Q & A at Investors Meeting on May 10, 2019 (FY2018)

Tokyo Century Corporation

<Forecast for fiscal 2019>

Q.
Tokyo Century is targeting ordinary income of ¥89 billion for FY2019, an increase of about ¥3 billion compared to the actual results for FY2018. This appears to be a somewhat conservative estimate for the first year of your fourth medium-term management plan, which seeks to achieve an ordinary income of at least ¥100 billion. Please explain what you believe to be the drivers of profit growth and risk factors by business segment.

A.
We formulated a conservative plan for FY2019 in view of the increased factors causing uncertainty in the global political and economic outlook. On the other hand, we continue to enjoy robust business and expect growth to be driven by Specialty Financing, where the aviation, shipping, and real estate businesses look particularly promising. While we are steadily accumulating assets in our environment and energy business, the preliminary costs for multiple large-scale projects, including solar power plants, mean it will take some time before we can reap the benefits. With our three other operating segments also doing well, we are confident we will attain our ordinary income target for the fourth medium-term management plan.

< Fourth Medium-Term Management Plan >

Q.
Please explain how you will balance growth and financial discipline in your fourth medium-term management plan. I suppose active investments for growth were the primary reason for falling short of achieving your target for shareholder's equity ratio for the third medium-term management plan. Will you continue making large-scale investments under the fourth plan, or will you limit such investments and manage business more conservatively with an eye on the next decade?

A.
We are aware of having extended advance investments required to expand our business under the third medium-term management plan. While we must consider the economic circumstances, financial conditions and social trends in making growth investments under the fourth medium-term management plan, we believe we are at a stage where we must first reap the results of our advance investments. We will proceed with an acute awareness of financial discipline while seeking to sustainably enhance corporate value under the fourth medium-term management plan. Although we were unfortunately unable to achieve our target for shareholder's equity ratio under the third plan, we will seek to further boost it under the fourth plan.

Q.
What challenges do you plan to take on in each operating segment for the next decade in order to further evolve your model as a company with financial capabilities?

A.
Amid dramatic global changes, we sought to break free from our single business model of finance during the first decade after our merger. In the next decade, we will continue to pivot through a three-step process from finance to service to business expertise across all our operating segments. We have consistently stated that our business is not "other finance services," and in fact we have already transitioned from finance to viable businesses, especially in Specialty Financing. Meanwhile, as a corporate enterprise, we intend to squarely address the initiatives posed by ESG and the SDGs. We aim to contribute to resolution of social issues by applying the unique characteristics and expertise we have honed over the years.

Q.
Would you share with us the current status of customer recognition and reach in your promotion of new initiatives such as the subscription-based businesses? What impact would less-than-expected growth have on your profit strategy?

A.
We will be building customer awareness over the coming years, as we are now somewhat ahead of the times. We believe the subscription-based businesses will grow rapidly as 5G communication becomes the mainstream. In addition, the barriers to entering the subscription business are high. At the moment, we have not factored profit from this business into our fourth medium-term management plan.

Q.
Am I right to think Specialty Financing will hold the key to raising ROA and achieving your ROA target of at least 2.7%?

A.
Yes, we believe Specialty Financing will be a major driving force. Mobility & Fleet Management also boasts high level of ROA, so these two operating segments are expected to be the main drivers. We are also aware of the progress in improving the profitability of Equipment Leasing.

Q.
You have stated your goal of achieving a payout ratio of around 30%, which could mean a ratio close to but less than 30%. Please clarify what you mean by “around” 30%.

A.
Our intentions may not have been clearly conveyed because this is not one of our management targets; we intend to achieve the 30% target.

Q.
What is the scope of M&A you would be able to undertake without equity finance?

A.
While it would be difficult to offer a general answer, we would not consider an M&A project requiring equity finance unless it involved significantly high profits.

Q.
Increasing equity in earnings of affiliates is expected to account for a greater portion of net income. That would mean an increase in income without cash flows. Please share your views on the growth of such income and your dividend policy.

A.
The share of profit accounted for under the equity in earnings of affiliates is rising as we participate in more relationships in which we jointly manage business ventures with leading corporate partners to expand our viable businesses. In this context, we will carefully consider cash flow to ensure that we receive dividend payments from our equity-method affiliates.

# # #