May 23, 2014
Yojiro Kindaichi

Top Interview Report on Business Strategy

VT Holdings Co., Ltd. NSE Second Section, TSE (JQ): 7593

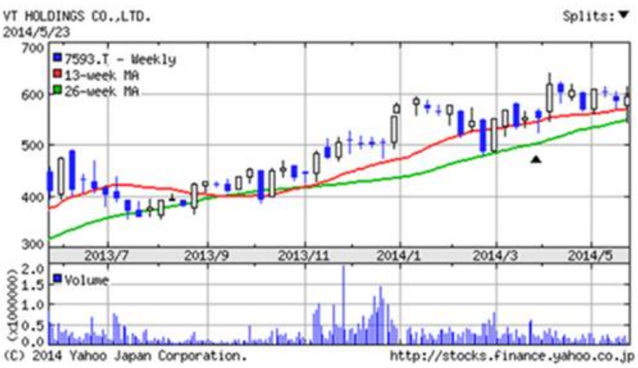
Date of announcement	Zip code	Address	Telephone number
May 23, 2014	460-0003	3-10-32, Nishiki, Naka-ku, Nagoya-shi, Aichi-ken, Japan	+81-52-203-9500

[Established]	March 1983	[Industry]	Retail	[Fiscal year end]	March 31		
[Representative]	Kazuho Takahashi	[Date of birth]	January 18, 1953	[Officer responsible for disclosure]	Managing Director	Ichiro Yamauchi	
[Complimentary goods for shareholders]	Yes	Equivalent to ¥10,000		[Trading unit (share)]	100	[Market value (million yen)]	71,151
[Dividend yield]	2.3%			[Details of complimentary goods/interim dividends]	Examples: car inspection coupons, mail order gifts Interim dividends: yes		
[Shareholder yield]	16.8%			[Up/down ratio (high price)]	-6.9	[PER estimate]	13.0
[Real yield]	19.1%			[Up/down ratio (low price)]	3,338.5	[PBR (x)]	2.59

Specializes in the automobile dealer business; Runs the dealer business globally focusing on Honda and Nissan; Key features include growth strategy through M&A activities and stock-type business model

Settlement Period	Net Sales (Growth Rate) (JPY 1 Million)		Ordinary Income (Growth Rate) (JPY 1 Million)		Earnings per Share (JPY)	Dividends per Share (JPY)	Ordinary Income Margin
FY3/11 Consolidated	92,657		5,700		26.9	5.0	6.2%
FY3/12 Consolidated	95,974	3.6%	6,562	15.1%	42.3	6.7	6.8%
FY3/13 Consolidated	118,317	23.3%	7,659	16.7%	44.9	10.0	6.5%
FY3/14 Consolidated	132,682	12.1%	9,976	30.3%	46.3	12.3	7.5%
Current KCR Estimate	145,950	10.0%	11,092	11.2%	55.7	17.0	7.6%
Future KCR Estimate	167,843	15.0%	12,756	15.0%	62.9	19.0	7.6%

Overall rating: +2 (BUY★★★★), Current share price: 596 yen; Target share price: 745 yen

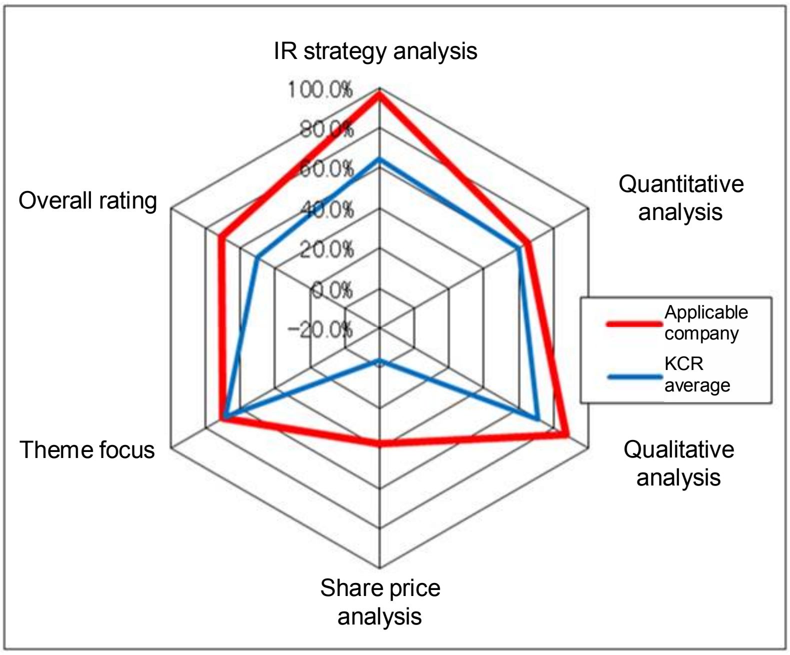


[Fig. 1: VT Holdings one year chart (source: Yahoo! Finance)]

KCR Inc. announces that it will assign an overall rating of +2 (BUY ★★★★) to VT Holdings Co., Ltd. (NSE Second Section, JASDAQ: 7593) and continue its buy recommendation (which is given to a share whose price is expected to outperform the current one by 10% within a year).

KCR Inc. made the overall rating decision considering that the company is rated 5.3% above the KCR average in quantitative analysis and 15.8% above average in qualitative analysis. The company's share price has been hovering 41.1% below the average price while the company's IR strategy is 31.5% above average. Meanwhile, the company's theme focus is 1.2% above average. Considering that the company's overall rating is 20.6% above average, KCR Inc. sets a target price of 745 yen.

	IR strategy analysis	Quantitative analysis	Qualitative analysis	Share price analysis	Theme focus	Overall rating
Applicable company	96.0%	65.1%	86.8%	37.6%	70.0%	70.8%
KCR average	64.5%	59.8%	71.0%	-3.5%	68.8%	50.2%
Difference	31.5%	5.3%	15.8%	41.1%	1.2%	20.6%



[Fig. 2: VT Holdings overall rating radar chart (source: KCR Inc.)**]**

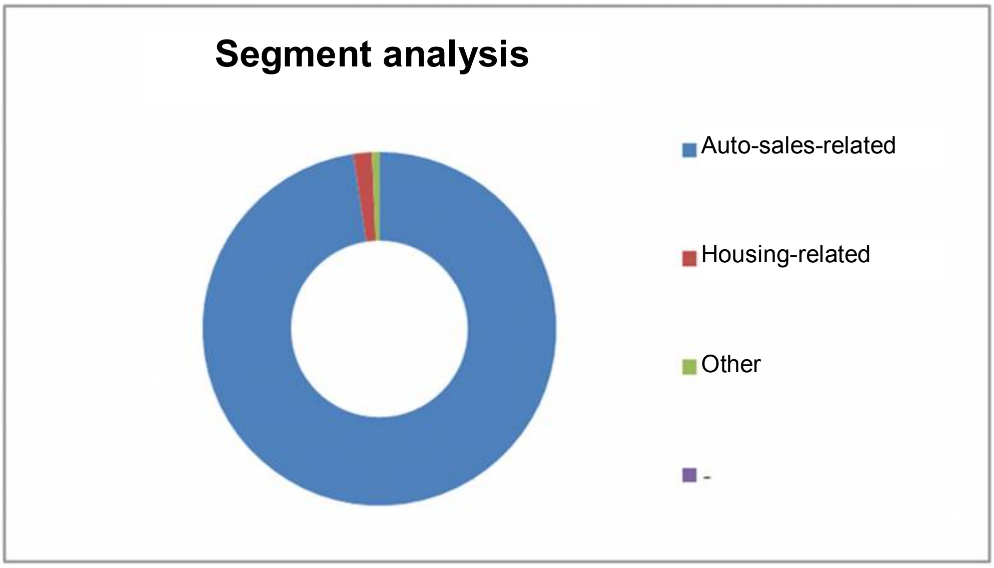
In the report announced by KCR Inc. on December 24, 2013, the target share price was 683 yen, compared with the then share price of 496 yen (adjusted for share split). The company's share price subsequently rose further to a high of 640 yen on April 4, 2014. As of the announcement of this report on April 4, 2014, the company's closing share price is 596 yen. KCR Inc. will set a new target share price of 745 yen.

Record high net sales / revenue achieved in the FY2014 settlement; Further growth expected in FY2015

On May 9, 2014, the company announced the consolidated financial results for the fiscal year ended March 31, 2014 (from April 1, 2013 to March 31, 2014). The company generated 132,682 million yen in consolidated net sales (up 12.1% year on year), 10,082 million yen in operating income (up 29.1% year on year), 9,976 million yen in ordinary income (up 30.3% year on year), and 5,126 million yen in net income (up 7.4% year on year). The company posted record highs in net sales, operating income, ordinary income, and net income. Compared to the company's initial plans for the previous fiscal year, the company increased net sales by 8.75%, operating income by 22.9%, ordinary income by 24.7%, and net income by 6.7%

In the fiscal year ending March 31, 2015, the company is expected to maintain robust growth by generating 135,000 million yen in consolidated net sales (up 1.7% year on year), 10,300 million yen in operating income (up 2.2% year on year), 10,100 million yen in ordinary income (up 1.2% year on year), and 5,400 million yen in net income (up 5.3% year on year). The company is expected to post record high results again.

The company specializes in the automobile dealer business and is pursuing growth through M&A. Although the company did not make any new M&A in its core auto-sales-related business in the previous fiscal year, it increased both sales and profits by focusing on sales activities through the existing companies. The company sold 79,210 new and used cars combined, an increase of 8,325 cars (11.7%) from the previous fiscal year.



[Fig. 3: VT Holdings segment analysis FY3/14 Consolidated (source: KCR Inc.)**]**

A positive external environment helped boost the company's revenue. The cumulative number of cars registered in Japan for the fiscal year ended March 31, 2014 increased by 9.2% year on year due largely to a last-minute rise in demand before the consumption tax hike in the fourth quarter of the previous fiscal year.

While the company set relatively low targets — a year on year increase of 1.7% in net sales and a 2.2% increase in operating income for the current fiscal year — this is due to the characteristics of its business model that cannot reflect potential M&A in the company's plan. The company announced the acquisition of shares of Nissan Satio Nara, K.K. at the end of the previous fiscal year (became the company's subsidiary on April 1, 2014; latest net sales of 3,388 million yen). The company is likely to be constantly exploring possibilities of growth through M&A — the core of company's business model — behind the scenes. Considering that the company has continued to pursue M&A on an almost yearly basis since its listing, the company is highly likely to conduct M&A activities in the current fiscal year that are not listed in the company's plan.

The retail sector in which the company is operating is expected to see a setback in the first half due to the negative repercussions caused by a last-minute rise in demand before the consumption tax hike in the fourth quarter of the previous fiscal year. However, the company is expected to record a backlog in car delivery in the first half which could not be made in time for the last-minute demand. The impact of the negative repercussions on the company is expected to be minimal.

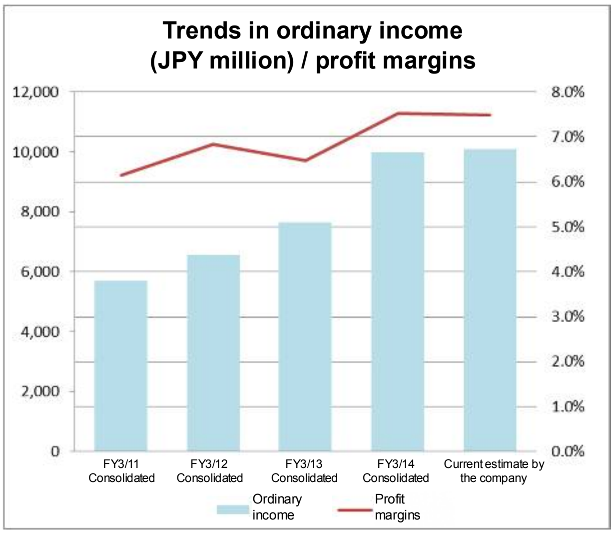
Considering the above, KCR Inc. views the company's current plan as conservative and expects that the company will continue to grow over 10% in the future. KCR Inc. estimates that the company will generate 145,950 million yen in consolidated net sales (up 10.0% year on year), 11,238 million yen in operating income (up 7.7% year on year), 10,192 million yen in ordinary income (up 7.6% year on year), and 6,655 million yen in net income (up 4.5% year on year).

An automobile dealer growing on a world scale

VT Holdings Co., Ltd. runs the automobile dealer business globally. The company is pursuing growth through M&A. The company has been actively engaging in M&A activities ever since listing in 1998. Over the course of 16 years from March 1998 (immediately before listing) to the fiscal year ended March 31, 2014 (*FY2013 plans), the company's sales and ordinary income have grown 17-fold and 27-fold respectively. The company is boasting an extremely high growth rate.

The company's growth rate is the top level among listed companies in Japan; 6th out of 2,223 companies in net sales, 12th out of 1,973 companies in operating income, 24th out of 1,905 companies in ordinary income, and 16th out of 1,612 companies in net profit (source: MCP Asset Management Securities Co., Ltd.; calculation of growth rate of listed companies from FY1997 to FY2012 targeting those making profits over 100 million yen as of the FY1997 settlement). Looking at the world ranking, the company is ranked 55th in net sales and 16th in profitability (source: Plimsoll Publishing Limited; analysis of the world's 100 largest automobile dealers). The company can be described as a unique automobile dealer boasting a surprisingly high growth rate and profitability.

Achieving high profitability after M&A at a surprisingly high speed



[Fig. 4: VT Holdings trends in ordinary income and profit margins (source: KCR Inc.)**]**

The company's profit margins are increasing every year in line with the improvement of profitability. As part of the mid-term business goal, the company aims to achieve a ratio of operating income to net sales of over 8%. The company's ratio of operating income to net sales for the fiscal year ended March 31, 2014 was 7.5% and the company is expecting the ratio to be at the same level in its plans for the current fiscal year. However, KCR Inc. estimates that the company's ratio of operating income to net sales will further increase mainly attributable to the effects of revenue growth.

The company is working to improve its group-wide profitability using the 10.3% benchmark which is the profitability ratio of Nagano Nissan Auto Co., Ltd. boasting the highest profitability in the VT Group. The company's subsidiary, Nagano Nissan Auto Co., Ltd., is in first place by a clear margin among 123 companies in the nationwide Nissan automobile dealer network. It is worth noting that the VT Group companies, namely, Nagano Nissan Auto Co., Ltd., Shizuoka Nissan Auto Sales Co., Ltd., Nissan Satio Saitama Co., Ltd., and Mikawa Nissan Motor Co., Ltd. are dominating the top four (the ranking of the ratio of operating income to net sales from April to September 2013). The company deals not only with Nissan cars. The ratio of operating income to net sales for

Honda Cars Tokai Co., Ltd. — the company's starting point — for the period before last was 8.6%, maintaining the No. 1 position in the Honda car dealer network for 15 consecutive years. Honda Cars Tokai Co., Ltd. was the company's umbrella organization at the time of listing. The know-how the company gained there is likely to have been handed down to group dealers which is contributing to increasing profitability. What is surprising is the speed at which business has been turned around. The most noticeable example is the case of Nissan Satio Saitama Co., Ltd. which became the company's subsidiary on April 2, 2012 and contributed greatly to the company's financial results for the previous fiscal year. Prior to becoming the company's subsidiary, Nissan Satio Saitama Co., Ltd. was involved in the Alternative Dispute Resolution. However, the company transformed Nissan Satio Saitama into Nissan's top dealer in less than half a year after making it a VT Group company by improving profitability with the VT Group's know-how. According to the company's documents, the ratio of operating income to net sales for Nissan Satio Saitama Co., Ltd. prior to becoming the company's subsidiary was -0.4%. The ratio of operating income to net sales for the period before last rose to 10.76%, securing the No. 2 position in the Nissan automobile dealer network ranking.

The company's know-how to make rapid improvements to the profitability of companies that come under its umbrella through M&A is simply surprising. What is behind the success is the company's business management and marketing know-how called the VT method, boasting the highest level of profit margins among automobile dealers. Despite being an automobile dealer, the VT Group has never relied on the sales of new cars. There is an indicator called the "base revenue cover ratio" that can be used to measure a company's excellence as a dealer. The base revenue cover ratio is expressed as gross profits outside new vehicles divided by sales and administrative expenses. The indicator shows the extent to which profits from the non-new vehicles sector cover sales and administrative expenses. If the indicator exceeds 100%, it is possible to avoid making losses without selling a single new vehicle. The average of the company's major dealers stands at 109.1%, indicating that the company can generate profits without selling a single new vehicle. This indicator clearly demonstrates that selling cars is only one part of its dealers' business. When it comes to the sale of new cars, rather than promoting discount prices, the VT Group is providing added value above the sale of new cars by pursing a "one-price strategy" to propose a complete package including optional parts to give customers a sense that they are getting a bargain.

The service sector accounts for approximately 40% of the company's profits. The company has adopted a concept of focusing on improving service-related revenue to increase the profitability of the VT Group. The company has established a system and a set of guidelines to see service personnel who perform maintenance as sales personnel and anyone besides skilled sales personnel can sell cars. Since the improvement of service-related revenue is a stock-type business in which the source of revenue is the number of cars held rather than the number of new cars sold, the company's earnings ratio increases as the number of cars handled by the VT Group increases. This has resulted in a large gap between the VT Group's operating income ratio of 7.6% and the industry's average operating income ratio of 2.7% (source: Japan Automobile Dealers Association (JADA) data for the fiscal year ended March 31, 2013). Efforts to achieve a steady source of income by increasing the number of local customers rather than relying on the sale of new cars will continue to bring stable revenue.

Diversifying services globally while maintaining a focus on the dealer business

Approximately 80% of the VT Group consists of the following five major companies: Honda Cars Tokai Co., Ltd. (the company's umbrella organization at the time of listing) along with Nagano Nissan Auto Co., Ltd., Shizuoka Nissan Auto Co., Ltd., Mikawa Nissan Auto Co., Ltd., Nissan Satio Saitama Co., Ltd., and four Nissan-affiliated companies. Other dealers include Ford Life Chubu Co., Ltd. that handles Suzuki and Ford and VT International Co., Ltd. that handles Peugeot and Citroën. The VT Group also engages in the import car and importer business both at home and abroad based on its business policy inside and outside Japan to handle cars irrespective of the manufacturers. As of the end of March 2013, the group was operating a total of 157 dealers including 134 dealers handling new cars and 23 dealers handling used cars. Among subsidiaries, Trust Co., Ltd. (securities code: 3347) listed on the TSE Mothers section is worth attention. Trust Co., Ltd. is primarily engaged in the used car export, rental, and overseas dealer businesses. Its main focus is on the used car export business and currently it is exporting used cars to over 150 countries around the world. It has a particular strength in Africa. According to the data for the fiscal year ended March 31, 2012, while the industry's ratio of the number of cars exported is 21.6%, Trust Co., Ltd. exports 56.2%, the majority of its cars, to Africa. In addition, through its subsidiary, J-net Rental & Lease Co., Ltd., Trust Co., Ltd. is focusing on the car rental business. Although the net sales of Trust Co., Ltd. and J-net Rental & Lease Co., Ltd. account for a mere 3.9% and 4.9% respectively of the group's net sales, both companies are showing strong growth. The business is making steady growth as a business ancillary to auto sales. In addition, in the non-auto segment, the VT Group is providing customers with luxury custom-built houses through Archish Gallery Corporation (net sales composition of 1.7% in the previous fiscal year) which is operating under the theme of "Architect-designed bespoke homes." The business achieved solid growth in the previous fiscal year in terms of the number of orders received and the number of properties completed. This has resulted in generating 2,147 million yen (up 4.0% from the previous period) in net sales and 66 million yen (operating loss of less than 1 million yen in the previous period) in operating income, significantly improving revenue. The VT Group continues to maintain a strong performance in all business segments.

Large market presenting sufficient growth potential

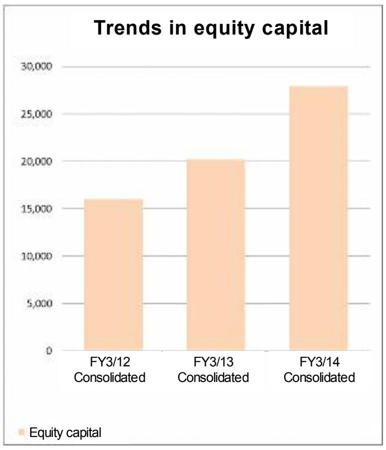
Although no solid data can be confirmed, the size of the automobile dealer market can be roughly calculated by multiplying the number of cars sold by the average purchase price. According to the JADA, 5.21 million new cars and 3.97 million used cars were registered in Japan in the fiscal year ended March 31, 2013. In addition, according to surveys conducted with JADA members from April 18 to May 25, 2012, net sales per new car amounted to 1.989 million yen while net sales per used car were 0.601 million yen. Calculated simply, the size of new car dealer market is estimated at 10,362.69 billion yen while the used car dealer market is estimated at 2,385.97 billion yen. The size of the domestic market combining the new and used car markets is 12,748.86 billion yen; the company's net sales plan for the current fiscal year accounts for a mere 1%. This indicates that there is enough leeway for the company to grow through M&A even in the domestic market, giving assurances for the company's M&A in the future. In the aforementioned survey, only 740 companies out of 1,164 responded that they achieved increases in sales and profits; nearly 40% of the companies have some kind of financial problems including poor business performance.

Considering the above, the company sees sufficient growth potential in the domestic market. Needless to say, the company can expect much larger markets outside Japan in line with the growth of new cars. As a first step to explore overseas dealers, the company is focusing on expanding the revenue of CCR Motor Co., Ltd. operating 11 dealerships selling new cars in

London and the South-West of England while maintaining a solid footing in South Africa and other growing areas through its subsidiary, Trust Co., Ltd. The company is planning to launch an intensive campaign once it secures sufficient human resources and increases their skills. As seen from the above, the market surrounding automobile dealers is large and provides opportunities for global business expansion.

While auto manufacturers are constantly exposed to technological innovation and other risks, the dealer business will never cease to exist no matter how much progress is made in technological innovation. Including peripheral business, the market constantly provides M&A opportunities and presents sufficient potential to grow in the world.

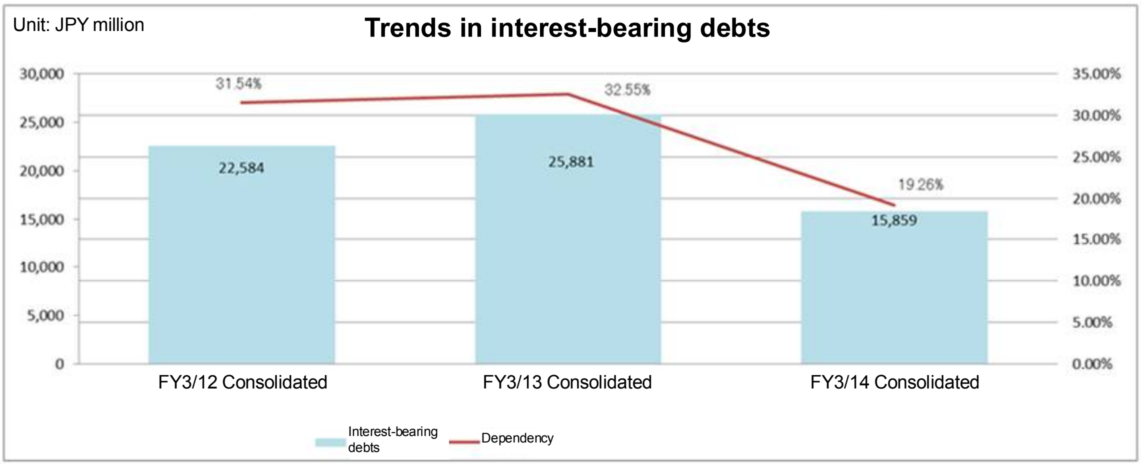
Financial conditions improved significantly with abundant cash in hand



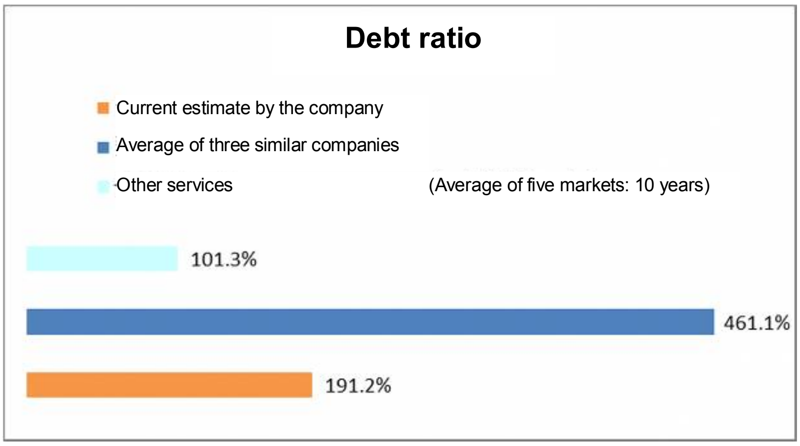
[Fig. 5: VT Holdings trends in equity capital] (source: KCR Inc.)

The company resolved to issue subscription rights through a private placement to UBS AG's London Branch at the Board of Directors meeting held on November 12, 2012. The company used a highly transparent scheme — "fixed share price financing plan" — aimed primarily at obtaining funds for future M&A. The company exercised all subscription rights by the end of the previous fiscal year supported by positive stock price performances, completing the financing for the total exercise amount of 3.6 billion yen.

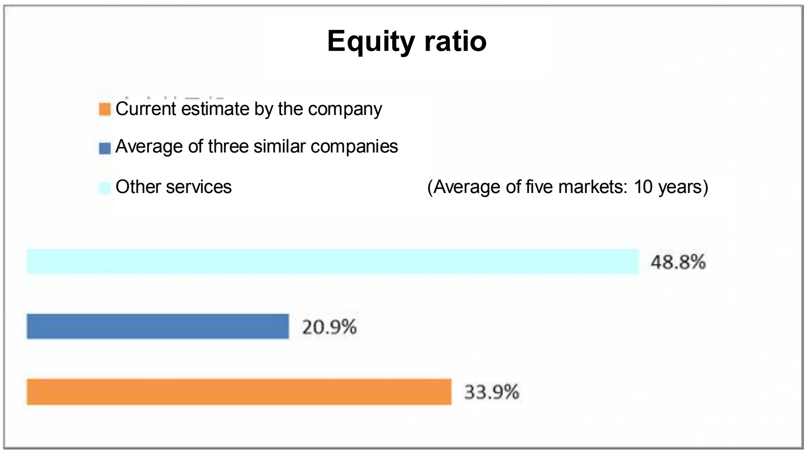
Attributable to progress in the reduction of interest-bearing debts supported by an increase in cash flows from operating activities, the company achieved a significant growth in cash and cash equivalents at the end of period, and they came in at 7,597 million yen (up 81.5% year on year).



[Fig. 6: VT Holdings trends in interest-bearing debts] (source: KCR Inc.)



[Fig. 7: VT Holdings debt ratio comparison (source: KCR Inc.)]



[Fig. 8: VT Holdings equity ratio comparison (source: KCR Inc.)]

Companies pursuing growth through M&A tend to have a high debt ratio and low equity ratio. The average debt ratio and average equity ratio of companies operating under an M&A strategy similar to that of the company — SoftBank Corp. (9984; TSE First Section) consolidated, Nidec Corporation (6594; TSE First Section) consolidated, and COLOWIDE Co., Ltd. (7616; TSE First Section) consolidated — for the previous fiscal year were 461.1% and 20.9% respectively. Compared to the figures, the company's debt ratio and equity ratio for the previous fiscal year were 191.2% and 33.9% respectively, indicating extremely high security.

Share price underpriced; Geared towards improving market liquidity

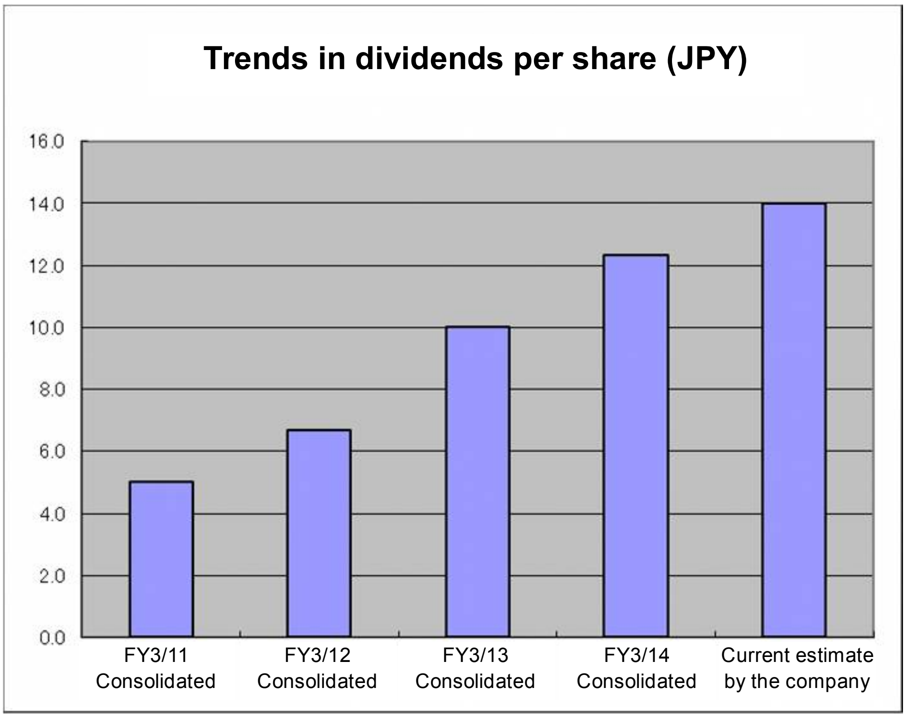
The company's current share price is considered to be substantially underpriced when compared to companies pursuing growth through M&A. As a result of the comparing the share prices of the aforementioned companies pursuing growth through M&A and the company, the company's theoretical share price is calculated as 972 yen using the similar-company-comparison method.

Three companies pursuing growth through M&A used for comparison	
Nidec Corporation: A	(6594; TSE First Section) consolidated
SoftBank Corp.: B	(9984; TSE First Section) consolidated
COLOWIDE Co., Ltd.: C	(7616; TSE First Section) consolidated

Similar-company-comparison method (JPY)	
Average	971.84
Highest	1,028.23
Lowest	934.08

			Average share price	Average EPS	Average BPS	Estimated value
A	B	C	4,635	199.9	1,231	957
A	B		6,423	289.7	1,707	934
A		C	3,468	122.2	1,032	1,028
	B	C	4,015	188	188	968

[Fig. 9: Share price calculation of companies pursuing growth through M&A under similar-company-comparison method (source: KCR Inc.)**]**



[Fig. 10: VT Holdings trends in dividends per share (source: KCR Inc.)**]**

The company executed a capital policy to carry out a three-for-one stock split at the end of the previous fiscal year in order to improve liquidity. In addition, the company raised its consolidated dividend payout ratio target to 30% from 20% from this fiscal year, strengthening measures to provide shareholder returns. The company is designated in the JPX-Nikkei Index 400 — a new index composed of companies with high appeal for investors. Furthermore, the company is likely to be aiming for a listing on the TSE First Section in order to improve its liquidity. Close attention needs to be paid to the company as one of a few companies that can realize high growth and profitability.