

Q & A at Investors Meeting on November 10, 2020 (FY2020 Q2)

Tokyo Century Corporation

<Financial Results Forecast>

Q.

How do you see the financial results of the first half? With a 57% progress in ordinary income against the plan, I presume that the figures can be expected to exceed the plan.

A.

In Equipment Leasing, certain credit costs expected in the first half did not occur, which has assured us a quality portfolio of this operating segment. Despite the inclusion of the equity in earnings of NTT TC Leasing from FY2020 Q2, the realized figure was limited, due to the initial costs associated with the establishment of the company. However, overall, Equipment Leasing's ordinary income was in line with our plan.

In Mobility & Fleet Management, Nippon Car Solutions' (NCS) ordinary income increased ¥0.7 billion YoY while Nippon Rent-A-Car Service's (NRS) performance was below our expectation.

In Specialty Financing, despite our severe anticipation for Aviation Capital Group's (ACG) business results, it ended with less asset impairment and bad debt expense so far and progressing above our initial expectation on the whole.

In International Business, this operating segment is progressing as we initially expected. As you can see, the first half results were somehow above our initial anticipation.

Q.

Could you explain the business landscape of the car rental and aviation businesses, how does Tokyo Century see the landscape for the second half of FY2020 and FY2021?

A.

Car rental sales were around a 70% level compared to the same period of the previous fiscal year. We expect that car rental sales will remain below the previous fiscal year in the second half.

With regard to aviation, the reservation for domestic flights leaving Narita airport has been busy and we can see that domestic flight operations have been recovering reasonably. Although the aviation market has gotten out of the bottom, airlines are expected to remain in the severe situation as international flight operations have not recovered yet. We therefore consider a certain level of bankruptcies of airlines should be taken into account concerning ACG. In addition, with fiscal year end differences between ACG (end-December) and Tokyo Century (end-March), a possibility of subsequent events after the reporting period of ACG (December) needs to be considered, so we need to continue observing the situation closely.

Q.

Let me confirm your understanding of the business landscape. At the investors meeting in May, 2020, FY2020 financial results forecast was expected to decline compared to the previous fiscal year due to drops in car rental sales, sales of used vehicles and capital gain. Car rental sales were below the initial expectation, but how about those businesses which did well exceeding the initial targets?

A.

In Equipment Leasing, we see that ¥2 billion of credit costs originally anticipated due to the COVID-19 impact is likely to be less than that level. On the other hand, annual car rental sales are expected to be around ¥4 billion below our initial plan. These are the main factors for the change of our initial forecast.

<Aviation Business>

Q.

Could you explain the recognition standard of asset impairment of ACG's off-lease aircraft? Please also let us know the current remarketing prospects for the off lease aircraft.

A.

We have recorded impairments mainly on older aircraft such as those with an age of roughly 20 years as their book values were not supported by the total amount of the expected future cash flows. Off-lease ratio is also affected by the remarketing policy of each company. Since ACG maintains sufficient liquidity, its general stance is to not chase deals where they would have to lease at an unreasonably low lease rate for the purpose of reducing the number of off lease aircraft. This is why ACG's off-lease ratio is higher than others. According to market-data, the current narrow-body aircraft lease rate is approximately 20% lower than the pre-COVID-19 level. ACG is capable of placing leases with its customers at the lower current market rates if it strategically chooses to do so.

Q.

I think the change in the basis for revenue recognition impacted the YoY decline in ACG's revenues. When the performances of those airlines recover, will ACG's revenues significantly increase due to a temporary increase in cash-basis collection?

A.

If uncollected rent receivables exceed the total of security deposits and maintenance reserves, we need to consider provisioning bad debt expense. When bad debt expense is realized, ACG's basis for revenue recognition will switch to cash basis, and thereafter, lease revenue will vary depending on the actual amount of cash collected from such customer

Q.

Could you tell us about the situation of the aircraft leasing business of Tokyo Century's subsidiaries apart from ACG?

A.

Excluding ACG, our consolidated subsidiaries hold approximately ¥200 billion of aircraft-related assets. Their customers are mainly leading airlines with high creditworthiness with less potential risk of bankruptcy. On the other hand, given their higher average age of fleet, their asset impairment risk could be slightly higher than ACG.

Q.

How about early termination before lease maturity?

A.

There are no such cases as of now.

<Car Rental Business>

Q.

Regarding NRS's FY2020 Q2 financial results, revenues down ¥5.2 billion and ordinary income down ¥5 billion QoQ. NRS's SG&A expenses reduction seems not in pay as the drop in figures of revenues and ordinary income are about the same level. Will cost control efforts continue and how?

A.

Personnel expenses and non-personnel expenses decreased roughly ¥1 billion YoY in the first half. We expect a further reduction of about ¥2 billion in the second half. Car rental sales hit the highest level usually in summer from July to September. Although NRS is anticipated to secure profit for the FY2020 July-September period, its YoY change in profit will be notable due to a large profit generated in the same period of the previous fiscal year.

Q.

I have an impression that NRS's FY2020 Q2 financial results have large profit decline compared to the same period of the previous fiscal year. Were there any temporary costs in FY2020 Q2?

A.

FY2019 Q2 profit were extraordinary compared to Q2 profits in the past, mainly due to a 10-day Golden Week (GW) holiday, a rare long vacation period. In FY2020, there were not any special factors arose over the GW period due to the COVID-19 impact, and this resulted in a large differences in the YoY comparison.

<Business Strategy Outlook>

Q.

The company disclosed its future business strategy in the FY2020 Q2 Consolidated Financial Results presentation material. Are there any points which should be revised or updated since the New Fourth Medium-Term Management Plan (New Fourth Medium-Term Plan) released in February 2020?

A.

At this stage, we have not really been in discussion on updating the New Fourth Medium-Term Plan. It will take some time before updating as how further the COVID-19 impact will continue remains uncertain. NRS's financial results were significantly impacted by COVID-19, and its YoY results are expected to decline through the end of December 2020 or early 2021. We anticipate its V-shaped recovery from these periods onwards. With its bold cost reduction during this period of time, NRS is capable of establishing unprecedented businesses and its FY2021 financial results should hardly ever go down. Regarding ACG, we should wait little more until we can grasp its financial results outlook, as it is still hard to make assumption of its operating results for FY2022 (the final year of the New Fourth Medium Term Plan) due to higher degree of uncertainty on external environments.

Q.

Could you explain the business strategy for real estate business among others?

A.

We have been engaged in the real estate business jointly with prime partner companies, mainly in Japan and North America, and have been gaining constant profit. We have planned to undertake a large-scale tie-up development project in Japan going forward, about which we will be able to disclose the business outline in 2021. This real estate project is one of the key projects of Tokyo Century, and that will significantly impact our profit growth, thus certain unrealized gains are already included at this stage.

<Other>

Q.

Are there any updates or further establishment regarding the business alliance with ITOCHU Corporation (ITOCHU)?

A.

We have been in collaboration with ITOCHU, including introduction of customers. With ITOCHU's recent TOB for FamilyMart's shares, Tokyo Century expects further business opportunities.

Q.

How are the business collaborations with NTT progressing? Could you explain the details including whether the strategic alliance with the NTT Group would be a core pillar of Tokyo Century's business?

A.

Certain projects have been progressing. Some project announcements are behind schedule due to delays in final documentation impacted by COVID-19. The timing of realizing profit depends on each investment scheme. For example, joint ventures, such as data center and real estate take a certain period of time until profit is realized after the actual investment.

On the other hand, the equity in earnings of NTT TC Leasing has been realized since it started operation. We will create synergy effect with the NTT Group by combining the best suited investment scheme in each joint venture. NTT TC Leasing is expected to contribute approximately ¥4 billion to our profit during the New Fourth Medium Term Plan and we will increase the figure as much as possible.

Q.

In Equipment Leasing, have there any changes in its dealing transactions due to the COVID-19 impact? For example, are the transactions related to inspection and teleworking increasing? With regard to 5G-related businesses, is there a chance for Tokyo Century to invest in NTT's base stations?

A.

Handling of telework-related transactions were at its peak from March through May. Notably, leasing businesses related to the subsidy established by the Ministry of Economy, Trade and Industry increased. Business like this, for example, we consider that Tokyo Century has a competitive advantage in providing leases and solutions as our financial services. Investment on 5G base stations should be an extraordinary business chance ever for Tokyo Century through the strategic alliance with NTT.

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