September 15, 2013
Yojiro Kindaichi

Business Strategy — News Flash

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

Date of announcement	Zip code	Address				Telephone number	
September 15, 2013	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)]	45,551
[Dividend yield]	2.4%			[Details of complimentary goods/interim dividends]	e.g. Car inspection coupons, mail order gifts Interim dividends: yes		
[Shareholder yield]	8.1%			[Up/down ratio (high price)]	-18.0	[PER estimate]	9.3
[Real yield]	10.5%			[Up/down ratio (low price)]	2,280.8	[PBR (x)]	2.13

Specializing in the automobile dealer business; Operating 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
FY3/10 Consolidated	88,276		4,226		53.6	2.0	4.8%
FY3/11 Consolidated	92,657	5.0%	5,700	34.9%	80.7	15.0	6.2%
FY3/12 Consolidated	95,974	3.6%	6,562	15.1%	126.9	20.0	6.8%
FY3/13 Consolidated	118,317	23.3%	7,659	16.7%	134.8	30.0	6.5%
Current KCR Estimate	136,065	15.0%	8,980	17.3%	134.2	30.0	6.6%
Future KCR Estimate	163,277	20.0%	11,103	23.6%	162.7	33.0	6.8%

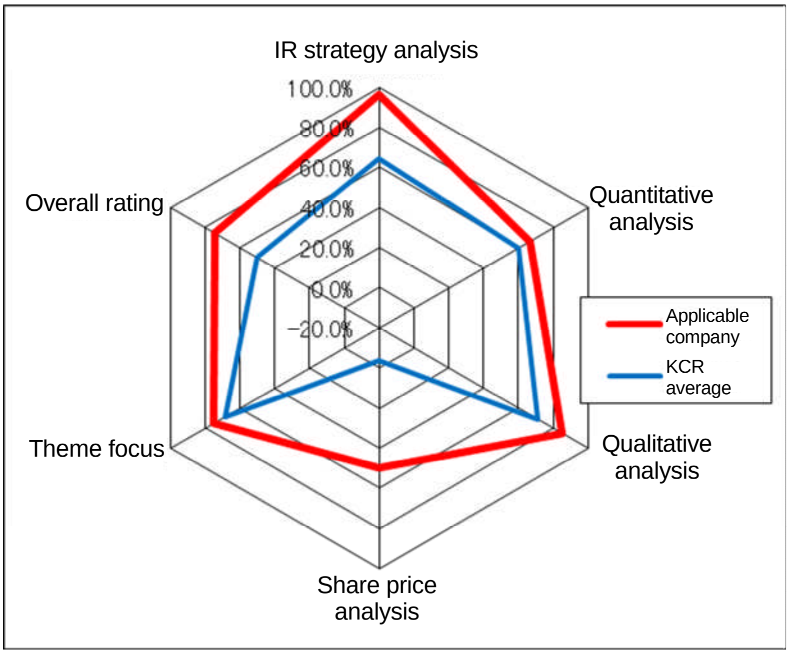
Overall rating: +2 (BUY ★★★★); Target share price of 1,670 yen

[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, TSE (JQ): 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 6.5% above the KCR average in quantitative analysis and 13.8% above average in qualitative analysis. The company's share price has been hovering 53.4% below the average price while the company's IR strategy is 31.5% above average. Meanwhile, the company's theme focus is 6.2% above average. Considering that the company's overall rating is 24.0% above average, KCR Inc. sets an immediate target price of 1,670 yen. [Fig. 2 and 3]

	IR strategy analysis	Quantitative analysis	Qualitative analysis	Share price analysis	Theme focus	Overall rating
Applicable company	96.0%	66.3%	84.8%	49.9%	75.0%	74.2%
KCR average	64.5%	59.8%	71.0%	-3.5%	68.8%	50.2%
Difference	31.5%	6.5%	13.8%	53.4%	6.2%	24.0%

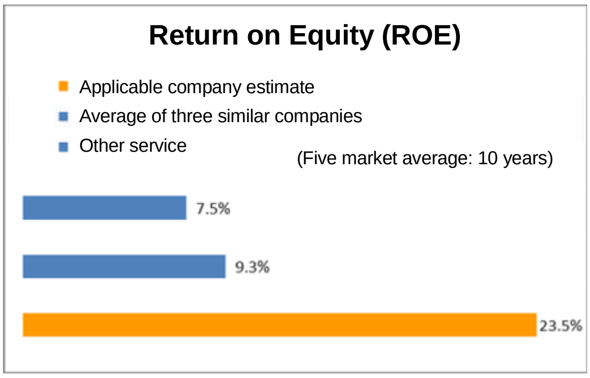
[Fig. 2: VT Holdings overall rating score (source: KCR Inc.)]



[Fig. 3: VT Holdings overall rating radar chart (source: KCR Inc.)]

In the report announced by KCR Inc., November 27, 2012, the target share price was 852 yen, compared with the then price of 710 yen. The company's share price started to rise steadily and the target share price was set at 1,400 yen, compared with the then price of 1,046 yen in the report announced on April 2, 2013. Although the company's share price subsequently rose further to a high of 1,510 yen on May 13, the price is currently at the range of 1,100 yen to 1,500 yen due primarily to profit booking. [Fig. 1]

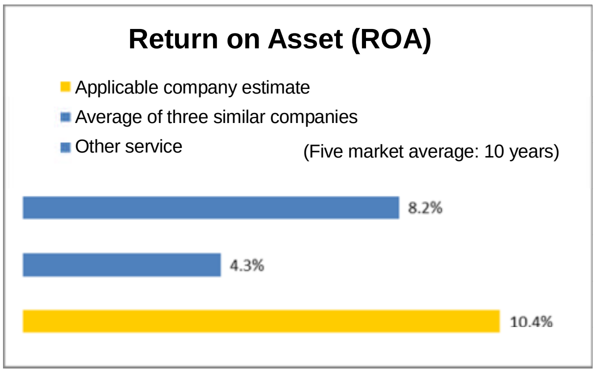
Notably high profitability and efficiency

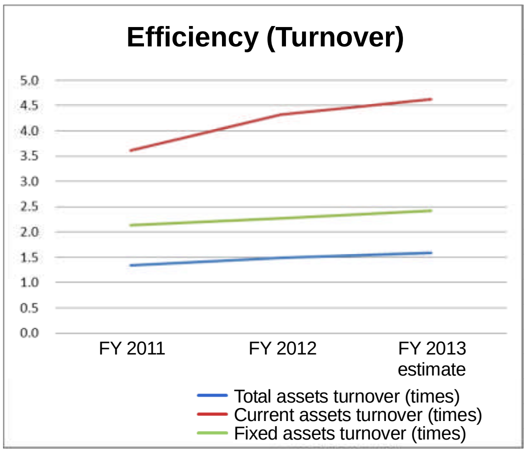


[Fig. 4: VT Holdings ROE (source: KCR Inc.)]

KCR Inc. expects that the company's share will hit a record high considering that (1) the company is expected to record solid financial results, (2) further growth is expected as a result of M&A activities that seem to be going on behind the scenes, and (3) the company is committed to returning value to its shareholders.

The most notable feature of the company's qantitative analysis is its exceptionally high return on equity (ROE). While companies with ROE of around 8% are considered to be above average in Japan, the company's ROE for the current term is estimated at 23.5%. [Fig. 4] The company's return on asset (ROA) for the current term is estimated at 10.4%, showing how efficiently the company is turning over capital. [Fig. 5]





[Fig. 5: VT Holdings ROA] **[Fig. 6: VT Holdings efficiency (source: KCR Inc.)]**

In fact, indices showing the company's efficiency are rising every year; the company's assets and funds are both generating profits at a rate far above the market average. [Fig. 6]
In quantitative analysis carried out by KCR Inc., the company is rated 6.5% above the KCR average; the company is considered to be on sound financial footing.

Both revenues/earnings increased in 1Q FY 13; Solid results expected in 2Q/full year

For the three months ended June 30, 2013 (1Q FY13), the company generated ¥27,789 million in net sales (up 5.5% year on year), ¥1,368 million in ordinary income (up 17.1% year on year), and ¥747 million in net income (up 8.4% year on year). In the second quarter, the company plans to achieve ¥56,000 million in net sales (up 0.7% year on year), ¥3,100 million in ordinary income (up 2.5% year on year), and ¥1,800 million in net income (down 0.4% year on year). KCR Inc. projects that the company will exceed the plans considering that the company is generating profits at a faster pace than planned.
Compared to the company's full year projections of ¥122,000 million in net sales (up 3.1% year on year), ¥8,000 million in ordinary income (up 4.5% year on year), and ¥4,800 million in net income (up 0.5% year on year), KCR Inc. estimates that the company will generate ¥136,065 million in net sales (up 15% year on year), ¥8,980 million in ordinary income (up 17.2% year on year), and ¥4,939 million in net income (up 3.4% year on year).

Business model of growth through M&A strategy

VT Holdings Co., Ltd. has been operating its automobile dealer business globally. The company has been actively engaging in M&A activities ever since listing in 1998. Over the course of 15 years from March 1998 (immediately before listing) to the fiscal year ending March 31, 2014, (FY13 plans), the company's sales and ordinary income have grown 17-fold and 27-fold respectively. The company is no doubt a truly unique automobile dealer company.
The primary factor for the company's solid results is the peculiarities of Japan's automobile dealer industry. In Japan, each manufacturer is primarily responsible for building their sales networks. In order to avoid competition within the same company, manufactures often have strict sales territories that restrict target markets. As opposed to the sale of used cars, not all companies can enter the automobile dealer business; sound relationships with auto

manufacturers are extremely important. However, once companies enter the automobile dealer business, those companies can exclusively sell manufactures affiliated cars in the specified regional areas in Japan. Therefore, the industry is considered highly lucrative but with extremely high barriers for market entry.

Japan's automobile dealer business is currently at a period of transition. Maintaining the sales business will likely gradually impose burdens on each auto manufacturer. In addition to the issue of the rapidly aging and shrinking population that is unique to Japan, the era where new cars sold quickly is long gone due primarily to intensifying competition among manufacturers. Many manufacturers are now adopting a new business model in which they specialize in their main business of developing and manufacturing cars while outsourcing sales business to professionals.

The company is one which quickly responds to new needs. The company, which has grown through M&A since its inception, is a professional among professionals in the automobile dealer business. By specializing in the sales business and gaining manufacturers' trust, the company has been attracting a large number of M&A deals in the industry. Currently, the five major companies including Honda Cars Tokai and four Nissan related companies account for about 78% of the company's total sales, indicating that the company is actively engaging in M&A activities irrespective of manufacturers. In addition to maintaining business with Japanese manufacturers, the company has been engaging in dealership business with foreign manufacturers, including Ford and Peugeot, while operating businesses in South Africa and the UK. The company aims to be a world class dealer, and its journey has only just begun.

A Dealer Above and Beyond All Others

As mentioned above, the automobile dealer industry has entered a period where expertise as retail professionals matters the most. The company's basic business concept is to be a dealer above and beyond all others. Incorporated in this concept is the company's determination to provide high quality customer oriented dealer services. The company aims to (1) offer high quality dealer service by increasing customer satisfaction, (2) provide consistent service at all times by gaining extensive knowhow, (3) provide high quality dealer service worldwide, and (4) pursue high efficiency, profits, and speed.

There is an indicator called the "base revenue cover ratio" that can be used to measure the 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 company's major dealers is standing 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 dealers' business. The service sector, which accounts for approximately 40% of the company's profits, is a stock-type business that aims to achieve a steady source of income by increasing the number of local customers rather than relying on the sale of new cars. KCR Inc. gives high marks to the competitive environment of the automobile dealer industry and the company's competitive strategy for growth. The company is rated 84.8% in qualitative analysis (13.8% above the KCR average); the company is considered to be operating its businesses at a highly strategic level.

Theoretical stock price largely underpriced at 2,472 yen

When calculating the company's theoretical share price, it may not be effective to compare the company with existing dealers. Almost all existing auto dealers in Japan are affiliated with manufacturers, even if they are large in size. Considering that these dealers are not independent and that they rely on manufacturers' sale of new cars, their business model differs widely with that of the company. It is more realistic to compare the company with those having active M&A strategy for growth even if they are in different industries. A large amount of funds is needed to quickly close M&A deals. Leading companies growing through M&A are in need of larger funds than mature companies and are striving to achieve high profitability by using leverage through borrowing. Considering these points, Nidec Corporation, SoftBank Corp., and COLOWIDE Co., Ltd. (in the restaurant industry) are deemed to be appropriate for comparison. Although these companies are in different industries, they all have a common goal to grow aggressively through M&A. In the share price calculation using these three companies and market average, the company's theoretical share price is calculated as 2,472 yen; the company's current share price is considered to be largely underpriced. KCR Inc. estimates that the company's share price has been hovering 53.4% below the KCR average.

Commitment to returning value to shareholders

It is worth pointing out that the company's commitment to returning value to its shareholders was one of the reasons for KCR Inc. to retain its "buy" recommendation. As for the company's dividend policy, the company announced a dividend increase of 4 yen for the commemoration of the 30^{th} anniversary of the company founding on February 15, 2013, with a full year dividend of 30 yen (up 10 yen from the previous year) and consolidated dividend payout ratio of 22.3%. The company will continue to pay dividends according to its earnings, demonstrating its strong commitment to returning value to its shareholders. The company's estimated dividend yield is 2.4%, which is far above the JASDAQ market average of 1.84%. Additionally, a program has been in place to offer complimentary goods for shareholders. Given the company's willingness to improve market liquidity through measures such as a stock split, we can expect an active capital policy. Considering that the company is actively engaging in IR activities and rated 96.0% in KCR's IR strategy analysis (31.5% above average), KCR Inc. issues a buy recommendation based on all analyses, including quantitative, qualitative, share price, and IR strategy.

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