Q & A at Investors Meeting on November 6, 2019 (2Q/FY2019)

Tokyo Century Corporation

<Aviation Capital Group (ACG) to be a wholly-owned subsidiary>

Q.

Seeing ACG's business results, its annual income before income taxes appears to be around ¥30 billion. Could you please explain the financial impact of ACG's income, how much it is going to be from the next fiscal year onwards excluding goodwill and funding cost that are related to the consolidation?

A.

Assuming that ACG's annual income before income taxes is ¥30 billion, we are expecting its contribution to earnings will be around ¥25 billion after deducting costs related to hybrid financing and various related expenses on a consolidated basis. An increase in earnings somewhere around ¥5 - 10 billion over few years is expected.

Q.

What kind of benefits does ACG have as a Tokyo Century Group company?

A.

In 2012, Tokyo Century acquired voting rights of 16.7% in Jetstar Japan, which has the largest network in Japan as LCC. In the same year, we also made a 20% investment in GA Telesis (GAT), which deals with aircraft parts trading and MRO (maintenance, repair and overhaul) and others, and subsequently increased the shareholding ratio from 20% to 49.2% in fiscal 2018. Tokyo Century established an engine leasing joint venture, Gateway Engine Leasing, along with ANA Trading and GAT and has gradually formed a full value chain over almost eight years. The synergy through this value chain will bring a major benefit to ACG. ACG has already started businesses in alliance with GAT so that it is expected to enjoy an increase in profit through realizing a synergy between them. Moreover, Tokyo Century will introduce ACG with the investors who are our customers of JOL which we deal in sales in Japan, in order to assist remarketing option on business opportunity, which is its major profit source. Tokyo Century, ACG, GAT and GEL will share market information on aircraft leasing and financing to gain more business opportunities to further increase synergy effect to raise the profit level of the entire aviation business across Tokyo Century Group including ACG.

Q.
What is the hybrid financing amount going to be out of the purchase price of ¥320 billion?

A.
We are in discussion on the amount of hybrid financing in line with our policy to maintain financial stability.

Q.
Out of 165 aircraft committed by ACG, 97 aircraft is the 737 family including Boeing 737 MAX which is in the delivery delay. Do you see any impact due to the delay?

A.
We will have no significant impact to our balance sheet and others. Although various media have been reporting news on when Boeing 737 Max is likely to resume operation, I would expect the aircraft will restart flying in next spring so that the delivery delay will be solved accordingly.

Q.
Tokyo Century has not held any credit ratings from foreign credit-rating agencies. If you are planning to obtain such credit ratings, could you please explain how the company is handing the preparation including balance sheet management?

A.
Since we are in the process of acquiring the remaining interest in ACG earlier than we have expected, we consider that we need to accelerate obtaining these credit ratings. We are currently in communication with various foreign credit-rating agencies. We are aware that financial stability is an important element for credit rating. However, due to a decrease in shareholders' equity ratio impacted by the advancement of making ACG a wholly-owned subsidiary, various financial indicators are affected respectively, for which we plan to recover within the next 3 to 5 years.

< Revision of the Fourth Medium-Term Management Plan >

Q.
Could you please tell us more about the revisions of the Fourth Medium-Term Management Plan?

A.
With the acquisition of ACG, our balance sheet will be expanded substantially so that we would like to demonstrate the company's direction towards financial stability to investors and credit-rating agencies in and outside Japan. We consider that the company needs to increase the profit level in accordance with the company's balance of assets that have been significantly increased, while continuing to maintain high ROA.

Q.

Is a target dividend payout ratio of 30% stated in the Fourth Medium-Term Management Plan going to be revised or maintained?

A.

We are reviewing the Fourth Medium-Term Management Plan including dividend payout ratio and considering maintaining the 30% we initially set.

Q.

Going forward, we assume that operating lease business will be a core business at your company including ACG. Do you have a plan to reduce the asset size in Equipment Leasing?

A.

We are not planning to reduce Equipment Leasing assets at the moment. Since the 2009 merger, Equipment Leasing has increased ROA up to 2% by taking various efforts such as promoting joint ventures with prime partners and expanding solution business combined with IT services centered on information and communications equipment in order to increase ROA. From a perspective of risk weight, profitability and stable cash flow, Equipment Leasing has a supplementary function one another with other operating segments that make a well balanced business portfolio across the group.

Q.

Regarding the news release announced in October 2019 on investing in Advantage Partners Group (AP), what prompted Tokyo Century to invest in AP being engaged in private equity funds?

A.

Tokyo Century has been engaged in providing services and solutions including those related to finance to a variety of our customers. Against a backdrop of the recent business succession needs within small to mid-sized enterprises and the carve out needs derived by the increasing focus on the importance of selection and concentration of business within large enterprises, Tokyo Century has decided to enter into the strategic partnership with AP including the acquisition of its interest. AP and the top management of Specialty Financing have been in touch with each other over 20 years cultivating multi-layered relationships. Through limited partnership investments in AP, we have felt strong affinity with AP personnel that made us confident to be the trustable best partners each other. Going forward, Tokyo Century will incorporate the growth of the aforementioned businesses that are expected to expand while providing robust support to our customers to respond to a wide range of their business needs.

Q.
From the current Fourth Medium-Term Management Plan, I believe that Tokyo Century is considering the investment on the assumption of organic growth in one way and inorganic investment in another way. Is there any possibility that the company may change its investment approach in line with the investment to make ACG a wholly-owned subsidiary?

A.
One phase of our large investment comes to an end with ACG becoming a wholly-owned subsidiary since we believe that the company has taken various necessary business strategies. We are aware that investment is also important element, but at the same time maintaining a good cash flow condition and financial stability in our business will be the key going forward.

<Business Environment>

Q.
I understand that Tokyo Century has been moving forward stably with increased profit in all the operating segments. However, is there any risk, even a miner one? If so, what kind of risks are there including business environment?

A.
We are constantly watching the move in Asia and ASEAN countries whether they are impacted from the U.S.-China trade friction, even though we do not see anything that will give significant impact to our business results.

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