Presentation

Moderator: Hello, everyone, thank you for your patience. VT Holdings Co., Ltd. will now hold a briefing session on the financial results for the fiscal year ended March 31, 2024. Thank you very much for participating today out of your busy schedule.

This presentation will be followed by a question-and-answer session. Questions can be submitted even in the middle of the explanation, so please send them via text from the "Ask a Question" box on the screen. The attendee will later answer your submitted questions during the Q&A session.

Please note that due to time restrictions, it may be difficult to answer all questions. We ask for your understanding in advance. The briefing is scheduled to end at 17:00. After the event, a questionnaire screen will appear, and we would appreciate your cooperation in answering the questions.

I would like to introduce today's attendees. Mr. Kazuho Takahashi, President & CEO.

Takahashi: This is Takahashi. Thank you.

Moderator: Mr. Ichiro Yamauchi, Managing Director, Chief Financial Officer.

Yamauchi: My name is Yamauchi. Thank you.

Moderator: I would like to begin now. President Takahashi, please go ahead.

Takahashi: I will now explain the financial results of VT Holdings, Co., Ltd. for the fiscal year ended March 31, 2024.

Revenues were able to reach a record high with a 17% increase over the previous year. In the automobile sales related business, new car sales performed steadily as production of automobile manufacturers has been recovering thanks to the easing semiconductor and parts shortages. However, although there is a recovery trend, it is not 100% back to the pre-COVID-19 situation, but it is returning to a fairly normal state.

In the housing-related business, we were able to consolidate the figures of a house sales company, Kawasaki Housing, which became a consolidated subsidiary in October 2022, to our results, and the business as a whole performed well in terms of sales, despite the effects of soaring land and material prices.

The negative goodwill of approximately JPY1.83 billion recorded in the previous fiscal year, which was associated with the consolidation of the company as a subsidiary, was lost in the current fiscal year, which was a factor in the decrease in profit. However, in terms of actual operations, excluding this negative goodwill, we have seen an increase in both sales and profits.

Operating profit, profit before tax and net profit attributable to owners of the parent company have decreased, as I mentioned earlier.

As you can see from the graph, the number of sales has been increasing steadily, and this is due to various factors, including our acquisition of companies through M&A. If we only had existing stores, they would have been affected by the economy and would have fluctuated. However, we have been actively pursuing M&A, which has led to a steady increase. This is the first time that sales have exceeded JPY300 billion this fiscal year, as you can see in these figures.

The graph shows transition in consolidated operating results excluding unordinary factors, such as equity-method affiliates and negative goodwill.

As for the revenue by segment for the fiscal year ended March 31, 2024, all items performed better than the previous fiscal year. This includes new car sales, used car sales, commissions, and services.

Gross profit by segment was down slightly for used cars but increased in all other categories. As for used cars, there was a shortage of new cars as well, but there was also a shortage of used cars, so the number of units decreased slightly, and we were somewhat affected by the fact that the market price for used cars fluctuated significantly.

This shows revenue by region. The blue area shows domestic sales, and the red area shows overseas sales in Australia, Spain, the U.K., and South Africa. Both are at record highs.

The sales volume for the fiscal year ended March 31, 2024, was not the highest ever, but was down a little. The biggest factor is that while new vehicles are almost on an upward trend, trade-ins for used vehicles have decreased slightly, or rather, the prices of used cars have risen sharply, so I think that this has led to some outflow of sales.

This is the number of new and used cars sold nationwide, and not just in our company, but nationwide. Sales of both new and used cars have risen slightly over the past two or three years, but overall, they are gradually declining.

This is because the elderly population is increasing rapidly. In our industry, the majority of buyers are in their 60s, and sales to this age group are declining the most. There is also the fact that younger people don't drive cars, but overall, the situation is a bit sluggish. Similarly, the total number of used cars is also decreasing.

On the other hand, the number of new cars is decreasing, but the number of cars owned is not decreasing, and has been increasing steadily for decades.

I think this is because the number of people who hold on to their cars for the long term has increased, but also because the aging of the population means that people cannot go to a convenience store without a car, and more than one in two people have a car. This trend is expected to continue for some time, although the graph will probably flatten out.

As for the consolidated B/S for the fiscal year ended March 31, there was a slight increase in current assets, and generally both current assets and current liabilities have increased.

As for real interest-bearing debt, there is an increase in inventory assets, and the rental car business is still growing as there are still gaps in the business, and real interest-bearing debt is increasing. Compared to the previous year, Long-term and short-term borrowings combined increased by about JPY10.2 billion, and lease liabilities increased by JPY12.9 billion.

Looking at consolidated cash flow, expenditures have seen an increase in the acquisition of tangible fixed assets and inventory.

Regarding our full-year business forecast for this fiscal year, we are anticipating sales of approximately JPY330 billion, the highest figure ever. This is a conservative figure, and I personally think it will be a bit more, but we are putting it at JPY330 billion as a plan.

Operating profit is expected to be JPY13 billion, profit before tax will be JPY12.2 billion, and net profit will be JPY7 billion, so all areas except pre-tax profit are expected to be record highs.

We operate as dealers overseas in various countries, including the UK, Spain, Australia and South Africa. As our business is affected by exchange rates to a certain extent, we do have expected exchange rates listed.

However, there are offsets. When we take in profits from overseas, we are naturally affected by exchange rates, but we also have import businesses, so it's not like this has a total effect.

This is a graph of sales revenue and operating profit since the company was listed on the stock exchange, and although there were times when sales dropped during the time of COVID-19, they have been steadily rising.

As for our dividend policy, we plan to pay the dividends of JPY24 per share, with the interim dividend of JPY12 and the year-end dividend of JPY12, which is the same amount as in the previous fiscal year, and may increase if we can add more profit, but we are conscious of returning profits to shareholders in this way.

[END]

Question & Answer

Moderator [M]: Thank you. Now is the time for questions and answers.

If you have any questions, please send them by text using the "Ask a Question" box on the screen. We will read the questions here on your behalf and company attendees will respond to them. Please ask questions now.

Questioner [Q]: First question. Please tell me about the factors behind the downward revision and the reasons for the impairment loss in the automobile sales related business. Thank you.

Takahashi [A]: Regarding the downward revision, negative goodwill from Kawasaki Housing was included in the previous period, so in actual terms business is on an upward trend.

The audit firm has various policies regarding impairment of assets, but we have a BMW dealer company called Motoren Mikawa, and our accounting policy is to write off fixed assets if they are in operating loss for two years on a store-by-store basis. In accordance with this, fixed assets and goodwill of the relevant stores were impaired.

However, Motoren Mikawa itself has always been profitable, but each store has its own impairment, and there are stores in areas where they are needed in conjunction with the OEM policy, but I would not say that they are always in the red, but there are some stores that cannot easily make a profit.

However, there are circumstances that make it impossible for us to close the stores, and out of the total of about 170 stores nationwide, four stores have been in the red for two consecutive years, so we have written down.

Also, the goodwill of Caterham, a British manufacturer with a history of about 50 years, has been impaired due to past losses. We have also sent various people to improve this area, and we plan to resolve this issue as soon as possible. The total impairment losses due to the two companies is approximately JPY1 billion.

Yamauchi [A]: The forecast did not originally factor in the impairment, so the impairment resulted in a decrease in profit compared to the forecast.

Questioner [Q]: Thank you. Now for the next question.

You mentioned that you have been conservative in some forecast this fiscal year, but can you tell us what the factors are on the upside? I think there are positive factors, such as eliminating the long delivery times for new cars. Thank you.

Takahashi [A]: That is certainly true. Under normal circumstances, the backorders for cars at the end of March would usually be around 1,000 units. The highest number was last year, and we have started this fiscal year with a backlog of nearly 9,000 units. If manufacturers speed up their delivery times, this will be resolved, and I think that by the end of next fiscal year, the number will probably settle down to around 1,000 units.

There are many factors behind this. A while ago there was a manufacturer in Ukraine that made quite a bit of wiring harnesses, and car manufactures could not manufacture cars because the wiring harnesses from there were not coming. Also, when it comes to foreign cars, they had to be brought in by ship from the Americas because it was dangerous to pass near Russia, and this and other reasons caused delays in delivery dates.

I don't know how long the manufacturing-related issues will last, but delivery times for parts have been shortening considerably, so I think the current fiscal year will see a slight improvement over the previous fiscal year. It may take a little longer to return to normal, but we expect it to be better than the previous fiscal.

Questioner [Q]: Thank you. Now for the next question.

There were no M&As in the last fiscal year, but could you please explain the current M&A environment? Thank you.

Takahashi [A]: Regarding M&A, right now in the car industry, especially in Japan, there are no more blank spots in every corner of the country, and there is almost no factor for any manufacturer to open a new store anywhere, so in the end, if we want to grow, we have to buy from somewhere.

In terms of the situation on the seller's side, there are mostly two reasons. One is that there is no successor, and ones falling into the red are selling their businesses or asking for support.

It depends on the other party, so it would be quite rude to ask if they would like to sell to us, and it's not something we can do proactively unless they ask first.

For example, overseas, the situation is a little different. People seem to be willing to sell at any time if the price is high, and when you ask them what they plan to do with the money from the sale, they'll say things like, "I'm going to buy a yacht and go around the world." There are a lot of people like that overseas.

In Japan, there isn't really a mentality of taking over the family business, selling it, having fun and living off it, so it's quite difficult in Japan.

It may seem like I'm taking pleasure in other people's misfortune, but for us, as a company engaged in M&A, a bad economy actually gives us more opportunities for growth.

However, although our business is a little worse in a recession, we do not necessarily go into the red, so in terms of M&A, we are better off in a recession.

Questioner [Q]: Thank you. Now for the next question.

What is the status of sales of EV-only brands? You operate BYD in Japan and Chery Automobile overseas, but does the ease of sales vary depending on the region? In Japan, in addition to Nissan, Honda will be selling an EV model of the N-VAN, but what are the prospects? Thank you.

Takahashi [A]: It is still too early to predict what will happen with Honda's EV model, but for example, Nissan has a minicar EV, which is selling quite well.

The biggest problem is that many people charge their cars overnight after getting home, but this practice has not been widely adopted, and there are not many public chargers available, so I think this is the area where the sales of those cars would struggle the most.

In Japan, many people park their cars in multi-story parking garages because of the lack of land, but there are no chargers in multi-story parking garages, so unless such infrastructure is put in place to some extent, I do not think the market will grow that much.

Questioner [Q]: Thank you. Now for the next question.

You mentioned impairment losses as a factor in the downward revision, but why operating profit was also revised downward. Thank you.

Yamauchi [A]: We use IFRS for accounting, and under IFRS all impairment losses are deducted from operating profit, so I would appreciate your understanding that this is the reason.

Questioner [Q]: Thank you. Now for the next question.

In your previous explanation, you mentioned that you would consider temporarily increasing the dividend payout ratio in the absence of major M&A. Could you please tell us again about your future policy on returns? Thank you.

Takahashi [A]: In the past, we have had some rather large M&As, but that has not resulted in the Company lowering or stopping dividends, so dividends have never decreased and have actually been steadily increasing. There have been cases where dividends have remained the same, but I don't think they have often decreased.

Therefore, although we have stated publicly that our dividend payout ratio is 40% or more, in reality it is higher, and we would like to maintain that level as much as possible.

Questioner [Q]: Thank you.

You have stated that your forecast for the current fiscal year is for an increase in both sales and profit. What are the factors that will lead to an increase in both sales and profit? Thank you.

Takahashi [A]: The social environment also affects us to some extent, so we don't have any firm estimates, but sales for this fiscal year will depend on the current flow of customers and the accumulation of backorders, so taking all of this into consideration, we believe that we will be able to achieve increased revenue and profits.

Moderator [M]: Thank you. We are still accepting questions, so if you have any questions, please send them by text from the Ask a Question box.

Yamauchi [A]: I would like to provide some more detailed numerical information to back up our profit growth plans.

As Mr. Takahashi just mentioned, due to the social environment, etc., we expect that as a result, the number of new and used car sales will increase. The fiscal year that ended had a combined number of new and used car sales of just under 93,000 units. The current plan is to increase this number to around 98,000 units.

This is the result of taking into consideration factors such as the smooth progress of production, the orders that group companies are currently receiving from customers, and the situation with manufacturers about producing backlogged orders. We expect both sales and profits of new cars, not only new cars but also new and used cars, to increase in line with the increase in the number of vehicles.

In addition, there is no impairment loss that we saw and had to record in the previous fiscal year, so although the figures themselves are conservative, that is why we are now forecasting an increase in both sales and profit.

Moderator [M]: It was additional information regarding the factors behind the increase forecast in revenue and profits. Thank you.

Moderator [Q]: Now for the next question. You mentioned the issue of succession of dealerships. Is this a situation related to the Honda family? I believe that many Nissan companies are large dealerships. Any comments on this? Thank you.

Takahashi [A]: In the case of Honda, there are dealers that are directly managed by the manufacturer, and some of them are quite large. I think that in terms of overall market share, nearly one-third of the products are sold directly by these directly managed dealers.

Manufactures want to make directly operated dealers to independent onea as much as possible, and Toyota is strong in this area because it has almost no direct management dealers and the rest are independent dealers.

Nissan also had quite a few directly operated dealers, but when Ghosn came to power, he gave the order to review the strategy for directly operated dealers, and thanks to Ghosn, we were able to take over companies like Shizuoka Nissan and Mikawa Nissan, which were all directly operated. I think all manufacturers are tending to reduce the number of directly operated dealers.

Questioner [Q]: Thank you. Now for the next question.

Will the worsening used car market conditions improve this fiscal year? It appears that the worsening profitability of used cars is also putting pressure on other dealerships' profits. Thank you.

Takahashi [A]: When it comes to used cars, I think people might think of us as a regular used car dealership, and we have about 20 used car centers in total, but there are about 150 new car dealerships, so used car businesses are much smaller in comparison.

When it comes to used cars, we take in trade-in cars as they are, line them up and sell them. Other used car specialty stores purchase them at auctions and then sell them, but our business model is different, so we don't intend to increase the number of used car dealers that purchase cars from other places and line them up to sell them.

We also do car rentals, and we have a used car center for rental cars as well. That is, we sell used rental cars, because rental cars have not been used for many years, and so we sell our own ex-rental cars.

At present, we do not have a used car center that purchases cars at auctions and sells them, as other companies do, and we have no intention of expanding that type of business.

Yamauchi [A]: If I may add a supplementary note, market conditions themselves are slightly different in Japan and overseas, and the Japanese market has been on a recovery trend since the end of last year, around December.

Overseas, the downward trend had been continuing for a long time, but it finally settled down around the beginning of this spring, and we can see that the downward trend has stopped. In particular, in the case of our company, earnings from overseas used car sales have been deteriorating, and I believe this will be greatly improved in the current fiscal year.

Moderator [M]: Thank you. It looks like we have taken all questions, so we will conclude the question-and-answer session. With that, I would like to conclude today's briefing. After this, a questionnaire screen will appear. We appreciate your cooperation.

Thank you for your participation until the end today.

[END]

Document Notes

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