Management's Discussion & Analysis

1. Overview of Operations

(1) Operating Results

In the fiscal year ended March 31, 2018, the third year of the Company's medium-term business plan, we evolved various initiatives aimed at realizing new growth models and strove to achieve sustainable growth in scope of business and earnings under our basic policy of "challenge of reform."

Consolidated operating results in the fiscal year under review were as follows.

Consolidated operating revenues increased ¥10.7 billion year on year to ¥224.3 billion.

In terms of performance by individual businesses, we achieved the following results. In the installment credit business, billings remained in line with the previous fiscal year, but business revenue slightly increased.

In the credit cards and direct cash loans business, billings in credit card shopping increased and the revolving balance for credit card shopping rose, but a decline in direct cash loans led to slightly lower revenues.

In the bank loan guarantee business, the balance of bank loan guarantees continued to grow, although the rate of this growth slowed. Guarantee fee rates also rose, resulting in an increase in operating revenues.

In the settlement and guarantee business, operating revenues rose, due to increased billings in such areas as rent guarantees and receivables settlement guarantees, as well as factors such as contributions from Orico Forrent Insure Co., Ltd., which was made a subsidiary during the fiscal year under review.

Consolidated operating expenses increased ¥14.1 billion year on year to ¥194.3 billion.

General expenses saw an increase in computing expenses and non-personnel expenses such as card-related expenses, as well as effects associated with making Orico Forrent Insure Co., Ltd. into a subsidiary. Bad debt-related expenses increased due to the effects of an increase in the balance of operating assets, a rise in the ratio of delinquent payments, and the like.

As a result of recording a provision of allowance for losses on interest refunds of ¥1.5 billion in the fourth quarter based on refund amounts for overpaid interest and recent trends in refund conditions, the provision of allowance for losses on interest refunds amounted to ¥15.3 billion.

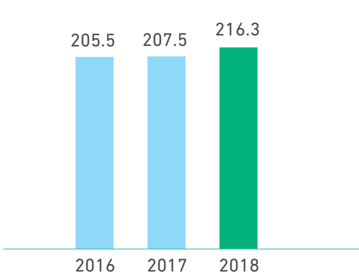
As a result of these factors, ordinary profit decreased ¥3.4 billion year on year to ¥30.0 billion, and profit attributable to owners of parent decreased ¥0.6 billion year on year to ¥28.0 billion on a consolidated basis.

Operating results of each segment are shown below.

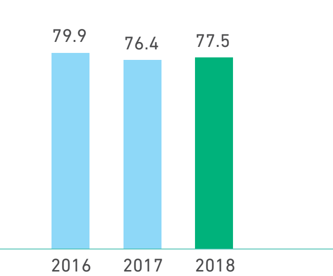
(Reference) Breakdown of business revenues by business

Business	Fiscal 2017 Amount (Billions of yen)	Fiscal 2018 Amount (Billions of yen)	Change (%)
Installment credit	76.4	77.5	1.4
Credit cards and direct cash loans [Of which: credit card shopping]	73.8 [45.2]	73.4 [46.2]	(0.5) [2.4]
Bank loan guarantee	39.3	43.4	10.6
Settlement and guarantee	6.8	10.8	59.6
Other	11.0	11.0	(0.1)
Total	207.5	216.3	4.3

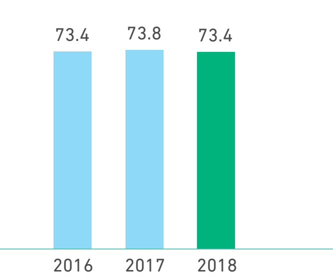
Business Revenue
(Billions of yen)



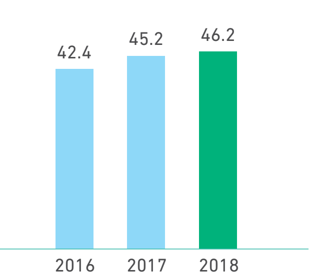
Revenue/Installment Credit
(Billions of yen)



Revenue/Credit Cards and Direct Cash Loans
(Billions of yen)



Revenue/Credit Card Shopping
(Billions of yen)



Installment credit business

In the installment credit business, we focused on strengthening our promotion for large-scale partner companies and improving customer convenience such as by providing various service products that utilize the Internet.

In auto loans, despite a decrease in billings from Japanese dealers, the expansion of our product offerings to meet customer needs and other factors led to favorable performance in auto leases. Overseas, the smooth expansion of auto loans meant billings exceeded the previous fiscal year.

In shopping credit, billings were lower than the previous fiscal year due to a decrease in billings for home renovations, particularly concerning solar power generation systems.

As a result, revenues in the installment credit business increased 1.4% year on year to ¥77.5 billion.

Credit cards and direct cash loans business

In credit card shopping, billings increased, due in part to measures to promote use by large-scale partner companies, and the balance of card shopping revolving credit rose steadily, leading to higher revenues.

With regard to the issuance of new cards, we saw an increase in card issuance for “Orico Card THE POINT,” which offers a higher ratio of reward points per purchase, as well as smooth growth for the Costco Global Card in cards through large-scale partner companies. We also engaged in improving customer services incorporating advanced technology through initiatives such as the launch of a chatbot service that uses AI to respond to customer enquiries.

In direct cash loans, although revenues declined, we continued to concentrate on usage promotion measures for new holders of loan card and promotions targeting individual customer segments according to usage status.

As a result, revenues in the credit card shopping increased 2.4% year on year to ¥46.2 billion, and revenues from direct cash loans decreased 5.1% year on year to ¥27.2 billion. Total revenues in the credit cards and direct cash loans business decreased 0.5% from the previous fiscal year to ¥73.4 billion.

Bank loan guarantee business

In the bank loan guarantee business, revenues rose as the balance of bank loan guarantees continued to grow, although the rate of this growth slowed, and guarantee fee rates also increased. Also, based on the Japanese Bankers Association’s “Agreement Between Banks Regarding Loans to Consumers,” we will continue striving to deepen communication with financial institutions and focus on providing a wide-range of products that meet various needs.

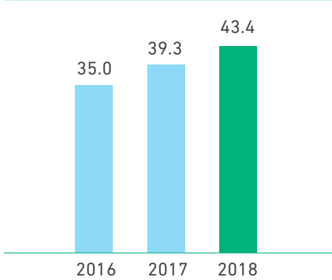
As a result, revenues in the bank loan guarantee business increased 10.6% year on year to ¥43.4 billion.

Settlement and guarantee business

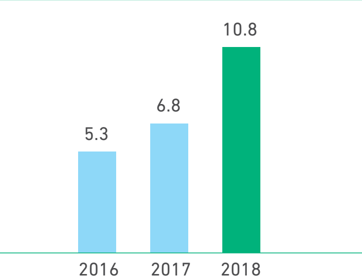
In the settlement and guarantee business, billings increased due to factors including the strengthening of development business involving rent guarantees, contributions from Orico Forrent Insure Co., Ltd., which was made a subsidiary during the current fiscal year, and the enhancement of promotions targeting receivables settlement guarantees at large-scale partner companies.

As a result, revenues in the settlement and guarantee business increased 59.6% year on year to ¥10.8 billion.

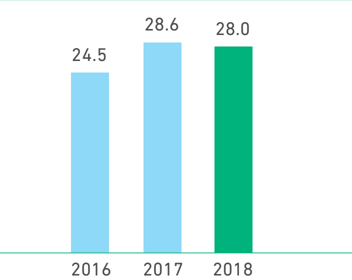
Revenue/Bank Loan Guarantee
(Billions of yen)



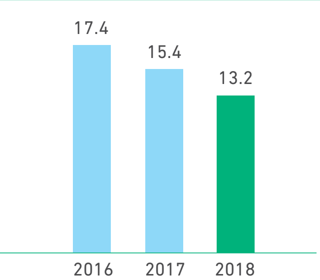
Revenue/Settlement and Guarantee
(Billions of yen)



Profit
(Billions of yen)



Basic Earnings per Share
(Yen)



Other businesses

Group companies, comprising two servicer companies including Japan Collection Service Co., Ltd., and those involved in outsourcing services in credit-related operations and information processing services worked to grow their core businesses, expand peripheral operations and augment productivity through intragroup collaboration.

As a result, revenues in other businesses decreased 0.1% year on year to ¥11.0 billion.

(2) Cash Flows

The respective cash flow positions in fiscal 2018 and the factors thereof are as follows.

(Cash flows from operating activities)

Cash used in operating activities in fiscal 2018 amounted to ¥77.6 billion, a decrease in cash used of ¥27.0 billion from the previous fiscal year.

This was the result of increases in accounts receivable – installment, primarily due to increased billings, including for auto loans and credit card shopping.

(Cash flows from investing activities)

Cash used in investing activities in fiscal 2018 amounted to ¥36.6 billion, an increase in cash used of ¥8.6 billion from the previous fiscal year. These funds were used mainly for the purchase of software, which related to the next core systems.

(Cash flows from financing activities)

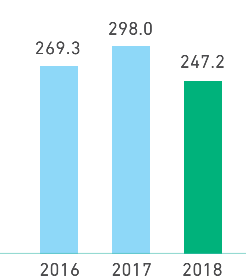
Cash provided by financing activities in fiscal 2018 amounted to ¥160.0 billion, an increase in cash provided of ¥7.5 billion compared with the previous fiscal year.

The main sources of cash were increases in interest-bearing debt.

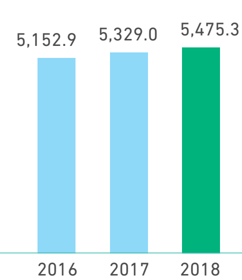
As the amount of funds required rose accompanying an expansion in billings, we increased the amount procured through long-term bank loans, corporate bonds, and commercial paper.

As a result, cash and cash equivalents as of the end of fiscal 2018 were ¥244.2 billion, an increase of ¥45.7 billion compared with the end of the previous fiscal year.

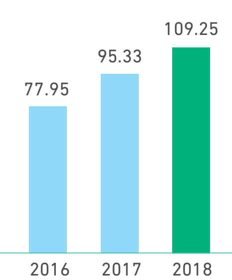
Total Shareholders' Equity
(Billions of yen)



Total Assets
(Billions of yen)



Net Assets per Share
(Yen)



Equity Ratio
(%)