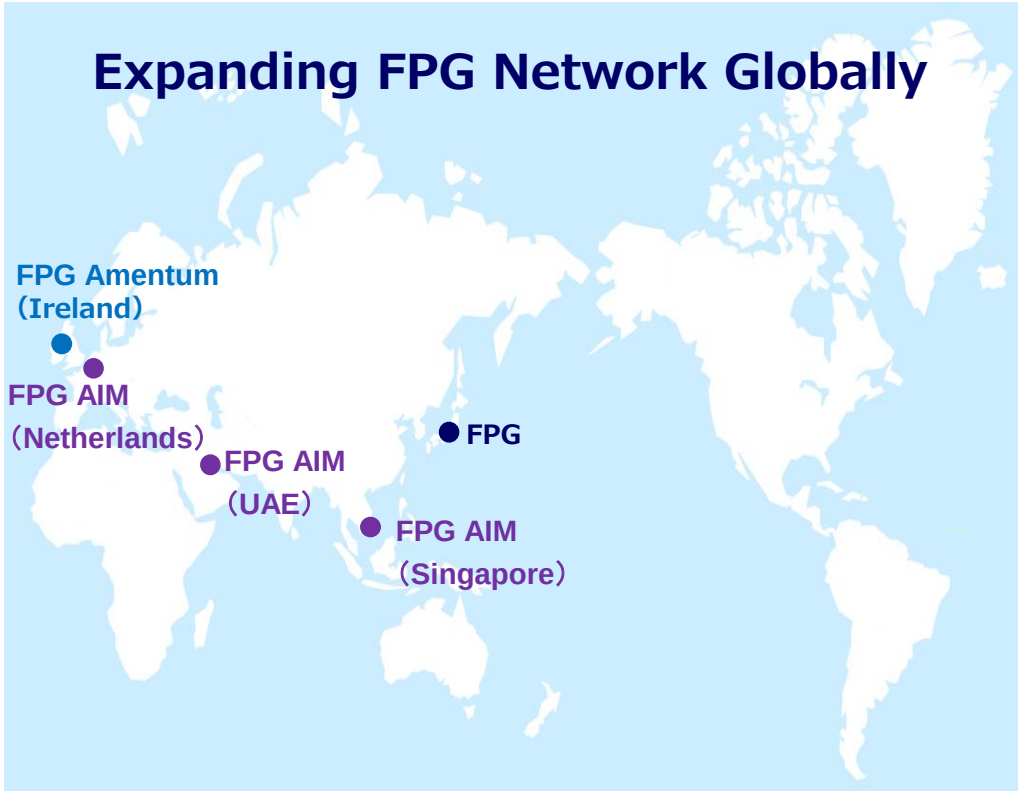
JOLCO
- ・Transaction with call option of the Lessee to purchase the leased assets at fixed price at end of lease period
- ・Selling equity in the SPC by small lot
- ・JOLCOs account for approximately 80% of equity placement (FY 2018 Act.)

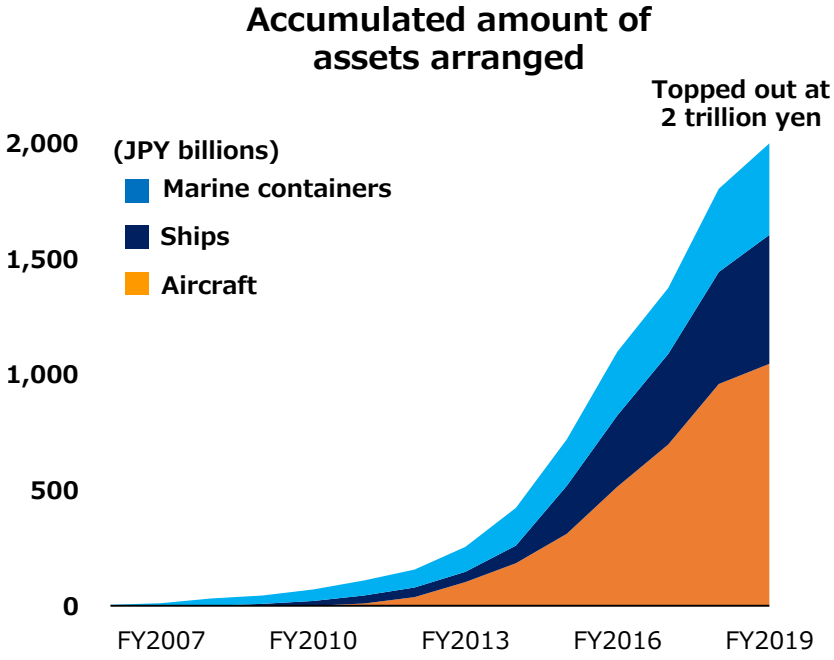
JOL
- ・Transaction without call option to purchase the leased assets at fixed price at end of lease period
- ・JOLs are basically sold to a major single investor

Lease Arrangement Business (7)
Expansion of Assets Arranged

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- ◆Developing new lessees globally by strengthening collaboration with overseas affiliates. Expanding target area for arrangement from Europe to Middle East, Asia, Oceania, North America and South America
- ◆Gained many arrangements for JOLCO and JOL largely through over-the-counter deals with not so much competition
- ◆Surpassed 1 trillion yen the accumulated amount of aircraft arranged, and topped out at 2 trillion yen the accumulated amount of assets arranged





※ Accumulated amount of assets arranged from FY2006

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Diversified Businesses

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◆Increased total net sales for core 3 businesses by 43.1% year-on-year

- In the Insurance Business, grew year-on-year due to the favorable result for life insurance for companies
- In the Real Estate Business, expansion of targeted area and property drove expansion both net sales and the base of investors
- In the M&A Business, continuing actions for improving our name value and publicity even further. Forecasting to increase in closing projects from the second half

Sales of Diversified Businesses※1

(JPY millions)

	FY2018 1H	% of Net Sales	FY2019 1H	% of Net Sales	Y on Y Change
Consolidated Net sales	11,028	100.0%	11,253	100.0%	+2.0%
Core 3 Businesses Total	905	8.2%	1,294	11.5%	+43.1%
Insurance Business	478		762		+59.4%
Real Estate Business	414		499		+20.5%
M&A Business	12		32		+164.1%
Investment and Maintenance Service, etc.※2	473	4.3%	273	2.4%	▲42.4%
Total	1,378	12.5%	1,567	13.9%	+13.7%

※1 Diversified Businesses refers to businesses other than our main business, which is Lease Arrangement Business
※2 Investment and Maintenance Service, etc. refers to investment and maintenance service of the overseas affiliates and domestic affiliates, include FPG Securities and FPG Trust etc.

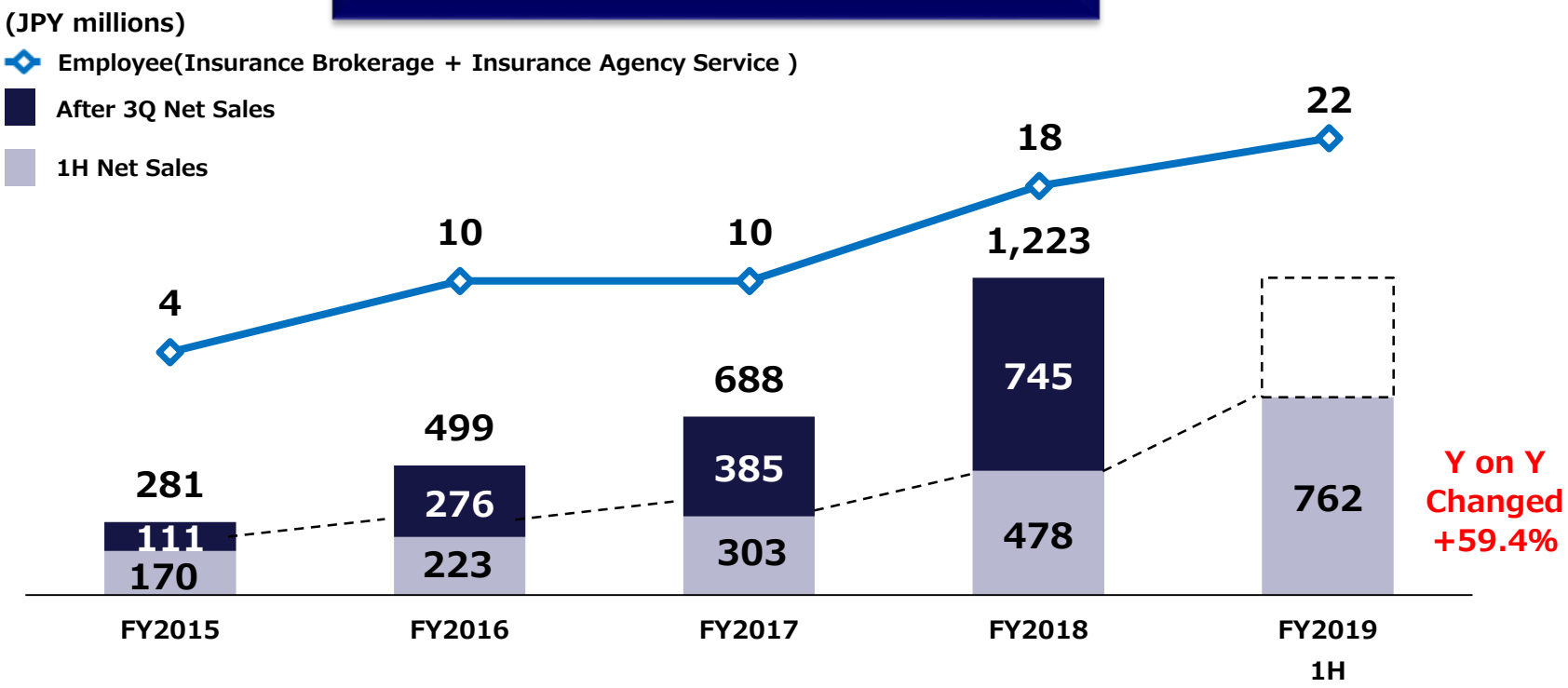
Trend in Insurance Business

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◆Despite the impact on the suspension of some life insurance products for companies since February, net sales grew sharply year-on-year

◆Aim to ensure net sales focus on selling insurance with high compensation after the 3rd quarter

Sales in Insurance Business ※

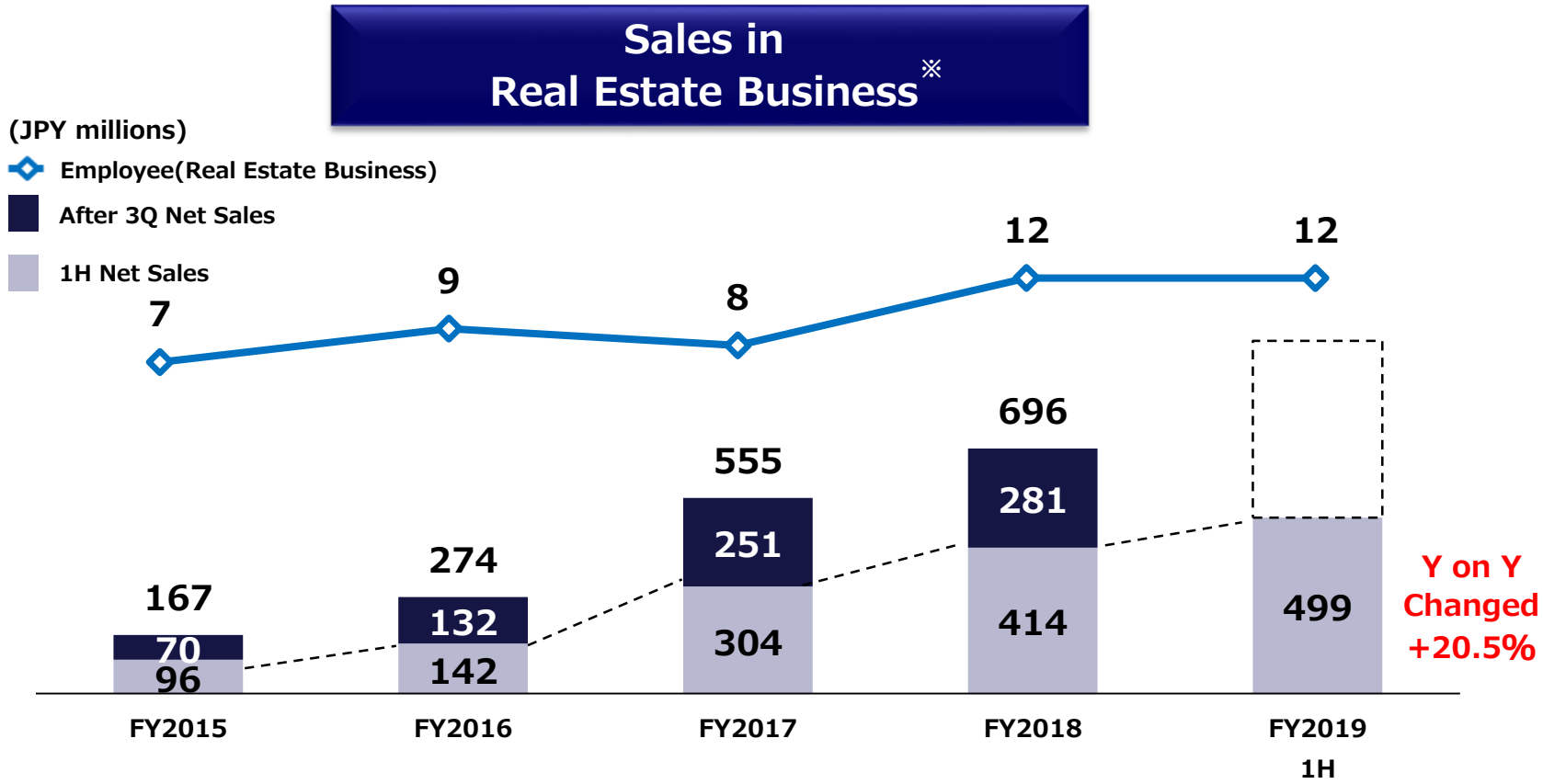


※Commission fees (Total sales of Insurance Broker and Insurance Agency Service)

Real Estate Business(1): Trend

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◆Achieved the highest ever sales in the first half due to early sale of the hotel real estate in Kyoto and steady expansion of the base of investors



※Only commission fees from origination and sales of small-lot real estate products are recorded to net sales

Real Estate Business(2): Origination Track Record

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◆Expanded target real estate from prime districts of central Tokyo to hotel real estate. The first hotel real estate sold out early

◆Gained new hotel real estate located Kyobashi (Yaesu) in Chuo-ku, Tokyo



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Sold out early the first hotel real estate in Kyoto



F P G Hotel Owners Kyoto (THE HEDISTAR HOTEL Kyoto Nijo)

Sold out the hotel real estate in Nakagyo-ku, Kyoto in about two months from application start

⇒ Succeeded in developing investors in West Japan area

New acquisition of hotel real estate in Kyobashi, Tokyo



First Cabin Kyobashi

As the second “Hotel Owners” series, signed sales contract for hotel real estate located Kyobashi (Yaesu) in Chuo-ku, Tokyo where further increases in inbound demand will be anticipated in August 2019

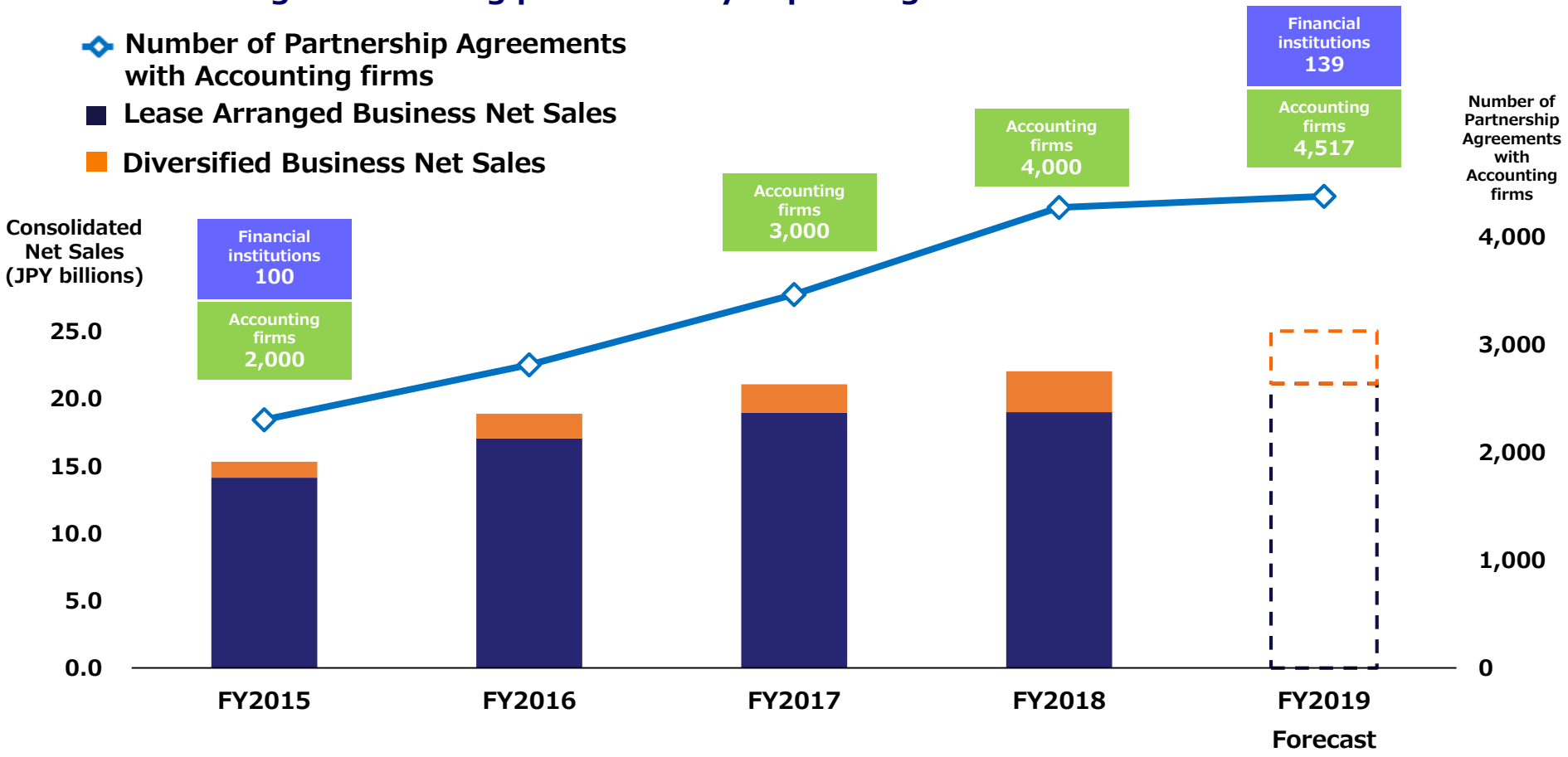
Distribution Network

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◆The number of partnerships with accounting firms reached 4,517 (increase of 245 year-on-year)

◆The number of partnerships with financial institutions has reached 139, covering almost all regional banks around the country and major securities companies

■Reinforcing cross-selling promotion by expanding the network



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Appendix



Income Statement Summary

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(JPY billions)

	FY2018 1H	FY2019 1H	Y on Y Change
Net sales	11.02	11.25	+2.0%
①Cost of sales	1.66	2.02	+21.6%
Gross profit	9.35	9.22	▲1.4%
SG&A cost	2.80	3.04	+8.3%
Operating income	6.55	6.18	▲5.6%
②Non-operating income	0.61	0.66	+9.0%
③Non-operating expenses	0.90	1.17	+30.4%
Ordinary income	6.26	5.67	▲9.4%
Income before income taxes	6.25	5.63	▲9.8%
Total income taxes	1.82	1.71	▲5.7%
Profit attributable to owners of parent	4.35	3.93	▲9.7%

①Cost of sales: Includes commission fees paid for client introductions and arrangement costs for Lease Arrangement Business
②Non-operating income: Includes interest that we collect from investors when we sell equity to them in Lease Arrangement Business
③Non-operating expenses: Includes interest paid on commission fees and interest expenses related to fund-procurement (USD as well as JPY)

Balance Sheet Summary

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(JPY billions)

Asset	FY2018 Sep.30, 2018	FY2019 Mar.31, 2019	Change
Current assets	80.64	160.80	+80.15
①Equity underwritten	40.50	101.27	+60.76
②Money in trust	13.87	29.71	+15.83
③Real estate for arrangement	7.22	7.21	+0.00
Non-current assets	4.49	5.81	+1.31
Total assets	85.14	166.61	+81.47

Liabilities	FY2018 Sep.30, 2018	FY2019 Mar.31, 2019	Change
Current liabilities	47.39	129.16	+81.76
Short-term debt	32.72	105.35	+72.62
④Advances received	6.23	15.07	+8.83
Non-current liabilities	7.99	10.48	+2.48
Long-term debt	7.76	10.24	+2.48
Total liabilities	55.39	139.64	+84.25
Total net assets	29.74	26.96	▲2.78
Total liabilities and net assets	85.14	166.61	+81.47

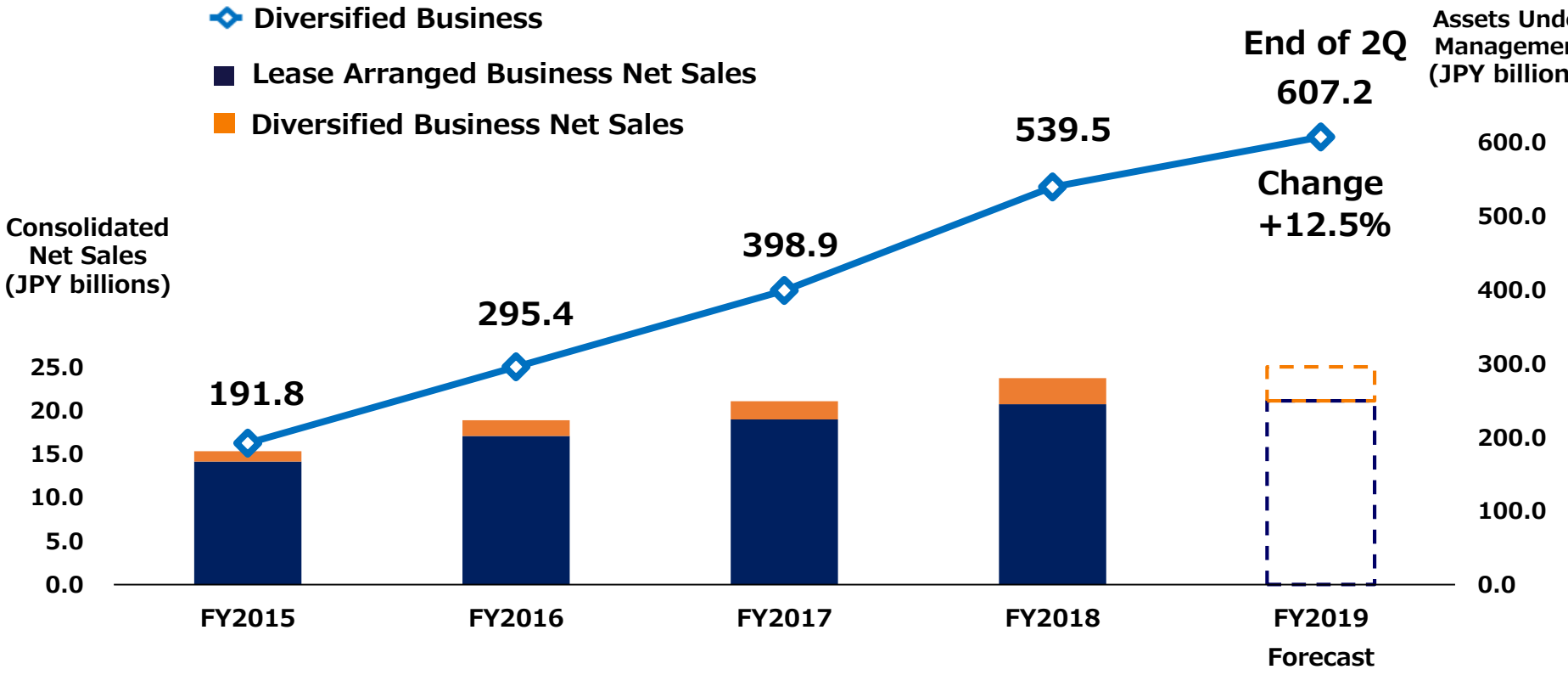
①Equity underwritten : Temporary advances in Lease Arrangement Business prior to selling to equity investors
②Money in trust : Temporary stock of trust beneficiary right of operating lease for aircraft using a trust function
③Real estate for arrangement : Stock of small-lot real estate investment products and development project
④Advances received : Including advances of commission fees related to Lease Arrangement Business

Topics(1)
Assets Under Management Exceed 600 Billion Yen

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◆Aim to top out at 1 trillion yen assets under management as the medium-term management strategy

- ■Increased in assets under management by 12.5% Year-on-Year, due to the favorable result for equity placement in the Lease Arrangement Business
- ■Growing net sales proportionally with the volume of assets under management, planning to expand business even further



※The Assets sold to our investors related to the Lease Arrangement Business and Real Estate Business

Topics(2)

Regarding the Impact on Change of the Accounting Method of Operating Lease Transactions

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◆In the future, even if the accounting method of operating lease transactions is changed under Japanese accounting standards, as with the application of IFRS 16, the impact on the company's business results related to the Lease Arrangement Business is limited

IFRS Accounting Standard （reference）

	Lessees (Borrowers) 【Airlines /Shipping companies	Lessors (Lender) 【FPG/Equity Investors】
IFRS 16※	■ Lessees are companies subject to IFRS →Lease transaction is recognized on balance sheet	■ No material impact

※Effective fiscal year starting after January 1, 2019

●Benefits for lessees of the operating lease remain the same

■ Although companies using IFRS need to recognize both borrowings from the bank and operation leases on their balance sheets, by using an operating lease, they enjoy 100% financing with lower cost of funds than with bank financing

Topics(3)
Regarding the Impact on the Accident of Boeing 737 MAX series

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◆No impact on FPG Lease Arrangement Business

◆Our policy of Lease Arrangement Business

- Execute only projects for which a lease transaction to a high-quality lessee has been finalized
- Do not execute projects for direct purchase from a maker involving speculative risk, which a lease transaction has not been finalized
- Diversify leased assets among aircraft, vessels and containers, with limited impact on assets arrangement

◆Lease contract with lessees

- Regardless of the operating situation of the same type of aircraft, the contract states that the lease fee is paid, so FPG can gain the lease fee while holding it in inventory

Increasing Corporate Value (1)

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◆ **Aim to increase corporate value through sustainable quality growth strategy and shareholder return policy**

Quality Growth Strategy + **Shareholder return policy**

Growth accompanied by high profitability and efficiency

- Continue self-transformation by utilizing our strengths
- Grow sustainably through 3 engines: Lease Arrangements Business, Diversified Businesses, and New Businesses
- Increase our market share through product value and sales capabilities
- Operate with small assets

Introduce DOE※ (Dividend on Equity ratio) target as a indicator

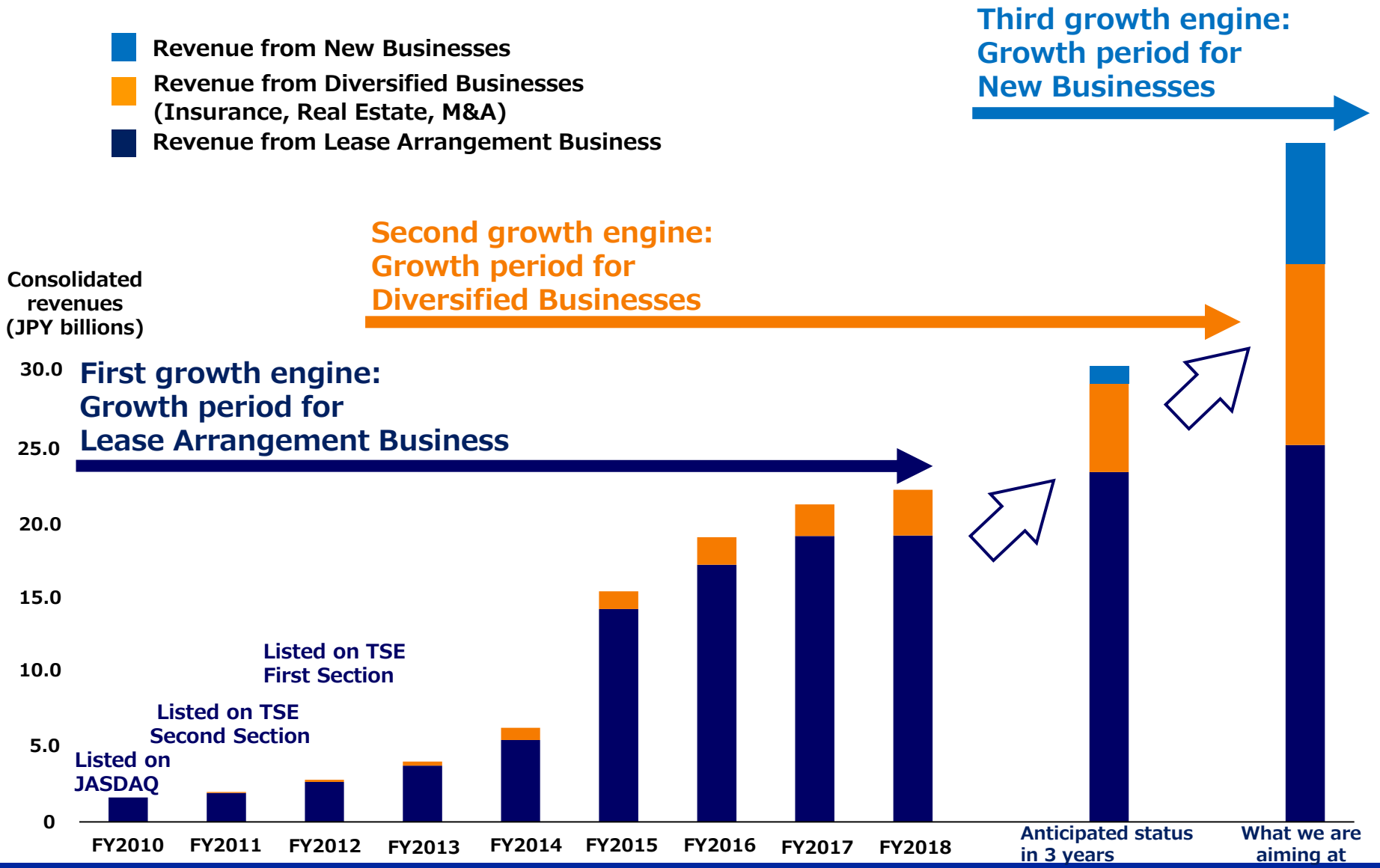
- Aim for DOE of 15% or above by adopting a capital policy including share buybacks, and by a dividend policy
- Maintain ROE of around 30%

※ DOE (Dividend on Equity ratio) = ROE x consolidated dividend payout ratio

Increasing Corporate Value (2)Quality Growth Strategy

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◆ Grow sustainably through 3 engines



Increasing Corporate Value (3)Shareholder Return Policy

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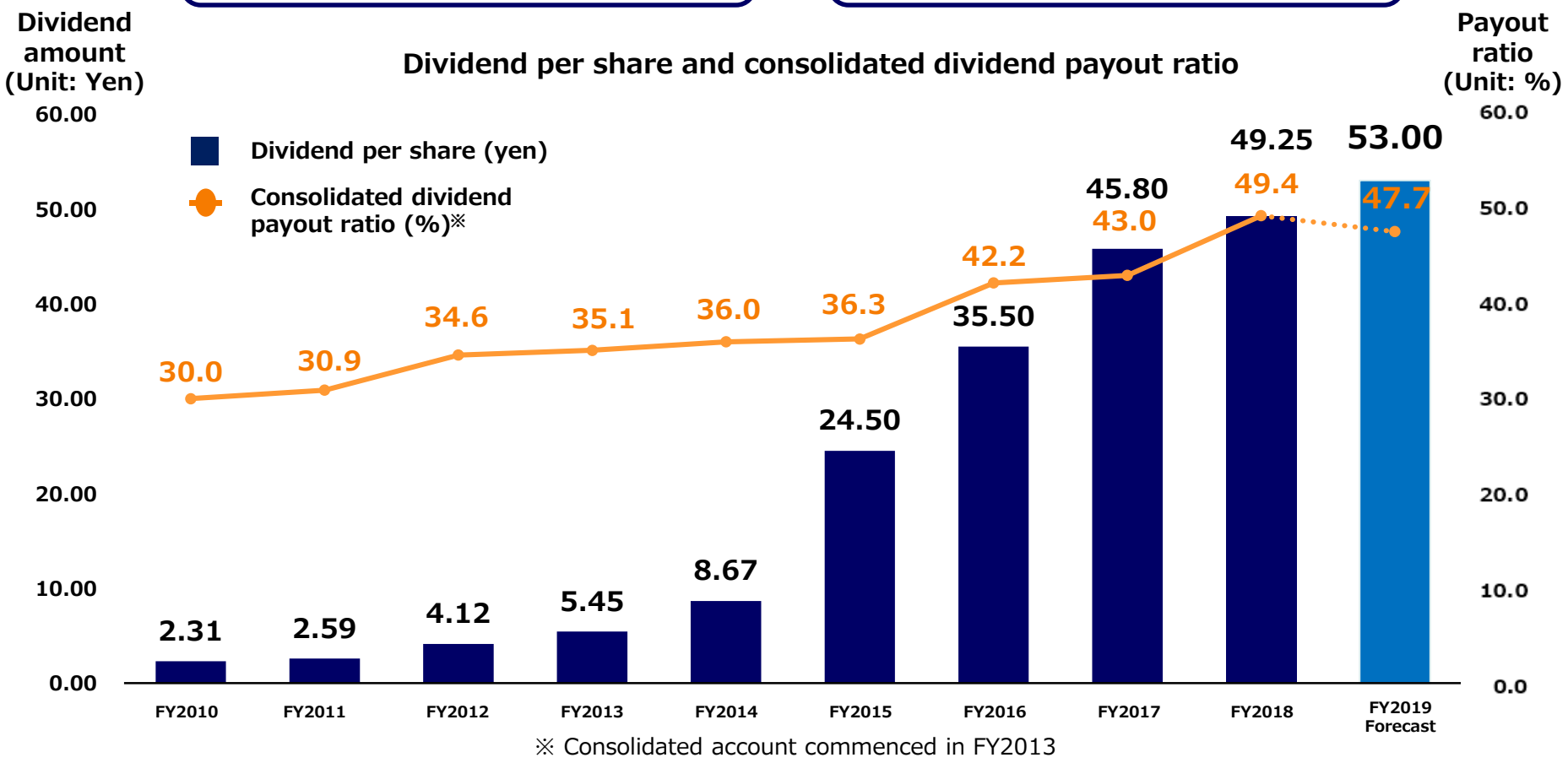
◆ Aim for sustainable increase in dividends in medium term by increasing corporate value through Quality Growth Strategy

FY2018

Dividend per share: 49.25 yen
Consolidated dividend payout ratio: 49.4%

FY2019 Forecast

Dividend per share: 53.00 yen
Consolidated dividend payout ratio: 47.7%



※ Consolidated account commenced in FY2013

Disclaimer

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Projected results described in these presentation slides are based on the information available to the Company at the time of preparing, as well as certain assumptions judged by the Company to be reasonable, and, therefore, actual results could be different from these projections because of various risks and uncertain factors

【Inquiry】

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