Q & A at Investors Meeting on November 9, 2021 (FY2021 Q2)

Tokyo Century Corporation

<Financial Results for the Six Months of Fiscal Year Ending March 31, 2022>

Q.

In light of the current progress rate, it seems that the planned ordinary income of ¥100 billion for fiscal 2021 can be exceeded. Could you tell us how you feel about whether you can achieve the fiscal 2021 target?

A.

In the first half of the fiscal year under review, aircraft leasing subsidiary Aviation Capital Group LLC (ACG) posted a decrease in income due to an impairment loss of an intangible lease premium relating to aircraft (recorded in the consolidated adjustment), and Nippon Rent-A-Car (NRS) recorded a decrease in income due to a prolonged state of emergency, against the initial plan. In the second half, given the recovery in the aviation market and trends in demand for car rental in the summer, there are concerns that ACG and car rental results will fall below the initial plan. Meanwhile, we expect to achieve ordinary income of ¥100 billion in the second half by offsetting these downward factors with other businesses.

Q.

In the first half, there was an increase in gain on sales of used cars, etc. Could you tell us how much the total capital gain of TC was in the first half?

A.

As a first premise, TC' core business, operating leases, have the characteristic that properties can be sold when the lease expires. We can secure a gain on the sale if the sale is realized at a price higher than the expected residual value. Investment in real estate and securities is a business that targets gains on sales when market conditions are favorable, but whether or not there are gains on sales in leases occurs in the ordinary course of business. Therefore, we would like you to understand that the gain on the sale at the expiration of the lease is positioned as a recurring base revenue. Accordingly, the gain on the sale of used cars and ships at the expiration of the lease is not included in the capital gains.

Based on this, capital gains in the first half totaled ¥6.8 billion due to the sale of real estate, securities, etc.

<New Fourth Medium-Term Management Plan>

Q.

Could you tell us your progress toward achieving the ordinary income target of ¥130 billion for fiscal 2022, the final year of the New Fourth Medium-Term Management Plan?

A.

As for the achievement of ordinary income of ¥130 billion in fiscal 2022, overall, we believe that the situation is not much different from the time at the investors meeting in May 2021. This is because while the expected income decreases due to delayed recovery of demand for aircraft and car rental, it is offset by the income contribution of other businesses. In the results for fiscal 2022, the final year of the current plan, if we assume that ACG will not incur more impairment losses than expected and that in addition to this, car rental sales can be secured at about 90% compared to fiscal 2019, we do not believe that the target of ¥130 billion will not be unreachable.

Q.
Could you let us know what businesses are expected to contribute to the increase in ROE under the next medium-term management plan?

A.
We believe that the business expansion of the auto business and TC's equity-method affiliate NTT TC Leasing will contribute to the increase in ROE, based on ROA, an indicator of profitability. Recently, the ROA in the International Business segment has been significantly improving. A few years ago, the ROA was in the 1% range, but it rose to 3.1% in this second quarter. We regard this as the success of the asset turnover type business centered on CSI Leasing (CSI). In addition, the business model of CSI is easily accepted by global companies. Therefore, we will be able to further enhance the ROA by developing the business in this area, and that, in turn, will contribute to improving the ROE of TC as a whole.

<Business Strategy Outlook>

Q.
I understand that some of the pillars of business strategies will contribute to income in the next medium-term plan and beyond. Could you tell us what businesses you are particularly looking forward to?

A.
Overall, we have about four years to go until fiscal 2025, the final year of the Fifth Medium-Term Management Plan, and will continue on a growth path. We hope to expand our four business segments in a balanced manner, but the driving force behind our growth is still the Specialty Financing segment. ACG intends to achieve more than what was initially expected by recovering the market. In the Equipment Leasing segment, NTT TC Leasing will increase the balance of segment assets to about ¥2 trillion, and by improving the business together with TC, it will enhance ROA and realize an increase in equity in earnings of affiliates. In the car rental business, seeing COVID-19 as an opportunity, we are working on improving value of NRS in various ways. We expect that NRS becomes a company that can aim for ordinary income of about ¥10 billion. CSI in the International Business segment is fully capable of capturing the potential demand of multinational companies and expanding its business areas through the development and increase of its global network. We consider ordinary income of ¥10 billion to be a step toward the goal.

Q.
Could you explain the breakdown and scale of the pipelines of joint business with the NTT Group that TC is working on as a whole?

A.
In the auto business, NTT launched the EV100 two years ago, and Nippon Car Solutions Co., Ltd. (NCS) is promoting the conversion of approximately 10,000 NTT vehicles into EVs. In Japan, we still have a small

lineup of EVs, but NCS is the auto leasing company that handles the largest number of EVs; thus, we are able to provide very advanced services. In the Specialty Financing segment, including real estate, business collaboration has been accelerated. TC and NTT TC Leasing are conducting risk segregation in which the former use equity and the latter use senior and mezzanine loans as financing methods. In addition, we expect to see a mix of real estate development and environmental energy businesses in the future; thus, we will work on this as the most critical issue.

<Aviation Business>

Q.

Regarding lease revenue, I think some airlines have long accrued revenue. Please let us know the status of cash collection and when lease revenue will recover.

A.

Basically, they are largely dependent on the recovery of the financial performance of airlines. As for the timing of the recovery of lease revenue, we expect to deliver 28 new aircraft in fiscal 2021 and are focusing on the marketing of off-lease aircraft. Therefore, we are now expecting lease revenue will increase by approximately US$80 million in the following fiscal year 2022.

Q.

I think ACG’s sale and leaseback transactions are increasing in fiscal 2021. Could you tell us if you are considering a strategic change in policy and if there will be any changes in future usage of balance sheet?

A.

As a result, sale and leaseback transactions are increasing, but the placement of Airbus's narrow-body aircraft based on the order book is also steadily built up.

Q.

Do you have any concerns about ACG's financial position in making capital investments in the process of switching to the most advanced fuel-efficient aircraft? Also, could you explain if the switch to the latest model has any effect on the rise in lease rates and the impairment risk of existing models?

A.

ACG has sufficient financial strength and ample financial liquidity to purchase aircraft. Therefore, we see no problem at all. In fiscal 2021, ACG has issued US$750 million senior unsecured notes twice in total, and there is much liquidity. As for lease rates, there has been no trend toward an increase in lease rates for state-of-the-art aircraft currently. As the airline market recovers and airlines’ strength returns, we expect that the introduction of environmentally friendly aircraft from an ESG perspective will gradually lead to an increase in lease rates. Regarding conventional aircraft, it will take time for the value of wide-body aircraft in particular to recover; therefore we will need to keep a close eye on them as a matter of course. At the same time, the business of converting passenger aircraft that are over twenty years into cargo aircraft has recently emerged, and we are making effective use of these aircraft. GA Telesis, based in the U.S., TC’s equity-method affiliate, is also promoting the same business.

<Real Estate Business>

Q.

At present, concerning real estate valuation, I think that the more popular the property is, the higher the transaction price is. Could you tell us about the superiority of the investment standard and strategy of TC in the future?

A.

The valuation of real estate in Japan has become very high, and we have not adopted the method of taking risks easily and making investments, and this policy will not change in the future. We will make sure to handle business collaboration projects with our partners, Mitsubishi Estate and the NTT Group, and also promote business collaboration with our consolidated subsidiary Shinko Real Estate in their development projects. Furthermore, we consider that the overseas projects are also performing well, with a steady increase in results, especially in joint projects with our partners.

<Shipping Business>

Q.

Is it difficult to expand the shipping and container business from now on?

A.

We will proceed with bulk carriers in a way that minimizes the risk of TC, together with reliable partners, while also taking into account the possibility of downward pressure on the market depending on trends in China.

<Shareholder Return>

Q.

Could you explain what you think of the capital level?

A.

In light of the continued expansion of our business centered on the pillars of the business strategies, we believe that the balance between growth investment and returns is fundamentally important.
To maintain ROE at double-digit levels while generating returns by growth investments, we may need to consider further raising the payout ratio in some circumstances. Meanwhile, in our discussions with institutional investors, we have received many comments that they would like TC to continue growing. Therefore, we would like to think about how to grow our major businesses while also taking the payout ratio into consideration.

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