

BIKE O & COMPANY Ltd.

3377

Tokyo Stock Exchange Second Section

29-Mar.-2022

FISCO Ltd. Analyst

Tomokazu Murase



FISCO Ltd.

<https://www.fisco.co.jp>

Table of Contents

| | |
|---|-----------|
| Summary | 01 |
| 1. FY11/21 results | 01 |
| 2. FY11/22 forecast | 01 |
| 3. Medium-Term Management Plan | 02 |
| Company profile | 03 |
| Business overview | 06 |
| Strengths | 07 |
| Business trends | 09 |
| 1. FY11/21 results | 09 |
| 2. Net sales composition | 10 |
| 3. Reasons for increases in gross profit | 13 |
| 4. Trends in quarterly net sales and ordinary income (loss) | 13 |
| 5. Factors behind changes in SG&A expenses | 14 |
| 6. Key performance indicators, and stores and human resources | 14 |
| 7. Financial status | 15 |
| Outlook | 17 |
| 1. FY11/22 forecasts | 17 |
| 2. Measures to strengthen sales capabilities | 19 |
| Medium-term management plan | 20 |
| 1. Establishing a CRM Model | 21 |
| 2. New businesses | 22 |
| 3. Store opening plans | 22 |
| ESG issues and initiatives | 23 |
| Shareholder return policy | 24 |

Summary

Delivered all-time high profits in FY11/21 and formulated a medium-term management plan. The Company will accelerate growth by developing CRM and refurbishment infrastructure and expanding new business domains

BIKE O & COMPANY Ltd. <3377> (the “Company”) has articulated its corporate vision as “A Lifelong Partner for Motorcyclists.” In this role, the Company seeks to shape customers’ motorcycle life by offering a wide range of services for selling, buying and enjoying motorcycles. Currently, the Company seeks to evolve from a brand that can be described as “BIKE O for Selling Your Motorcycle,” based on the motorcycle purchasing specialty stores it operated when it was founded, to a brand that can be described as “BIKE O for All Your Motorcycle Needs” – one that provides customers with a comprehensive and complete range of services related to motorcycles. In addition, the Company has continuously increased its network of mixed-use stores (stores engaged in both purchasing and retail activities). Along with implementing a touchpoint strategy to strengthen customer touchpoints and communities, the Company is working to build a management platform to advance to the next stage of growth.

1. FY11/21 results

Looking at FY11/21 results, the Company reported net sales of ¥26,570mn (+18.9% YoY), operating income of ¥1,558mn (+120.3%), ordinary income of ¥1,770mn (+105.9%) and net income of ¥1,226mn (+106.3%). While the Company announced upward revisions to its business forecasts twice, specifically in March and June 2021, it finished the fiscal year with results above those revised forecasts, and net sales and net income both reached all-time highs. In FY11/21, the Company raised customer satisfaction by stepping up efforts to further strengthen its purchasing and sales capabilities at mixed-use stores, as it has done to date, along with striving to bolster its management platform. Specifically, the Company worked to enhance vehicle purchasing for the Retail segment, and improve the quality of vehicles for sale in the Wholesale segment by securing purchasing volume and strengthening sales capabilities. It also strove to increase retail sales volume and improve retail aftersales capabilities by strengthening its refurbishment system and enhancing the reliability of refurbishment work. Moreover, the Company expanded the earnings of peripheral businesses and monetized new initiatives, strengthened the organization and personnel management to realize its medium- and long-term management strategy, and transformed its business model and built a forward-looking management platform.

2. FY11/22 forecast

In its FY11/22 guidance, the Company forecasts net sales of ¥27,500mn (+3.5% YoY), operating income of ¥1,750mn (+12.3%), ordinary income of ¥1,950mn (+10.2%) and net income of ¥1,300mn (+6.0%). The Company has been working to strengthen its purchasing and sales capabilities further at mixed-use stores (stores engaged in both purchasing and retail activities), as it has done before, and the benefits of those efforts are becoming apparent. In the previous fiscal year, the Company opened two new stores and relocated and enlarged the floor space of five stores. All these stores have made a strong start, and sales of existing stores are also growing. In the current fiscal year, the Company plans to open around eight stores. Judging from the track record of the Company’s store strategy so far, FISCO expects the transition to the mixed-use store format to have the effect of steadily pushing up operating results. Additionally, the Company has been delivering results through various measures, such as developing a highly transparent market environment through unified nationwide appraisal standards and providing high-quality services to customers.

Summary

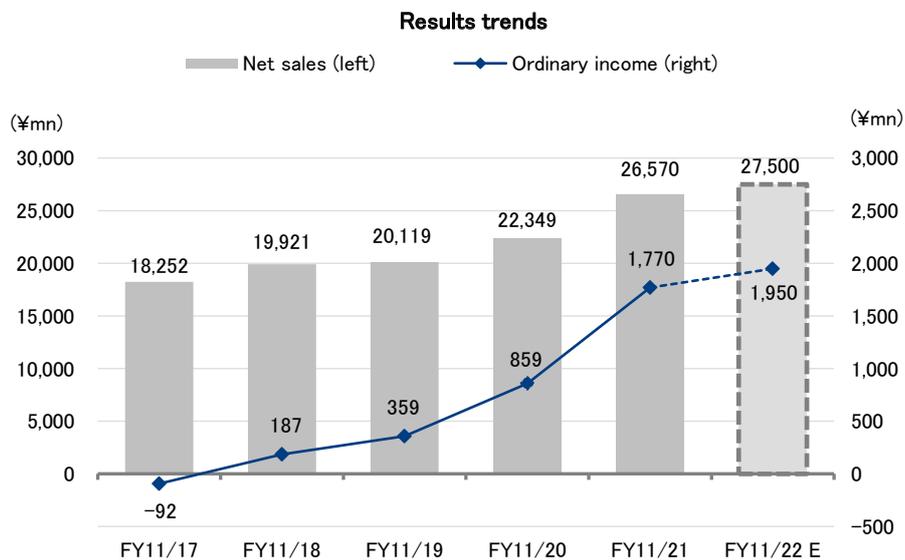
3. Medium-Term Management Plan

The Company has embraced “Creating Amazement the World Has Not Yet Seen” as its new corporate mission for sustainable growth. To realize its corporate vision, “A Lifelong Partner for Motorcyclists,” the Company has formulated a three-year medium-term management plan running from FY11/22 to FY11/24. For FY11/24, the plan’s final fiscal year, the Company is forecasting net sales of ¥31.5bn and ordinary income of ¥2.5bn. These forecasts represent a net sales growth rate of 19% and an ordinary income growth rate of 41% in comparison with FY11/21.

The plan’s first year is positioned as a period of preparation for growth. The Company has announced the introduction of a stock compensation plan and stock benefit trust to transform the awareness of management and all employees toward improving corporate value. In addition, the Company will make investments in facilities, personnel, and IT with a focus on its three strategic pillars: CRM (Customer Relationship Management) promotion, refurbishment infrastructure and system platform. Moreover, the Company will work to further increase corporate value and expand its business scale through its sales, operations, information, human resources and financial strategies. The Company plans to accelerate growth by ensuring that the positive effects of these measures emerge from the plan’s second year onward.

Key Points

- Tremendous recognition of the “BIKE O” brand
- Formulated a medium-term management plan, accelerating digital transformation through CRM promotion and refurbishment infrastructure, etc.
- Investment of approximately ¥3.0bn is planned in facilities, human resources and IT
- No.1 share in not only preowned motorcycle purchasing, but also preowned motorcycle sales



Source: Prepared by FISCO from the Company’s financial results

■ Company profile

Evolving into a brand encompassing “BIKE O for All Your Motorcycle Needs” – one that provides a comprehensive and complete range of services related to motorcycles

The Company has articulated its corporate vision as “A Lifelong Partner for Motorcyclists.” In this role, the Company seeks to shape customers’ motorcycle life by offering a wide range of services for selling, buying and enjoying motorcycles. Currently, the Company seeks to evolve from a brand that can be described as “BIKE O for Selling Your Motorcycle,” based on the motorcycle purchasing specialty stores it operated when it was founded, to a brand that can be described as “BIKE O for All Your Motorcycle Needs” – one that provides customers with a comprehensive and complete range of services related to motorcycles. In addition, the Company has continuously increased its network of mixed-use stores (stores engaged in both purchasing and retail activities). Along with implementing a touchpoint strategy to strengthen customer touchpoints and communities, the Company is working to build a management platform to advance to the next stage of growth.

Company profile

The Company can trace its origins to the incorporation and founding of MAJOR AUTO., LTD., its predecessor, by President and Representative Director Akihiko Ishikawa and Chairman and Director Yoshihiro Kato in 1994. Thereafter, the Company pushed ahead with the systematic development of operations in the motorcycle purchasing business and opened its first roadside store fitted with the “BIKE O” sign in 2002. Subsequently, the Company listed its shares on JASDAQ in 2005 and the Second Section of the Tokyo Stock Exchange in 2006 (currently it is only listed on the Second Section of the Tokyo Stock Exchange). In 2009, the Company achieved the opening of 100 “BIKE O” motorcycle purchasing specialty stores. In March 2011, the Company entered into a business and capital alliance concerning the motorcycle auction business with USS Co., Ltd. <4732> and Japan Bike Auction Co., Ltd. The Company turned Japan Bike Auction Co., Ltd. into an affiliated company through the acquisition of its shares (investment ratio 30.0%). In the past few years, the Company has been focusing on the domestic retail business and has strengthened its growth potential. In November 2016, the Company entered into a capital and business alliance with G-7 HOLDINGS Inc. <7508> In Japan, G-7 HOLDINGS operates the car business under the automotive supplies brand AUTOBACS through its subsidiary G-7 AUTO SERVICE CO., LTD. In addition, it provides comprehensive motorcycle services such as the operation of specialty stores for motorcycle supplies, parts and accessories, and maintenance services through subsidiary G-7 BIKE WORLD CO., LTD. G-7 HOLDINGS also conducts business through G7 RETAIL MALAYSIA SDN. BHD. (Malaysia) and G7 (THAILAND) CO., LTD. which fall under its subsidiary G7 INTERNATIONAL PTE. LTD. With regard to overseas business expansion, the Company explores possibilities by conducting activities such as test marketing as needed, in addition to overseas transactions (such as motorcycle exports and sales), and cautiously considers overseas business expansion initiatives that include opening stores. In August 2011, the Company established the BIKE O Motorcycle Life Research Institute. The purpose of this research institute is to embrace the vision for being “A Lifelong Partner for Motorcyclists” and deliver information widely across society on matters such as the enjoyment of motorcycle life and trends in the motorcycle market. Since March 2017, the Company has operated a motorcycle content website called “Bike Life Lab.” To grow into an information delivery organization with a closer and stronger engagement with motorcycle riders, the Company renamed the BIKE O Motorcycle Life Research Institute as “Bike Life Lab supported by BIKE O,” thereby integrating it with the motorcycle content website. The Company has reinforced information delivery by linking the motorcycle content website with various social media services. In December 2019, the Company turned Yamato Co., Ltd. into a wholly owned subsidiary, with the goal of creating new earnings sources and creating an environment for sustainable preowned motorcycle sales. Also, in November 2020, the Company set up the Contact Center No. 3 to spread out the risk of a stoppage of customer reception services. As part of efforts to expand peripheral businesses related to motorcycles, in April 2021, the Company established BIKE O DIRECT Co., Ltd., a subsidiary responsible for operation and management of the Company’s e-commerce website. To capture synergies with vehicle sales and raise customer satisfaction, the Company has launched an e-commerce website that carries vehicles and related accessories and parts.

BIKE O & COMPANY Ltd. | 29-Mar.-2022
 3377 Tokyo Stock Exchange Second Section | <https://www.8190.co.jp/en/>

Company profile

Company History

| Date History | Company History |
|--------------|---|
| Sep. 1994 | Founded MAJOR AUTO., LTD., the predecessor of the Company. |
| Sep. 1998 | Founded IK CO., LTD., as a general consulting business for motorcycle purchasing specialty stores. |
| Dec. 1999 | Developed systematic business operations for the motorcycle purchasing business. |
| Jan. 2001 | Began integration of Group companies established as part of a multi-brand strategy (completed in January 2003). |
| May 2002 | Opened an Information Center (currently called the Contact Center). |
| Dec. 2002 | Opened the first roadside store fitted with the "BIKE O" sign. |
| Nov. 2003 | Opened a motorcycle parts store (closed in January 2012 and transitioned to Web-based sales and retail sales at certain stores). |
| Feb. 2004 | Started airing BIKE-O commercials. |
| Mar. 2005 | Centralized information systems into the proprietary mission-critical system "i-kiss." |
| June 2005 | Listed on the JASDAQ market of the Tokyo Stock Exchange (delisted in October 2006). |
| Sep. 2005 | Opened the Company's first motorcycle retail store. |
| Mar. 2006 | Founded PARK-OH Co., Ltd., a subsidiary to manage the motorcycle parking business (absorbed through a merger in March 2012). |
| Aug. 2006 | Listed on the Second Section of the Tokyo Stock Exchange. |
| Feb. 2007 | Founded IK MOTORCYCLE CO., LTD. as a subsidiary to manage the retail motorcycle business (absorbed through a merger in June 2008). |
| Mar. 2007 | Assumed the motorcycle sales business of Techno Sport Co., Ltd. |
| Aug. 2009 | Number of "BIKE O" motorcycle purchasing specialty stores reached 100. |
| Mar. 2011 | Commenced a business and capital alliance concerning the motorcycle auction business with USS Co., Ltd. <4732>, which manages auto auctions, and Japan Bike Auction Co., Ltd., which manages motorcycle auctions. |
| Apr. 2011 | Turned Japan Bike Auction Co., Ltd. into an affiliated company through a share acquisition (investment ratio 30.0%). |
| Aug. 2011 | Established the BIKE O Motorcycle Life Research Institute as an information delivery organization (currently "Bike Life Lab supported by BIKE O"). |
| Sep. 2012 | Company name changed to "BIKE O & COMPANY Ltd." |
| Feb. 2014 | Headquarters moved to Minato-ku, Tokyo. |
| Jan. 2016 | Unified the service brand to "BIKE O" and integrated and redesigned the logo mark. |
| Nov. 2016 | Concluded a capital and business alliance with G-7 HOLDINGS Inc. <7508>, which conducts a motorcycle supplies sales business. |
| Feb. 2017 | Changed the corporate governance model from a company with a Board of Statutory Auditors system to a company with committees system. |
| Nov. 2017 | Transferred the motorcycle parking business by means of a company split (incorporation-type company split) and share transfer. |
| Dec. 2019 | Turned Yamato Co., Ltd. into a wholly owned subsidiary through an acquisition of shares (the Company's investment ratio: 100.0%) |
| Nov. 2020 | Set up Contact Center No. 3 to spread out the risk of a stoppage of customer reception services |
| Apr. 2021 | Established BIKE O DIRECT Co., Ltd., a subsidiary that operates an e-commerce website carrying vehicles and related accessories and parts. |

Source: Prepared by FISCO from the Company's website

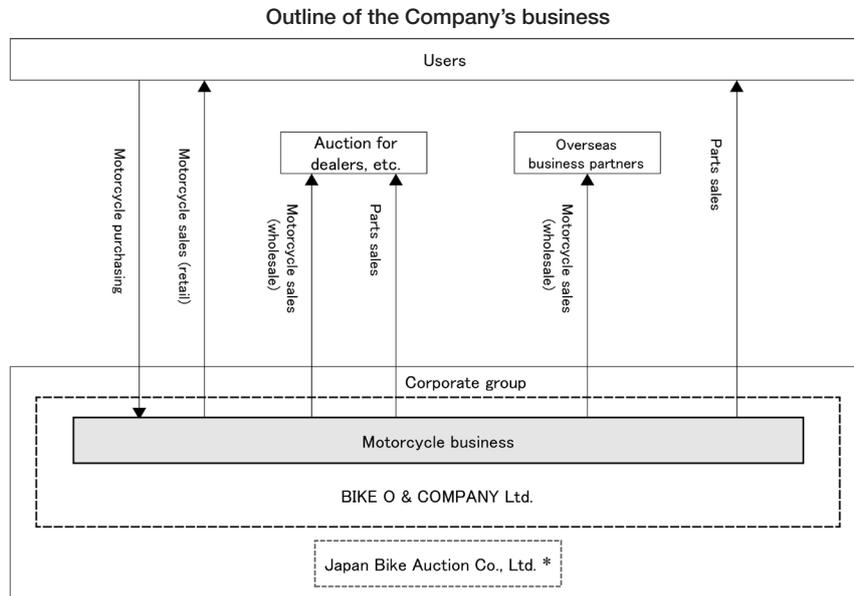
■ Business overview

Nationwide business roll-out under the “BIKE O” brand, securing high-market-value vehicles and continuous service area growth, and steady progress on retail expansion strategy through measures such as transitioning to mixed-use stores

The Company has rolled out the “BIKE O” brand nationwide, with its main business domains ranging from sales to purchasing of preowned motorcycles. Motorcycles purchased from customers are refurbished to increase their product value and are then sold in the wholesale market via auctions for dealers. In addition, motorcycles are sold in the retail market to individual customers through the Company’s stores and other channels. Moreover, the Company provides a variety of services that allow customers to enjoy their motorcycle life according to their lifestyles, beginning with support to facilitate their motorcycle life. The store network covers 5 stores in the Hokkaido and Tohoku area, 25 stores in the Kanto area, 4 stores in the Koshin and Hokuriku area, 7 stores in the Tokai area, 12 stores in the Kinki area, 4 stores in the Chugoku and Shikoku area, and 6 stores in the Kyushu and Okinawa area, with the Company operating a total of 63 stores nationwide. The Company is working to transition to mixed-use stores, meaning that it is shifting to a store format that offers both home-visit motorcycle purchasing and retail business functions. Currently, 59 of the 63 stores nationwide are mixed-use stores, and the Company is working to transition the remaining stores to mixed-use stores. Additionally, in April 2021, the Company established BIKE O DIRECT Co., Ltd., a subsidiary responsible for operation and management of the Company’s e-commerce website, marking its entry into the e-commerce business in earnest. The Company also operates Contact Center (Saitama, Saitama Prefecture), Contact Center No.2 (Akita, Akita Prefecture) and Contact Center No.3 (Yamaguchi, Yamaguchi Prefecture). It has logistics centers in three locations, specifically Yokohama (Kanagawa Prefecture), Neyagawa (Osaka), and Kobe (Hyogo Prefecture).

The Company has two segments: the Wholesale segment, where it conducts wholesaling activities via auctions for dealers, and the Retail segment, where it conducts sales activities for individual customers through its stores and other channels. The sales composition ratios for the Wholesale and Retail segments were approximately 60% for the Wholesale segment and approximately 40% for the Retail segment. Supported by steady progress on the retail expansion strategy, the sales composition ratio for the Retail segment has been rising as a trend. It is working to improve its ability to attract customers by continuously increasing the number of mixed-use stores, in addition to increasing the number of high-market-value vehicles by ensuring a sufficient volume and quality of purchased vehicles. As a result, earnings growth has been increasing as a trend both in the Wholesale and Retail segments.

Business overview



* Japan Bike Auction Co., Ltd. is an affiliated company of BIKE O & COMPANY Ltd.
 Source: The Company's website

Strengths

Tremendous recognition of the “BIKE O” brand, high-quality services for customers, optimal appraisals regardless of model or make, and two distribution networks for wholesale and retail

The Company has four strengths: (1) it is a leading company in motorcycle purchasing boasting the “BIKE O” brand, which enjoys tremendous brand recognition in preowned motorcycle purchasing services; (2) the Company provides high-quality services to customers, such as supporting customer needs 24 hours per day, 365 days per year, and operating a network that offers a free-of-charge, home-visit motorcycle purchasing service; (3) the Company has developed a highly transparent market environment that customers can use with peace of mind through unified nationwide appraisal standards using preowned motorcycle auction sites across Japan and the nationwide BIKE O distribution network; and (4) the Company has two distribution networks, both the wholesale network for wholesaling activities via auctions for dealers, and the retail network for sales to individual customers via the Company’s stores and other channels.

(1) Tremendous recognition of the “BIKE O” brand

The Company has tremendous brand recognition, with its brand name recognized even among those who do not ride motorcycles, owing to TV commercials aired continuously since 2004 and proactive web-based commercials. The Company has evolved from its existing “BIKE O” brand, which is known for motorcycle purchasing specialty stores, to a brand that can be described as “BIKE O for All Your Motorcycle Needs” – one that provides customers with a comprehensive and complete range of services related to motorcycles. Additionally, the Company is working to expand peripheral businesses related to motorcycles.

Strengths

(2) Providing high-quality services to customers

The Company can rapidly serve customers by leveraging its network, which supports customer needs 24 hours a day, 365 days a year and offers a free-of-charge, home-visit motorcycle purchasing services, where motorcycle life advisors from stores nationwide visit customers in their homes to purchase motorcycles. The Company has established a No.1 position in terms of the usage rate for motorcycle purchasing services (according to research by Rakuten Insight, Inc. in June 2021). In other areas, the Company is strengthening not only face-to-face sales but also online sales as a means of upgrading and expanding sales services. The Company is working to roll out online sales by seamlessly linking its wealth of inventories nationwide based on the concepts of convenience, peace of mind, and selection. These efforts are guided by an in-house slogan of realizing usability with a “one-shop” feel. Online sales feature a range of services. Customers can receive free shipping to their homes if deliveries are made during business hours on weekdays. Shipping between stores is also free of charge if deliveries are made within a designated area. In addition, motorcycles have been made even easier to select for customers through the addition of video-based information that allows confirmation of factors such as engine sound within the official BIKE O website and the inventory information of major preowned motorcycle sales websites. Apart from this, in not only face-to-face sales but also online sales, the Company offers a long-term warranty of up to seven years* on vehicles that have been purchased and have undergone pre-delivery inspections at BIKE O stores. In these ways, the Company provides full support for customers’ motorcycle life. The Company seeks to enlarge new customer segments through the establishment of BIKE O DIRECT Co., Ltd. as a subsidiary responsible for operation and management of the Company’s e-commerce website.

| * The warranty period varies with vehicle, and certain conditions must be met to receive a warranty. |

(3) Developed a highly transparent market environment through unified nationwide appraisal standards

One important factor for being chosen by customers is appropriate purchasing practices. Previously, the preowned motorcycle market had many underdeveloped aspects in terms of distribution routes and appraisal standards. The Company has developed a highly rational and transparent market environment where customers can use its services with peace of mind. The Company sells motorcycles using preowned motorcycle auction sites across Japan and the nationwide BIKE O distribution network. Leveraging IT networks, the Company grasps price data from auction sites for preowned motorcycle businesses throughout Japan, so it calculates appraisal prices based on the auction prices. Moreover, BIKE O stores directly sell motorcycles purchased by the Company from among a wide variety of makes and models. Unlike other companies, the sales prices at BIKE O stores need not be raised to cover an intermediary margin because the motorcycles are directly sourced from the nationwide BIKE O network. This allows for more appropriate and higher purchasing prices. Additionally, the Company has accumulated expertise based on its track record of carrying a wide variety of motorcycles. This expertise allows the Company to carry out optimal appraisals tailored to market conditions regardless of make or model.

(4) Two distribution networks: wholesale and retail

The Company’s strength lies in having two distribution networks, the wholesale network for wholesaling activities via auctions for dealers, and the retail network for sales to individual customers via the Company’s stores and other channels. The Company practices cash flow-driven management leveraging wholesaling activities via auctions for dealers, and strengthens retail activities that harness its extensive purchasing capabilities. Through these efforts, the Company aims to drive further growth. Trade-in vehicles at ordinary retail stores usually require a long time before they can be resold and can cause inventory management costs to pile up. However, it only takes the Company a short period of time, about one month, before it can submit the vehicles it has purchased to dealer-only auctions, so it can substantially reduce inventory management costs. Moreover, the Company carries a tremendous number of motorcycles (BIKE O’s cumulative trading volume from August 2002 to September 2019 was approximately two million vehicles), allowing it to reduce the costs per motorcycle, such as inventory management costs and delivery costs.

Strengths

The main features of the Company's wholesale business include the following: (1) inventory periods are short and product display costs are low; (2) early monetization (accounts receivable collection period of 1 to 3 days); and (3) sales prices can be rapidly reflected in purchase prices. In addition, the main features of the Company's retail business include the following: (1) customers can carefully choose from an extensive inventory made possible by having the No.1 usage rate for motorcycle purchasing services; (2) all preowned motorcycles come with a long-term warranty and return merchandise authorization; and (3) customers can take delivery of motorcycles anywhere in Japan by using online sales, even if they do not have access to a store nearby.

The Company's main priorities are to strengthen purchasing capabilities and sales capabilities. To strengthen its purchasing capabilities, the Company has optimized the mix of mass-media channels and advanced effective advertising initiatives centered on the internet. Concurrently, it has enhanced its framework for rapidly responding to customer inquiries by focusing on the optimal placement, upgrading and expansion and training of personnel. To strengthen its sales capabilities, the Company has promoted the merchandising cycle and worked to relocate stores and enlarge their floor space, in addition to upgrading and expanding retail product lineups. It has also striven to strengthen existing stores by enhancing customer service capabilities and improving sales floors. Through these efforts, purchasing activities have been trending favorably, and the volume and quality of motorcycles, centered on high-market-value vehicles, have improved. The Company has also fully secured optimal levels of inventories for the retail business. By securing a sufficient quantity of retail volume, the average unit sales price and average gross profit have been increasing.

The Company tended to be unprofitable in 1Q because this period falls in the winter, which is the off-season for motorcycle riding. In response, to alleviate the losses recorded in 1Q, the Company implemented a strategy of preparing for the following fiscal year during 4Q. As a result, the Company was able to restore profitability in 1Q of FY11/20. In other words, the Company transformed its operations to ensure that it could secure enough motorcycles to sell in 1Q during 4Q. This transformation has ultimately increased the Company's overall profitability.

■ Business trends

Net sales and net income reached all-time highs in FY11/21. The ratio of high-market-value vehicles rose, and the average unit sales price and average gross profit increased substantially

1. FY11/21 results

Looking at FY11/21 results, the Company reported net sales of ¥26,570mn (+18.9% YoY), operating income of ¥1,558mn (+120.3%), ordinary income of ¥1,770mn (+105.9%) and net income of ¥1,226mn (+106.3%). While the Company announced upward revisions to its business forecasts twice, specifically in March and June 2021, it finished the fiscal year with results above those revised forecasts, and net sales and net income both reached all-time highs.

Business trends

In FY11/21, the Company raised customer satisfaction by stepping up efforts to further strengthen its purchasing and sales capabilities at mixed-use stores, as it has done to date, along with striving to bolster its management platform. Specifically, the Company worked to enhance vehicle purchasing for the Retail segment, and improve the quality of vehicles for sale in the Wholesale segment by securing purchasing volume and strengthening sales capabilities. It also strove to increase retail sales volume and improve retail aftersales capabilities by strengthening its refurbishment system and enhancing the reliability of refurbishment work. Moreover, the Company expanded the earnings of peripheral businesses and monetized new initiatives, strengthened the organization and personnel management to realize its medium- and long-term management strategy, and transformed its business model and built a forward-looking management platform.

In motorcycle purchasing, the Company continued to secure high-market-value vehicles. Meanwhile, in the Retail segment, the Company implemented measures that delivered positive effects, such as optimizing product lineups as part of its product sales strategy, opening new stores (two stores), relocating stores and enlarging their floor space (five stores), and strengthening the sales capabilities of existing stores by improving customer service capabilities and enhancing sales floors. It also bolstered online sales. In addition, the ratio of high-market-value vehicles rose as the Company continued to secure high-quality inventories, and the Company was supported by firm demand in the retail market. Meanwhile, in the Wholesale segment, the ratio of high-market-value vehicles also rose, and the Company worked to creatively modify sales techniques so that it could keep sales price levels unchanged. Retail volume increased YoY while wholesale volume decreased as the Company continued to secure product inventories for the Retail segment. Overall, sales volume was slightly down from the previous fiscal year. That said, gross profit increased owing to substantial increases in unit sales price per vehicle (net sales per motorcycle) and average gross profit (gross profit per motorcycle) both in the Retail and Wholesale segments. The Company also alleviated losses in 1Q, which had been a problem, and favorable earnings continued in 2Q onward, leading to record-high earnings.

FY11/21 Results

| | FY11/20 | | FY11/21 | | FY11/21 | | (¥mn) |
|-------------------------------|---------|---------------------------------------|------------------------------|-----------------------------|---------|------------|-------|
| | Results | Forecasts at beginning of fiscal year | Revised forecasts (March 30) | Revised forecasts (June 30) | Results | YoY change | |
| Net sales | 22,349 | 23,000 | 23,500 | 24,700 | 26,570 | 18.9% | |
| Operating income | 707 | 800 | 1,000 | 1,490 | 1,558 | 120.3% | |
| Ordinary income | 859 | 920 | 1,160 | 1,650 | 1,770 | 105.9% | |
| Ordinary income margin | 3.8% | 4.0% | 4.9% | 6.7% | 6.7% | 2.9pt | |
| Net income | 594 | 620 | 770 | 1,090 | 1,226 | 106.3% | |
| Annual dividend per share (¥) | 7.5 | 11.0 | 11.0 | 11.0 | 15.5 | 8.0 | |
| Dividend payout ratio | 17.6% | 24.8% | 19.9% | 14.1% | 17.7% | 0.1pt | |
| Net income per share (¥) | 42.55 | 44.39 | 55.14 | 78.05 | 87.80 | 45.25 | |

Source: Prepared by FISCO from the Company's financial results

2. Net sales composition

Wholesale net sales, which comprise sales of motorcycles to dealers such as motorcycle retail stores through wholesaling activities via auctions for dealers, amounted to ¥13,808mn (+ 6.7% YoY), while retail net sales, which comprise sales of motorcycles to general customers via the Company's stores or online sales, amounted to ¥12,056mn (+ 37.4%).

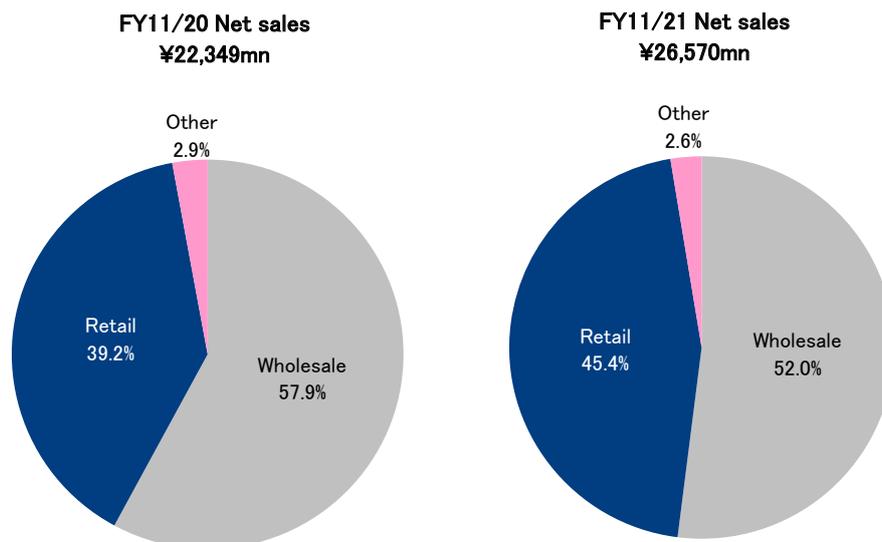
Business trends

Unit sales prices for vehicles rose both in the Wholesale and Retail segments. In addition, retail volume increased due to the impact of business at existing stores and stores that started retail operations after they were relocated and their floor space was enlarged. Although wholesale volume decreased as the Company continued to secure product inventory for the Retail segment, Wholesale net sales rose by ¥866mn YoY owing to unit sales price factors. In the Retail segment, Retail sales increased by ¥3,284mn owing to increases in volume and unit sales prices. As a result, the net sales composition of the Wholesale segment was 52.0%, a decrease of 5.9 points from the previous fiscal year, while that of the Retail segment was 45.4%, an increase of 6.2 points.

Net sales composition

| | FY11/20 | FY11/21 | YoY change | | Net sales composition (¥mn) | |
|-----------|---------|---------|------------|-------|-----------------------------|---------|
| | | | | | FY11/20 | FY11/21 |
| Net sales | 22,349 | 26,570 | 4,220 | 18.9% | 100.0% | 100.0% |
| Wholesale | 12,942 | 13,808 | 866 | 6.7% | 57.9% | 52.0% |
| Retail | 8,771 | 12,056 | 3,284 | 37.4% | 39.2% | 45.4% |
| Other | 634 | 704 | 70 | 11.0% | 2.9% | 2.6% |

Source: Prepared by FISCO from the Company's results briefing materials



Source: Prepared by FISCO from the Company's results briefing materials

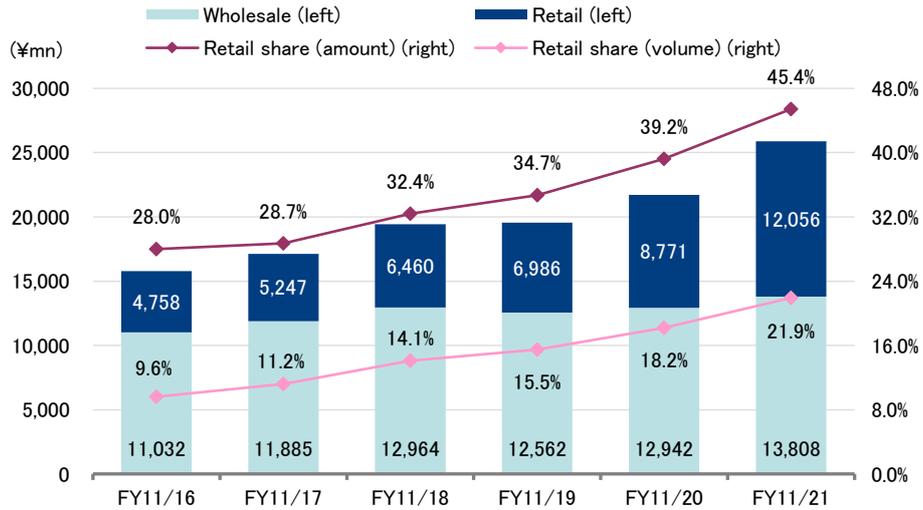
The Company started to strengthen the Retail segment in FY11/16, and retail net sales grew from ¥4,758mn in that fiscal year to ¥12,056mn in FY11/21. The share of retail volume relative to total sales volume increased from 9.6% to 21.9%, indicating that retail sales volume has grown substantially. The number of inventory turnover days rose to 106.0 as the Company gave priority to securing inventory for the purpose of driving further growth in retail sales volume. The Company coordinates inventory levels with 90 days as its standard for the number of inventory turnover days. The high inventory turnover days number was the result of the Company's temporary strategy for securing inventories to secure earnings in 1Q of FY11/22. Considering factors such as the track record of growth in sales capabilities in the Retail segment to date, FISCO does not expect the number of inventory days to continue to increase in the next fiscal year onward, and it does not believe this quantitative change should be viewed negatively. Also, the main reasons for the increase in merchandise are that the Company bolstered purchasing of high-market-value vehicles and had higher inventory levels due to an accumulation of retail inventories.

We encourage readers to review our complete legal statement on "Disclaimer" page.

Business trends

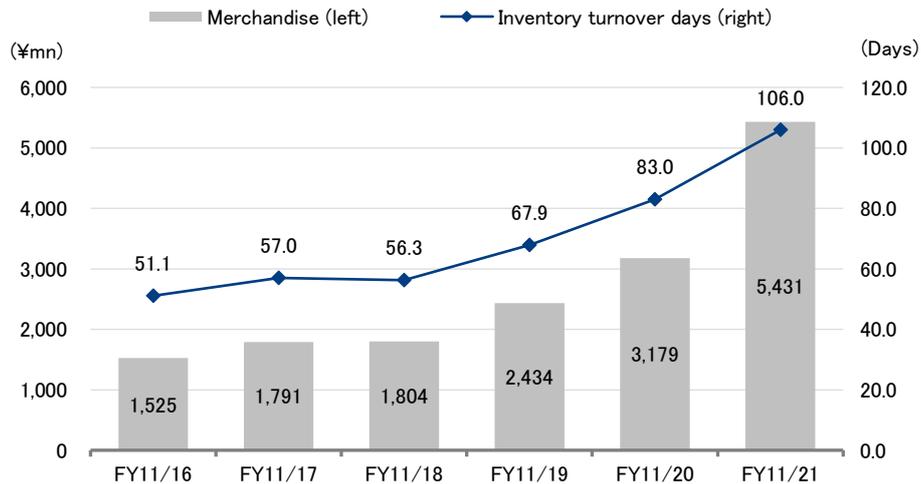
Moreover, the Company has been working to transition to stores that have both retail and wholesale functions. Currently, almost all its stores have become mixed-use stores. For this reason, the Company has made progress on securing high-market-value vehicles for the Retail segment, and the unit sales price for vehicles has been increasing year after year. This trend has also had a positive impact on the Wholesale segment.

Comparison with the initial period of strengthening the Retail segment (FY2016)



Source: Prepared by FISCO from the Company's results briefing materials

Inventory turnover days, merchandise



Source: Prepared by FISCO from the Company's results briefing materials

Business trends

3. Reasons for increases in gross profit

Gross profit increased ¥1,785mn YoY. The main reasons for this increase were as follows. Gross profit rose by ¥503mn in the Wholesale segment. This reflects an increase in the average gross profit amount owing to efforts to creatively modify sales techniques to maintain sales price levels, in addition to a rise in the share of high-market-value vehicles. Wholesale sales volume decreased by ¥511mn on a monetary value basis, the result of a relative decrease in sales volume as the Company continued to secure inventories in the strong-performing Retail segment. In the Retail segment, gross profit increased by ¥1,362mn. Looking at the main reasons, the Company was able to increase the unit sales price for vehicles (by ¥707mn) and sales volume (by ¥654mn on a monetary value basis) by strengthening sales capabilities and bolstering online sales. This was accomplished by securing high-quality inventories from the beginning of the fiscal year and optimizing product lineups. In addition, the Company opened new stores, relocated existing stores and enlarged their floor space, improved customer service capabilities, and enhanced sales floor environments.

Factors behind changes in gross profit

| | FY11/20 | Factors behind changes | | | | FY11/21 |
|--------------|---------|------------------------|------------|-------|-------|---------|
| | | Volume | Unit price | Other | Total | |
| Gross profit | 10,167 | 143 | 1,722 | -80 | 1,785 | 11,952 |
| Wholesale | - | -511 | 1,014 | - | 503 | - |
| Retail | - | 654 | 707 | - | 1,362 | - |
| Other | - | - | - | -80 | -80 | - |

Source: Prepared by FISCO from the Company's results briefing materials

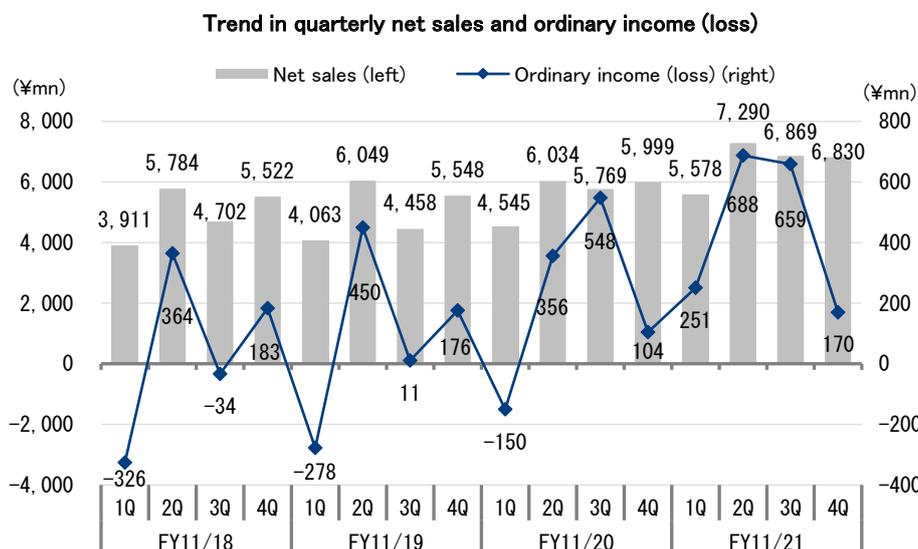
Dramatic improvement in the 1Q earnings structure. Positive effects of strategy centered on securing high-market-value vehicles through the strengthening of purchasing capabilities at mixed-use stores become apparent

4. Trends in quarterly net sales and ordinary income (loss)

The motorcycle industry is being reshaped by changes in the environment such as an increasing number of people newly acquiring motorcycle licenses, and demand has heightened for both new and preowned motorcycles. These trends are attributable to a boom in outdoor leisure activities in recent years, as well as stronger consumer interest in riding motorcycles, as evidenced by increases in the numbers of people returning to motorcycle riding and new motorcycle riders. This, in turn, reflects changes in people's behavior in response to the spread of COVID-19. To some extent, these factors in the external environment have produced a certain beneficial effect by acting as tailwinds. However, FISCO believes that the more significant factor is that the Company has so far implemented a strategy centered on securing high-market-value vehicles by strengthening purchasing capabilities at mixed-use stores, and that the positive effects of this strategy have now become apparent.

Looking at the trend in quarterly net sales and ordinary income, it can be noted that the Company's business results have a structure that is affected by seasonal factors. That said, the Company focused even more on securing high-market-value vehicles in FY11/21, so this had a positive impact on not only the Retail segment, but also the Wholesale segment. As a result, the Company dramatically improved the 1Q earnings structure. The Company plans to work to permanently avoid the chronic 1Q losses it had posted previously. FISCO believes that this point is highly commendable as it will make the Company's business results more stable.

Business trends



Source: Prepared by FISCO from the Company's results briefing materials

5. Factors behind changes in SG&A expenses

SG&A expenses amounted to ¥10,393mn (+ 9.9% YoY). The main factors behind this increase were an increase of ¥231mn in selling expenses primarily from the production of commercials and the running of those commercials to secure high-market-value vehicles and an increase of ¥356mn in personnel expenses due to an increase of 91 employees, and an accompanying increase in the payment of bonuses and other remuneration. Administration expenses increased by ¥346mn due to the amortization of a mission-critical system released in the FY11/21 period, and rent expenses due to opening new stores and relocating and enlarging the floor space of stores.

Factors behind the changes in SG&A expenses

| | FY11/20 | FY11/21 | YoY change | |
|-------------------------|---------|---------|------------|-------------------|
| | | | Amount | Percentage change |
| SG&A expenses | 9,459 | 10,393 | 934 | 9.9% |
| Selling expenses | 3,576 | 3,807 | 231 | 6.5% |
| Personnel expenses | 3,733 | 4,090 | 356 | 9.6% |
| Administrative expenses | 2,149 | 2,495 | 346 | 16.1% |

Source: Prepared by FISCO from the Company's results briefing materials

6. Key performance indicators, and stores and human resources

The gross profit margin was 45.0%, remaining mostly unchanged from the previous fiscal year, with a decrease of only 0.5 points from the previous fiscal year. The main factor behind this decrease was a rise in the share of retail business, which has a high average gross profit amount but a low gross profit margin. The Company controlled SG&A expenses in relative terms by implementing productivity enhancement measures such as increasing net sales per employee and operating income. As a result, the operating income margin was 5.9% and the ordinary income margin was 6.7%, both of which surpassed the previous fiscal year. In addition, ROE rose 10.1 points to 23.9% in connection with the increase in net income, and the Company plans to continue working to improve capital efficiency. In terms of the number of stores, the Company opened two new stores and relocated five stores and enlarged their floor space. There were 59 mixed-use stores and 4 purchasing stores, bringing the total number of stores to 63.

Business trends

Key performance indicators and stores and human resources

| | FY11/20 | FY11/21 | Difference from the previous fiscal year |
|---|---------|---------|--|
| Gross profit margin | 45.5% | 45.0% | -0.5pt |
| Operating income margin | 3.2% | 5.9% | 2.7pt |
| Ordinary income margin | 3.8% | 6.7% | 2.9pt |
| ROE | 13.8% | 23.9% | 10.1pt |
| Number of stores (stores) | 62 | 63 | 1 |
| Number of mixed-use stores (as of January 11, 2022) | 57 | 59 | 2 |
| Number of employees (excluding dispatched employees and part-timers) (people) | 858 | 949 | 91 |
| Retail volume share | 18.2% | 21.9% | 3.7pt |

Source: Prepared by FISCO from the Company's results briefing materials

7. Financial status

As of the end of FY11/21, current assets amounted to ¥6,752mn, an increase of ¥1,551mn from the end of FY11/20. The main components of this change were an increase in merchandise as the Company secured inventories for FY11/22 as part of efforts to strengthen the Retail segment, while there was a temporary decline in cash and deposits in conjunction with the increase in merchandise. Specifically, merchandise increased by ¥2,252mn and accounts receivable – trade rose by ¥107mn, while cash and deposits decreased by ¥736mn, accounts receivable – other declined by ¥33mn and prepaid expenses were down by ¥22mn.

Non-current assets stood at ¥2,496mn, an increase of ¥41mn from the previous fiscal year-end. Property, plant and equipment rose by ¥82mn, primarily due to an increase in lease assets, and investments and other assets rose by ¥73mn, primarily reflecting an increase in deferred tax assets. Intangible assets decreased by ¥114mn, which primarily reflected the recording of amortization of software due to the start of operation of the next-generation mission-critical system.

Current liabilities amounted to ¥3,054mn, an increase of ¥450mn from the previous fiscal year-end. The main components of this change were increases of ¥500mn in short-term borrowings reflecting a temporary decrease in cash and deposits as the Company secured inventories, ¥136mn in income taxes payable and ¥113mn in advances received, and decreases of ¥198mn in accrued consumption taxes and ¥137mn in accounts payable – other. Non-current liabilities stood at ¥534mn, an increase of ¥63mn from the previous fiscal year-end. The main components of this change were increases of ¥95mn in long-term lease liabilities and ¥20mn in asset retirement obligations, and a decrease of ¥53mn in others, mainly due to a decrease in long-term accounts payable – other.

Business trends

Balance sheet

| | (¥mn) | | |
|---|---------|---------|------------------|
| | FY11/20 | FY11/21 | Amount of change |
| Current assets | 5,200 | 6,752 | 1,551 |
| Cash and deposits | 1,680 | 944 | -736 |
| Accounts receivable - trade | 83 | 191 | 107 |
| Merchandise | 3,179 | 5,431 | 2,252 |
| Others | 256 | 184 | -72 |
| Non-current assets | 2,455 | 2,496 | 41 |
| Property, plant and equipment | 770 | 853 | 82 |
| Intangible assets | 824 | 710 | -114 |
| Investments and other assets | 859 | 933 | 73 |
| Total assets | 7,655 | 9,248 | 1,593 |
| Current liabilities | 2,604 | 3,054 | 450 |
| Accounts payable - trade | 253 | 277 | 23 |
| Advances received | 591 | 705 | 113 |
| Short-term borrowings | 100 | 600 | 500 |
| Others | 1,659 | 1,472 | -187 |
| Non-current liabilities | 470 | 534 | 63 |
| Total liabilities | 3,074 | 3,588 | 513 |
| Total net assets | 4,580 | 5,660 | 1,079 |
| Total liabilities and net assets | 7,655 | 9,248 | 1,593 |

Source: Prepared by FISCO from the Company's financial results

Core operating cash flow amounted to ¥2,199mn, an increase of ¥335mn compared with the previous fiscal year, due to the recording of sufficient operating income. That said, inventories rose because the Company secured inventories for FY11/22 as part of efforts to strengthen the Retail segment to drive further growth. For this reason, working capital increased, and operating cash flow temporarily turned negative, resulting in negative free cash flow. In addition, cash flow from financing activities was positive because the Company took out short-term borrowings in response to a temporary decline in cash and deposits as it secured inventories. Cash and cash equivalents at end of period stood at ¥944mn, a decrease of ¥736mn from the previous fiscal year.

Statement of cash flows

| | (¥mn) | |
|---|---------|---------|
| | FY11/20 | FY11/21 |
| Cash flows from operating activities | 1,071 | -583 |
| Change in working capital | -792 | -2,783 |
| Core operating cash flow | 1,864 | 2,199 |
| Cash flows from investing activities | -600 | -437 |
| Acquisition of non-current assets | -541 | -384 |
| Free cash flow | 470 | -1,020 |
| Cash flows from financing activities | -95 | 284 |
| Dividends paid | -62 | -146 |
| Cash and cash equivalents at end of period | 1,680 | 944 |

Source: Prepared by FISCO from the Company's results briefing materials

■ Outlook

Establish an earnings structure through a strategy centered on securing high-market-value vehicles, focusing on long-term growth instead of short-term profit growth. Demand for motorcycles has heightened among second-generation baby boomers

1. FY11/22 forecasts

In its FY11/22 guidance, the Company forecasts net sales of ¥27,500mn (+3.5% YoY), operating income of ¥1,750mn (+12.3%), ordinary income of ¥1,950mn (+10.2%) and net income of ¥1,300mn (+6.0%). The Company has been working to strengthen its purchasing and sales capabilities further at mixed-use stores (stores engaged in both purchasing and retail activities), as it has done before, and the benefits of those efforts are becoming apparent. In the previous fiscal year, the Company opened two new stores and relocated and enlarged the floor space of five stores. All these stores have made a strong start, and sales of existing stores are also growing. In the current fiscal year, the Company plans to open around eight stores. Judging from the track record of the Company's store strategy so far, FISCO expects the transition to the mixed-use store format to have the effect of steadily pushing up operating results. Additionally, the Company has been delivering results through various measures, such as developing a highly transparent market environment through unified nationwide appraisal standards and providing high-quality services to customers.

It appears that the profit growth rate has been slowing since the previous fiscal year. However, as the Company mentions in the medium-term management plan described later in the report, the Company has positioned FY11/22 as a preparation period for realizing long-term growth for the next 50 and 100 years, rather than fixating on short-term profits. Even if the Company were to sell as many motorcycles as it possibly could, it would not be meaningful unless the Company could provide adequate aftersales services thereafter. Together with increasing capacity by accelerating the transition to mixed-used stores, the Company will nurture technicians who can support aftersales services such as maintenance. It is only by doing so that the Company will be able to put its business on a long-term positive cycle. For this reason, it is probably premature to judge the Company negatively based only on the standalone forecasts for the first phase of the medium-term management plan. The Company has only incorporated the effect of opening medium-sized new stores (with sales floor areas of around 120 vehicles) into its forecasts for FY11/22. Therefore, FISCO believes that the initial forecasts are conservative.

In other areas, looking at the trend in the number of graduates of designated driving schools by type of driver's license in the motorcycle industry, the number of driving school graduates seeking to acquire large motorcycle and standard motorcycle licenses has been increasing as a trend since bottoming out in 2017. There have been changes in the environment in the form of a return to an increase in the number of people acquiring motorcycle licenses. In addition, because motorcycle production has been low during the sluggish period up to now, there are also fewer vehicles available in the preowned market. Moreover, there are currently very few new vehicles available on the market due to the impact of the semiconductor shortage associated with the COVID-19 crisis. In this environment, in addition to the boom in outdoor leisure activities in recent years, there has been heightened consumer interest in riding motorcycles as a means of transportation that can avoid the "Three Cs" (Closed spaces, Crowded places, and Close-contact settings), which reflects a change in people's behavior in response to the COVID-19 crisis.

Outlook

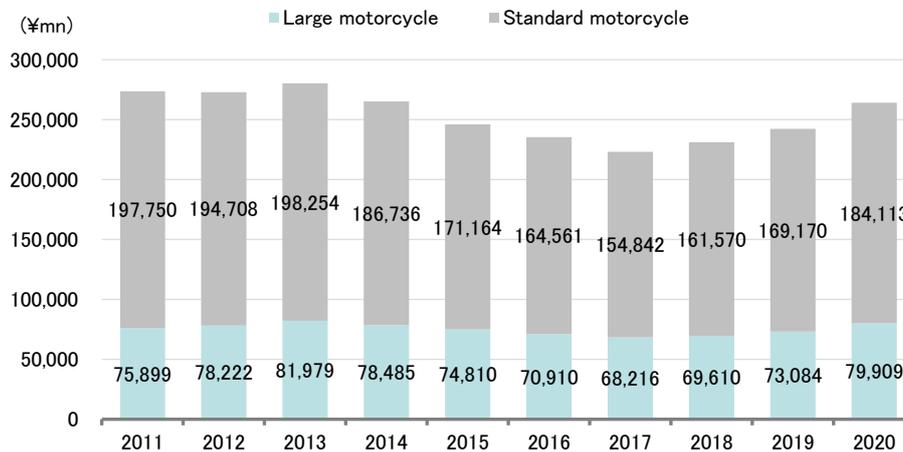
Furthermore, among the second-generation baby boomers who are children of the baby boomer generation and are currently aged 47 to 50 years old, it appears that now that their parenting and other responsibilities have run their course, many in this age group are purchasing popular motorcycles that they had once admired when they were younger. This factor can cause demand for preowned motorcycles to rise to an even higher level. The Company has established an earnings structure through a strategy centered on transitioning to stores that have both retail and wholesale functions, as it has done before, and securing high-market-value vehicles by strengthening purchasing capabilities. FISCO believes that this will help the Company demonstrate a competitive edge in a market environment shaped by the tailwinds described above.

FY11/22 forecasts

| | FY11/21 Results | FY11/22 Forecasts | Amount of change | Percentage change |
|--------------------------------|-----------------|-------------------|------------------|-------------------|
| Net sales | 26,570 | 27,500 | 930 | 3.5 |
| Operating income | 1,558 | 1,750 | 191 | 12.3 |
| Ordinary income | 1,770 | 1,950 | 179 | 10.2 |
| Ordinary income margin | 6.7% | 7.1% | - | 0.4pt |
| Net income | 1,226 | 1,300 | 73 | 6.0 |
| Annual dividends per share (¥) | 15.5 | 20.0 | 4.5 | - |
| Dividend payout ratio | 17.7% | 21.5% | - | 3.8pt |
| Net income per share (¥) | 87.80 | 93.09 | 5.29 | - |

Source: Prepared by FISCO from the Company's financial results

Yearly trend in the number of graduates from designated driving schools by type of driver's license

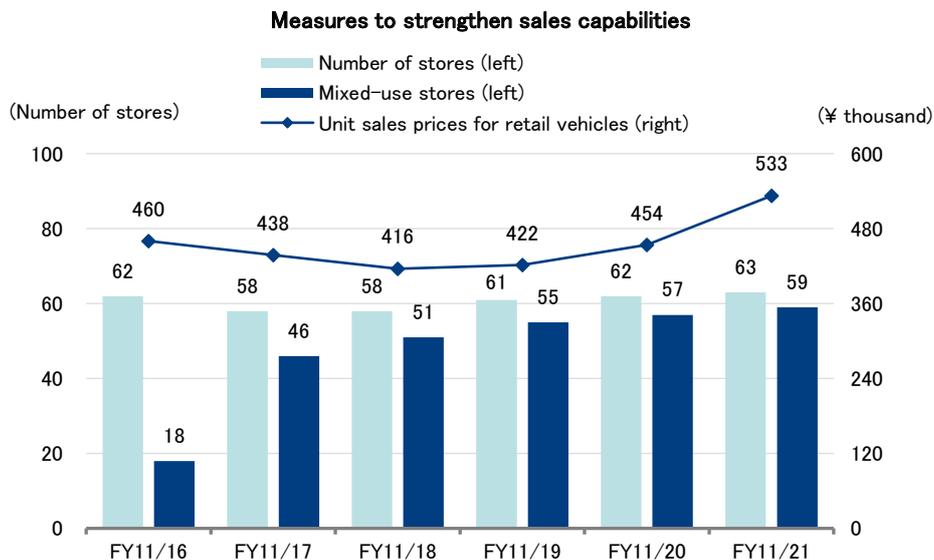


Source: Prepared by FISCO from "Driver's License Statistics" by the National Police Agency

Outlook

2. Measures to strengthen sales capabilities

The Company plans to implement the following measures to strengthen its sales capabilities. In the Wholesale segment, the Company will work to (1) keep sales price levels unchanged by continuing to creatively modify sales techniques; (2) control the optimization of purchasing prices; and (3) further enhance refurbishment of vehicles to be submitted to auction. In the Retail segment, the Company plans to (4) expand sales floor areas and develop high-quality properties for which investments can be recovered in a short space of time; (5) develop sales floors using merchandising techniques; and (6) create systematic sales manuals and training programs and strengthen employee training.



Source: Prepared by FISCO from the Company's results briefing materials

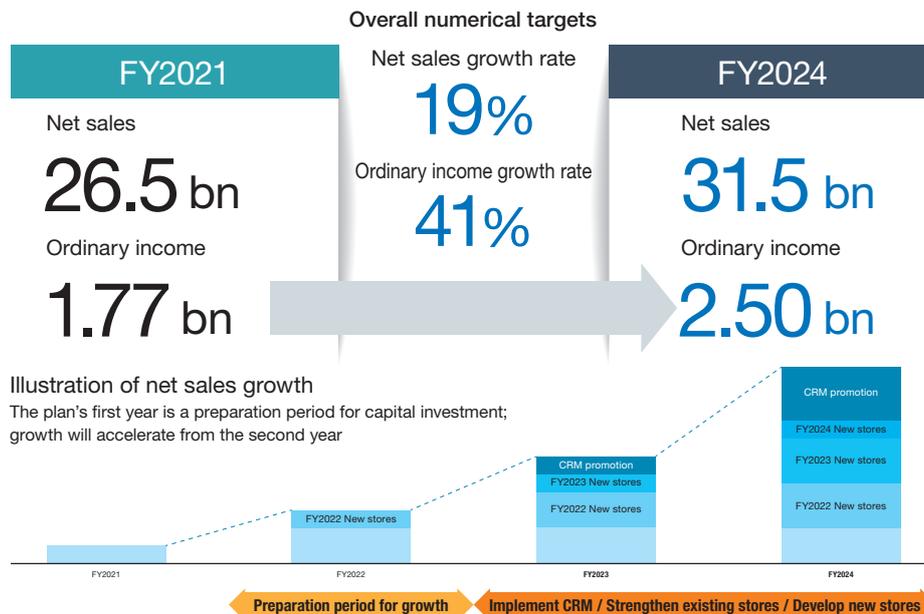
The Company will work to secure volume and enhance the quality of vehicles by strengthening purchasing capabilities. It will also expand retail business and improve earnings by strengthening sales capabilities. At the same time, it will work to improve retail aftersales capabilities by strengthening its refurbishment system and enhancing the reliability of refurbishment work. In the area of talent development and PR, the Company holds a Customer Satisfaction (CS) contest as a forum for each store and the headquarters teams to compete on identifying issues and carrying out improvement activities based on the theme of “new customer service ideas that satisfy customers,” and to sharpen each other’s ideas. This is a highly meaningful activity for the business. Notably, measures recognized as those that will significantly enhance CS are successively implemented at all stores. In addition, the Refurbishment Dept. holds a competition on motorcycle restoration techniques at refurbishment sites set up nationwide and determines the winner of a Grand Prize. These and other initiatives have also led to employee development and further improvement in motivation.

Medium-term management plan

Formulated a three-year medium-term management plan. The plan’s first year is a period for building a platform for growth. From the second year onward, the effects of measures such as opening new stores, developing CRM and refurbishment infrastructure, and new business domains will become apparent, leading to accelerated growth

The Company has embraced “Creating Amazement the World Has Not Yet Seen” as its new corporate mission for sustainable growth. To realize its corporate vision, “A Lifelong Partner for Motorcyclists,” the Company has formulated a three-year medium-term management plan running from FY11/22 to FY11/24. For FY11/24, the plan’s final fiscal year, the Company is forecasting net sales of ¥31.5bn and ordinary income of ¥2.5bn. These forecasts represent a net sales growth rate of 19% and an ordinary income growth rate of 41% in comparison with FY11/21.

The plan’s first year is positioned as a period of preparation for growth. The Company has announced the introduction of a stock compensation plan and stock benefit trust to transform the awareness of management and all employees toward improving corporate value. In addition, the Company will make investments in facilities, personnel, and IT with a focus on its three strategic pillars: CRM promotion, refurbishment infrastructure and system platform. Moreover, the Company will work to further increase corporate value and expand its business scale through its sales, operations, information, human resources and financial strategies. The Company plans to accelerate growth by ensuring that the positive effects of these measures emerge from the plan’s second year onward.



Source: The Company’s medium-term management plan

Medium-term management plan

In addition, the Company aims to transfer its listing from the Standard Market of the Tokyo Stock Exchange, where it is scheduled to be transferred in April, to a listing on the Prime Market. The fact that it has embraced this goal at an early stage is reassuring from an investor's perspective. Going forward, the Company will strive to achieve this goal through the following measures: (1) expand business scale by improving the value of existing business and proactively investing in new fields, including M&As; (2) introduce a stock compensation plan and related programs as part of efforts to improve awareness of corporate value among management and employees; and (3) work to enhance corporate governance further.

The Company's progress on meeting Prime Market listing requirements

| | BIKE O & COMPANY | Prime Market | Progress |
|--|--------------------|-----------------------------|----------|
| Number of shareholders | 6,833 shareholders | At least 800 shareholders | ○ |
| No. of tradable shares | 45,650 units | At least 20,000 units | ○ |
| Tradable share market cap | ¥6.0bn | At least ¥10.0bn | × |
| Trading value (market cap) | ¥20.4bn | At least ¥25.0bn market cap | × |
| Tradeable share ratio | 29.8% | At least 35% | × |
| Business performance (total profit for recent 2 years) | ¥2.6bn | At least ¥2.5bn | ○ |
| Financial status (net assets) | ¥5.6bn | At least ¥5.0bn | ○ |

Source: Prepared by FISCO from the Company's medium-term management plan

1. Establishing a CRM Model

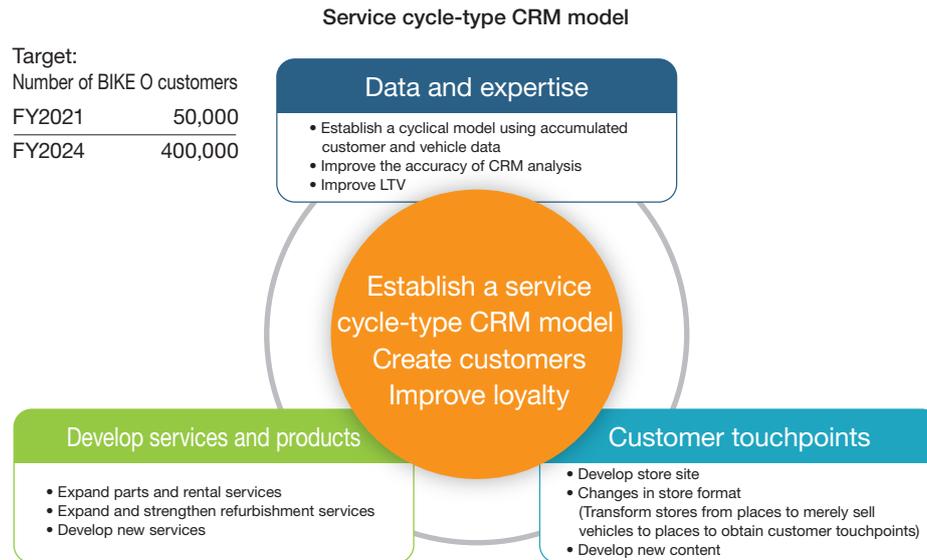
In its medium-term management plan, the Company has identified three strategic pillars: CRM promotion, refurbishment infrastructure, and system platform. With CRM promotion, the Company seeks to create even more customers along with improving loyalty and encouraging repeat business by fostering customer understanding through continuous communication. Also, the Company will obtain refurbishment infrastructure, which is the most crucial function for building long-term relationships with customers. The system platform serves as the foundation for providing services. At the same time, it is the foundation for acquiring data on customers and motorcycles. By utilizing this accumulated data, the Company will not only improve operations, but it will also seek to transform business and create new value.

The Company has so far continued to carry out some aspects of customer management and inventory control with paper-based operations. Put differently, the Company has not actively implemented digital transformation (DX) to date. However, with the capacity to hold massive amounts of inventory, the Company will establish a service cycle-type CRM model and digitalize its operations while maintaining its existing operating efficiency. It will allocate the resources freed up by this process to services in order to create even more BIKE O customers and improve customer loyalty, thereby laying the groundwork for accelerating earnings growth.

Through these measures, the Company plans to increase the number of BIKE O customers from the current level of 50,000 to 400,000 by FY11/24. At first glance, this looks like a highly ambitious numerical target. However, before it starting using CRM, the Company successfully obtained 50,000 BIKE O members through steadfast activities. FISCO believes that the Company's target is not necessarily impossible to achieve if the Company can create a process for capturing members from among the customers with whom it has built relationships by promoting its efforts to expand parts and rental services, enlarge and strengthen refurbishment services, and develop new services, among other areas.

Medium-term management plan

Moreover, the Company plans to devote approximately ¥3.0 billion to investments in these measures. With its investments in facilities, the Company will seek to develop store sites with the aim of obtaining the No.1 share of preowned motorcycle sales. With its investments in personnel, and the Company will strive to develop employee talent to increase the number of vehicles it carries both in purchasing and sales. With its investments in IT, the Company will seek to build a platform for executing its strategy, and produce solid results using the systems it develops.



Source: The Company's medium-term management plan

2. New businesses

It appears that the Company is basically considering motorcycle businesses or business that capture synergies with motorcycles as its new businesses. Anticipated new businesses include peripheral motorcycle services, such as those related to leisure and outdoor activities and those related to transportation infrastructure. Currently, the Company does not seem to have identified any specific and distinct new businesses. There is a good possibility that the Company may, for example, start carrying products such as electric scooters (a stand-up scooter powered by an electric motor) from the aspect of transportation infrastructure. The Company already carries the electric bike XEAM designed and sold by MS Solutions Co., Ltd., a firm headquartered in Fukuoka Prefecture. MS Solutions designed the electric bike XEAM by modifying an electric bike made by a Chinese company to meet Japanese specifications. This Chinese company also makes electric scooters, so the Company might also start carrying these products too. Also, it seems like the Company has received inquiries from companies that are involved in electric scooters.

3. Store opening plans

The Company currently operates 63 stores, 4 of which are motorcycle purchasing specialty stores. Going forward, the Company plans to convert such motorcycle purchasing specialty stores into mixed-use stores. It will also open new stores, as it works toward a plan of opening a total of 83 stores by the end of FY11/24. The Company will break free from a format of merely selling vehicles at stores. Instead, it will utilize stores as places to secure touchpoints with customers. In other words, the Company will strive to improve sales efficiency and expand its customer base, with the goals of transforming and modifying how it does business at stores. Regarding the store opening policy, the Company will carry out store development by giving priority to highly profitable areas centered on cities designated by government ordinance, as it has done before.

Medium-term management plan

The Company has plenty of room to grow net sales per store if it develops its refurbishment system and raises the inventory turnover rate and other metrics. In addition, although the display area per store is limited, the Company can be expected to grow sales volume by strengthening the online sales of BIKE O DIRECT Co., Ltd., which was established in 2021. BIKE O DIRECT is a highly promising channel for the future. The channel was only recently launched, so it has been making a limited contribution to earnings. However, it is in a stage where it will increase motorcycle inventories and promote the extensive range of motorcycle-related items that it carries. Looking ahead, FISCO believes that the BIKE O DIRECT channel will pave the way for growth in the retail business by serving as one touchpoint that will lead to the creation of additional BIKE O customers, along with establishing a CRM model.

Additionally, the Company plans to increase the number of stores offering motorcycle rental services, which are currently offered at only 14 stores. Plans call for increasing their number by 12 by the final fiscal year of the medium-term management plan, bringing the total number of these stores to 26 stores. The Company need not purchase new motorcycles for its motorcycle rental services. Instead, it can temporarily use preowned motorcycles it has already purchased as rental vehicles for this service. For this reason, the cost-of-sales burden generally associated with vehicle purchasing is low. Rental services are positioned as a means of providing an opportunity for customers to try riding motorcycles. By encouraging future motorcycle purchases through rental services, these services are likely to serve as long-term customer touchpoints.

■ ESG issues and initiatives

ESG issues and initiatives are described below. The Company, as a leader in the preowned motorcycle distribution market, has pledged to earn the trust of consumers by remaining strongly aware of the importance of end users' peace of mind and safety, as it strives to ensure high quality and realize distribution at appropriate prices. Moreover, the Company has decided to proactively work to address environmental issues through such means as effectively using environmental resources.

In the Environment (E) area, one materiality issue is to reduce environmental impact. To this end, the Company will work to reduce CO₂ emissions associated with the entire business. Another materiality issue is to provide environmental education to employees. To do so, the Company will promote employee education that contributes to the solution of environmental problems. In the Social (S) area, the Company's materiality issues are to appoint core human resources, provide growth opportunities for employees, and improve customer service quality and refurbishment quality. To tackle these issues, the Company will implement measures to promote gender equality and diversity and enhance diverse work styles; establish a system for developing human resources with a wide range of specializations and for ensuring that everyone can reach their full potential; and supply transportation infrastructure services that support the safety and peace of mind of society. In the Governance (G) area, the Company has adopted deepening corporate governance as a materiality issue. It will seek to realize highly transparent governance that contributes to sustained growth and increased corporate value over the medium and long terms. Another materiality issue in this area is dialogue with shareholders. Here, the Company is working to secure shareholder rights and equality, while striving to ensure appropriate disclosure and transparency.

ESG issues and initiatives

The Company's main initiatives

| | Materiality issues | Main initiatives | Relevant SDGs |
|----------------------|--|--|---------------|
| E Environment | Reduce environmental impact | Reduce CO ₂ emissions associated with the entire business | 6, 7, 13 |
| | Provide environmental education to employees | Promote employee education that contributes to the solution of environmental problems | 7, 12, 13 |
| S Social | Appoint core human resources | Promote gender equality and diversity and enhance diverse work styles | 4, 5, 8, 10 |
| | Provide growth opportunities to employees | Establish a system for developing human resources with a wide range of specializations and for ensuring that everyone can reach their full potential | 4, 8 |
| | Improve the customer service quality and refurbishment quality | Provide transportation infrastructure services that support the safety and peace of mind of society | 8, 12 |
| G Governance | Deepen corporate governance | Realize highly transparent governance that contributes to sustained growth and increased corporate value over the medium and long terms | 16 |
| | Dialogue with shareholders | Secure shareholder rights and equality, while striving to ensure appropriate disclosure and transparency | 17 |

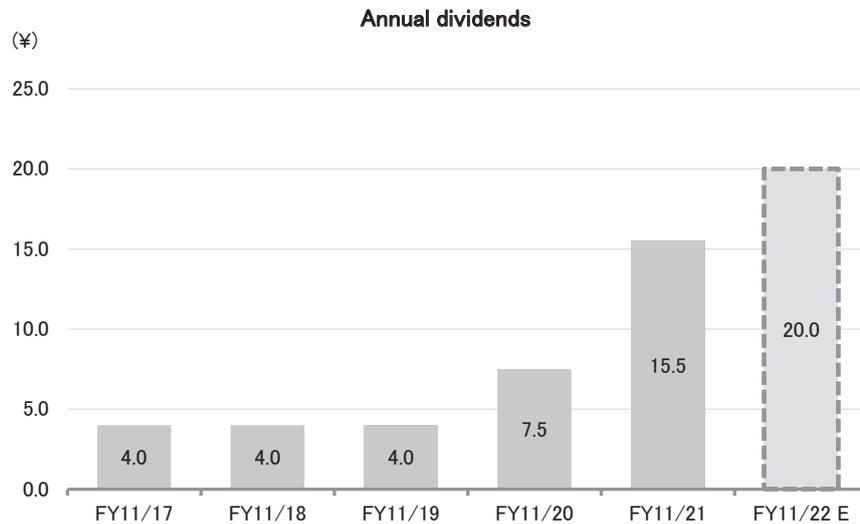
Source: The Company's medium-term management plan

Shareholder return policy

Dividends are scheduled to be increased for the third consecutive fiscal year, based on strong business performance. An annual dividend of ¥20.0 per share is forecast for FY11/22

The Company believes that dividends are an important means of returning profits to shareholders. The Company determines the amount of dividends after considering business performance and other factors, while keeping in mind the importance of paying out stable dividends. In accordance with this policy, the Company increased the year-end dividend for FY11/21 by ¥4.5 per share from ¥5.5 to ¥10.0 per share, bringing the annual dividend for FY11/21 to ¥15.5 per share. Looking at dividends for FY11/22, the Company plans to increase the annual dividend by ¥4.5 per share compared with the previous fiscal year, considering that it is forecasting an increase in earnings. This increase will bring the annual dividend to ¥20.0 per share, comprising interim and year-end dividends of ¥10.0 per share each. In keeping with its basic policy on returning profits through dividends, the Company will continue to aim for a dividend payout ratio of 30%.

Shareholder return policy



Source: Prepared by FISCO from the Company's financial results

Moreover, the Company implements a shareholder benefits program. The benefits consist of vouchers that can be used for motorcycle purchases and enrollment in the Partners Pack*. For shareholders who own more than 1 share unit (100 shares), the benefits comprise: 1) A “¥10,000 shareholder benefits discount voucher for the purchase of 1 motorcycle” that can be used for the purchase of a motorcycle (126 cc or higher) sold by the Company through its retail channel; and 2) A “¥10,000 shareholder benefits discount voucher” that can be used for enrollment in the Partners Pack when purchasing a motorcycle (126 cc or higher).

Moreover, in September 2021, in addition to the benefits described above, the Company began offering ¥1,000 worth of points that can be redeemed at BIKE O DIRECT, which is an e-commerce website that carries motorcycles and related accessories and parts, non-motorcycle-related products, and other items.

* URL: About BIKE O DIRECT (Japanese) (<https://www.8190.jp/direct>)

The BIKE O DIRECT e-commerce website carries about 4,000 high-quality preowned motorcycles, and 400,000 items of motorcycle accessories and parts. Going forward, the site is scheduled to expand the products it carries from not only motorcycle-related products to outdoor leisure and camping goods, electric mobility solutions (power-assisted bicycles and electric scooters), mobility scooters for the elderly, and more.

* Customers who purchase a motorcycle from the Company and enter a contract for this service can receive regular inspections every six months for a flat fee determined by the engine displacement of their vehicle.



Disclaimer

FISCO Ltd. ("FISCO") offer stock price and index information for use under the approval of the Tokyo Stock Exchange, the Osaka Stock Exchange and Nikkei Inc.

This report is provided solely for the purpose of offering information, and is not a solicitation of investment nor any other act or action.

FISCO prepared and published this report based on information which it considered reliable; however, FISCO does not warrant the accuracy, completeness, fitness nor reliability of the contents of this report or the said information.

The issuers' securities, currencies, commodities, securities and other financial instruments mentioned in this report may increase or decrease in value or lose their value due to influence from corporate activities, economic policies, world affairs and other factors. This report does not make any promises regarding any future outcomes. If you use this report or any information mentioned herein, regardless of the purpose therefor, such use shall be made based on your judgment and responsibility, and FISCO shall not be liable for any damage incurred by you as a result of such use, irrespective of the reason.

This report has been prepared at the request of the company subject hereto based on the provision of information by such company through telephone interviews and the like. However, the hypotheses, conclusions and all other contents contained herein are based on analysis by FISCO. The contents of this report are as of the time of the preparation hereof, and are subject to change without notice. FISCO is not obligated to update this report.

The intellectual property rights, including the copyrights to the main text hereof, the data and the like, belong to FISCO, and any revision, reprocessing, reproduction, transmission, distribution or the like of this report and any duplicate hereof without the permission of FISCO is strictly prohibited.

FISCO and its affiliated companies, as well as the directors, officers and employees thereof, may currently or in the future trade or hold the financial instruments or the securities of issuers that are mentioned in this report.

Please use the information in this report upon accepting the above points.

■ For inquiry, please contact: ■

FISCO Ltd.

5-13-3 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062

Phone: 03-5774-2443 (IR Consulting Business Division)

Email: support@fisco.co.jp