

# Stakeholder Engagement for Improving Corporate Value through Dialogue and Co-Creation

## Engagement with Customers and Partners

As part of its sales activities, Tokyo Century seeks to understand the issues and goals of its customers and partners so that it can supply them with the ideal financial services and value.

By building relationships through joint businesses with customers and partners and continuously enhancing our financial services through the merging of our respective strengths and expertise, we aim to heighten the value we supply to our customers, partners, and society.



### Major Engagement Methods and Measures

- ➡ Communication through sales activities
- ➡ Joint businesses and personnel exchanges with partner companies
- ➡ Sharing of knowledge related to financial service planning and other initiatives

## Engagement with Employees

Tokyo Century aspires to develop a workplace environment in which every employee is respected and able to fully exercise their talents, and we are actively working to heighten employee engagement. Moreover, the input gained from employee engagement surveys is used in discussions by the Management Meeting and the Board of Directors for analyzing issues and planning future initiatives. Responding to such input is positioned as an important management priority.

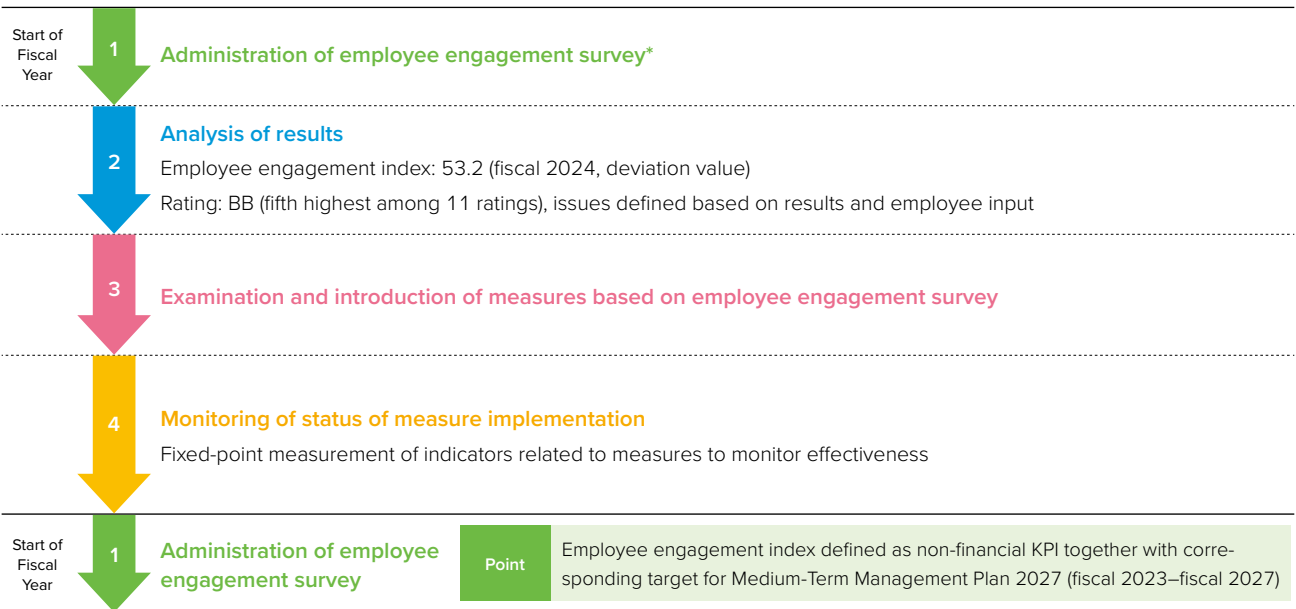


TC-Mee+ meeting

### Major Engagement Methods and Measures

- ➡ Employee engagement surveys
- ➡ 360-degree evaluations
- ➡ Career Design Office (career consultation venue)
- ➡ TC-Mee+ meetings for exchanges among employees (including discussion forums with the president)

### Cycle of Improving Employee Engagement through Dialogue



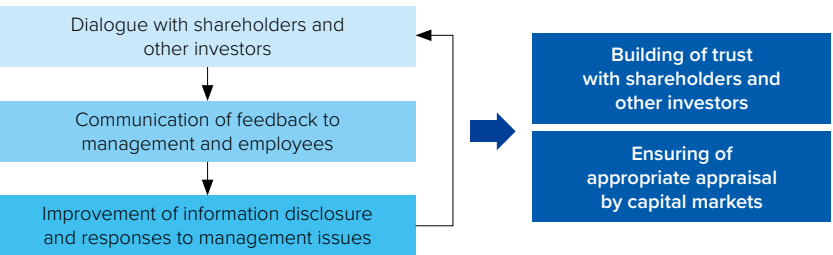
\* Results measured using Motivation Cloud service provided by Link and Motivation Inc.

## Engagement with Shareholders and Other Investors

Tokyo Century advances its investor relations (IR) activities with a focus on generating a cycle of proactive dialogue with shareholders and other investors and on communicating the input and requests solicited thereby to management and employees. The input gained during the course of IR activities is used to improve information disclosure and respond to management issues in order to build trust with shareholders and other investors and ensure that capital markets accurately appraise the Company, which in turn is anticipated to contribute to higher corporate value over the medium to long term.



Meeting with sell-side analysts instigated by Tokyo Century's president and officer responsible for IR



### Major IR Activities

	Activities	Frequency in Fiscal 2023	Details
Analysts and institutional investors	Earnings calls	4 times	Quarterly earnings calls (Three-month and nine-month calls led by the officer responsible for IR; six-month and full-year briefings led by the president)
	Individual meetings	260 times	Meetings with analysts and institutional investors in Japan and overseas (Of which, approx. 60 meetings with overseas institutional investors)
	Investor briefings	4 times	Investor briefings led by the president and the officer responsible for IR
	Business strategy briefings	1 time	Business strategy briefings for institutional investors in Japan and overseas
	Overseas roadshows	2 times	Face-to-face meetings between the president and IR representatives and overseas institutional investors
Private investors	Company briefings	1 time	Briefings on the Company, business strategies, shareholder return policies, etc.

### IR Topics

#### Stock Split

Effective January 1, 2024, Tokyo Century conducted a four-for-one stock split in light of the start of Japan's new NISA program (tax exemption system for small-sum investments) in 2024. The goal of this stock split was to lower the price of share-trading units of the Company's shares to make the act of investing easier and thereby expand its investor base. To facilitate the expansion of our investor base, we are also bolstering the range of opportunities we provide for gaining an understanding of our management policies through live streams of Company briefings for private investors and through the publication of articles in investment magazines.

#### Second Consecutive Year of Recognition as Most-Improved Integrated Report by Domestic Stock Management Institutions of GPIF

Every year, the institutions contracted to manage the domestic stock holdings of the Government Pension Investment Fund (GPIF) name a number of excellent integrated reports and most-improved integrated reports from Japanese companies. In 2023, Tokyo Century's *Integrated Report 2023* was one of the 100 selected as most-improved integrated reports. This is the second consecutive year in which Tokyo Century's integrated report has been recognized in this manner. Tokyo Century is committed to enhancing the quality of disclosure through its integrated reports and other IR tools in order to facilitate dialogue with investors and other stakeholders and thereby improve corporate value.





Tokyo Century's future will be shaped through  
dialogue-based engagement with investors.

### Growth of Tokyo Century

**Fukuta** In fiscal 2023, Tokyo Century set a new record for net income attributable to owners of parent of ¥72.1 billion. This impressive financial performance is reassuring as it indicates that the Company got off to a strong start in the first year of Medium-Term Management Plan 2027, concluding in fiscal 2027. It is noteworthy that improvements in base earnings for the car rental and aviation businesses were seen following a recovery in travel demand. Moreover, all operating segments posted earnings growth in fiscal 2023, underscoring the overall good performance of Tokyo Century. For fiscal 2024, the Company is projecting net income attributable to owners of parent of ¥80.0 billion. Backcasting from the target of ¥100.0 billion set for fiscal 2027, this means that Tokyo Century will need to achieve year-on-year increases of nearly ¥7.0 billion over the next three years if it is to achieve this target. The market, however, seems to feel that Tokyo Century is positioned to even exceed said fiscal 2027 target. President Koichi Baba, might I ask your thoughts with regard to this target?

**Baba** It goes without saying that the figures presented in Medium-Term Management Plan 2027 are not everything. I also understand that investors feel we can target a higher level of performance. We, of course, want to meet investors' expectations by achieving further growth. This is why we are accelerating initiatives based on the Tokyo Century Transformation (TCX) concept in all operating segments. Key drivers of the Group's growth going forward will be aircraft leasing subsidiary Aviation Capital Group LLC (ACG) and U.S. IT equipment leasing subsidiary CSI Leasing, Inc. (CSI). In fiscal 2023, ACG's return on assets (ROA) remained at the low level of 1.2%, on a non-consolidated basis. To improve their ROA, the company is ramping up efforts to purchase highly profitable new technology aircraft and to sell used aircraft, thereby

replacing existing assets with higher-quality assets. The resulting higher-quality portfolio and increases in gains on sales that accompany this approach are anticipated to drive up ROA. At the same time, ACG is steadily bolstering its trading staff as it puts together the team it needs. CSI, meanwhile, is growing while catering to the needs of multinational companies across the globe. In fact, CSI's ordinary income reached U.S.\$89 million in fiscal 2023, 3.4 times larger than the U.S.\$26 million recorded in fiscal 2016, when we acquired this company. CSI may be based in the United States, but it has been advancing a global strategy originating from this market. Recent initiatives under this strategy have included CSI's proactive advancement into Europe, India, and Southeast Asia. Given the high growth potential of Asian markets, I think we can look forward to rising earnings at CSI going forward.

**Fukuta** CSI has been growing steadily, without recording any significant losses in the process. I thus have really high expectations for this company, especially considering it has a business model that produces the type of high ROA one would expect from a leasing company. I think you should be more proactive in disclosing details about how the Tokyo Century Group utilizes such high-growth-potential companies and in relaying this information at investor relations events. This would certainly help raise the sense of anticipation the market has toward the Company.

**Baba** If I could tie this back to something you mentioned earlier, I believe that one of the concerns investors have with regard to Tokyo Century's growth potential is the relative opaqueness of the road map toward accomplishing the income targets of Medium-Term Management Plan 2027. Understanding this concern, we took steps to more clearly indicate the path we would be taking going forward. Specifically, the investor relations materials

Dialogue between an Institutional Investor and the President

# Interactive Dialogue

Tomomi Fukuta

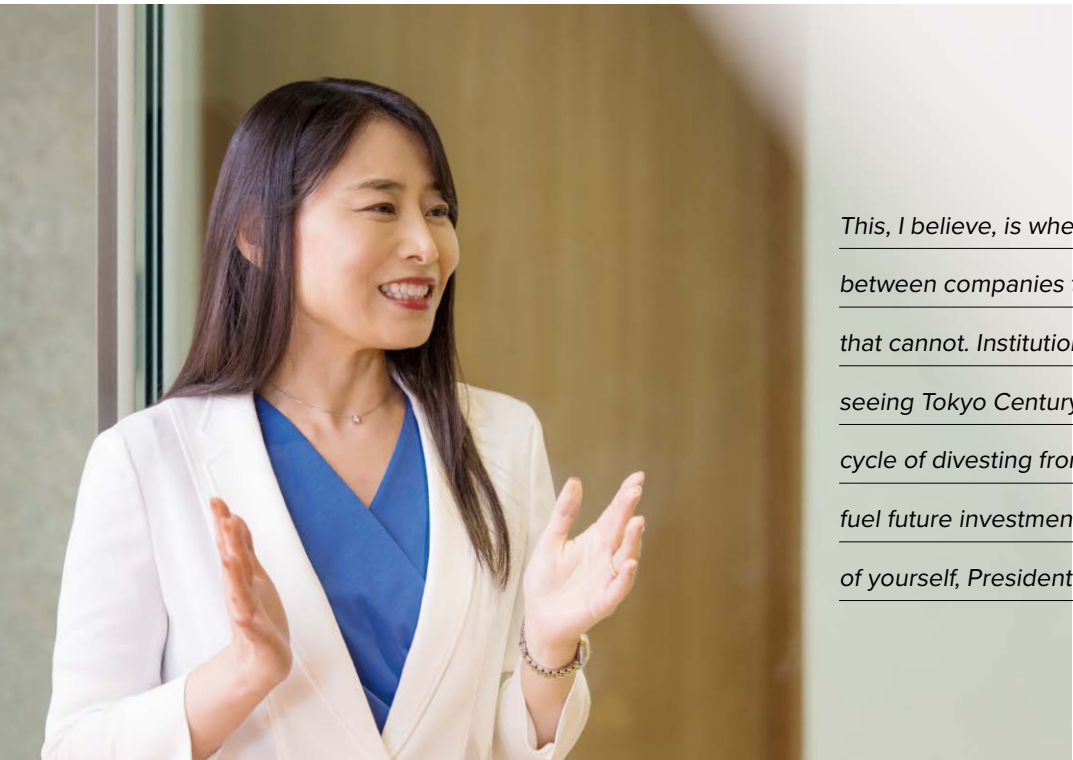
Senior Vice President  
Portfolio Manager  
Lazard Japan Asset Management K.K.

Koichi Baba

President & CEO, Representative Director  
Tokyo Century Corporation



Dialogue between an Institutional Investor and the President



*This, I believe, is where we see the distinction between companies that can change and those that cannot. Institutional investors look forward to seeing Tokyo Century accelerate the virtuous cycle of divesting from low-profit businesses to fuel future investment under the strong leadership of yourself, President Baba.*

released in May 2024 contain information on the income amounts necessary for accomplishing our targets as well as the obstacles needing to be overcome to reach said targets for each operating segment, in addition to the initiatives for this purpose. In this manner, we sought to paint a clear picture of the process toward

achieving our targets and the progress thereof. Through this approach, we aim to reduce cost of shareholders' equity and increase the certainty and reliability of our growth. This, in turn, is anticipated to lead to a higher price-to-earnings ratio (PER), which indicates the sense of anticipation the market feels toward the Company.

Virtuous Cycle of Investment Driven by Portfolio Transformation

**Fukuta** Portfolio transformation is one of the policies laid out in Tokyo Century's current medium-term management plan, which was announced in fiscal 2023. Investors see a lot of hope in the cycle of divesting from low-profit businesses to create funds for reinvestment in high-profit businesses. As the plan has entered into its second year, I feel that Tokyo Century's portfolio transformation initiatives are currently in a phase in which execution capabilities will need to be exercised in pursuit of progress. Overseas investors tend to view Japanese companies as being good at choosing their investments, but not quite as adept when it comes to divestment. This, I believe, is where we see

the distinction between companies that can change and those that cannot. Institutional investors look forward to seeing Tokyo Century accelerate the virtuous cycle of divesting from low-profit businesses to fuel future investment under the strong leadership of yourself, President Baba. What types of discussions are going on internally in this regard? Also, has the concept of portfolio transformation become entrenched among employees?

**Baba** Previously, Tokyo Century grew by expanding the size of its asset portfolio with more of an emphasis on investment. However, discussions in-house led us to the realization that, when we consider aspects like credit ratings and financial health,

simply expanding our asset portfolio ad infinitum will not be the best course. Rather, we decided that Tokyo Century should develop a strong corporate constitution by bolstering its earnings power. This decision is what led to the inclusion of portfolio transformation in Medium-Term Management Plan 2027. One year has passed since the announcement of the plan, and we have already seen examples of our reducing our equity stakes in affiliates. I therefore think we can safely say the concept of portfolio transformation has become entrenched among employees. Said concept is not limited to reviewing our business portfolio; I also make sure that people at Tokyo Century understand how this concept must entail increasing asset turnover in asset-based businesses like aviation and shipping. Moreover, the revised officer compensation system announced in May 2024 includes TCX initiatives among the evaluation and payment criteria for stock options. This move was meant to encourage officers to adopt a more medium-to long-term perspective with consideration paid to factors such as portfolio transformation. Also, in fiscal 2023 we introduced a new TCX Award category in the annual TC Awards program that honors excellent initiatives undertaken by employees. The new category recognizes initiatives that help further strategies based on the concept of portfolio transformation as well as the other forms of transformation encompassed by TCX (human resource and organizational transformation, green transformation, and digital transformation). We therefore

anticipate that this award category will help produce numerous examples of excellent portfolio transformation initiatives in the future.

**Fukuta** Advancing portfolio transformation will be the responsibility of everyone at Tokyo Century, and this is why incentivizing this undertaking is incredibly important. I feel as though your leadership has resulted in smooth progress in portfolio reforms. Were investors, who have to assess the Company from the outside, to be given quantitative standards, such as the return on invested capital spread that functions as the hurdle rate for investment and divestment, it would make it easier for them to assess this progress. I think it would be prudent for you to consider conducting disclosure in a manner that makes it clear to investors that Tokyo Century does not just hold on to the cash it generates. Specifically, you should demonstrate that the Company has produced a virtuous cycle of using said cash to conduct growth investments in highly profitable businesses and that a disciplined approach of rigorously evaluating the profitability of all businesses has been adopted.

**Baba** Thank you for your input. Part of my role as president is to turn an earnest ear toward feedback from investors to drive top-down improvements in our disclosure activities. I will take your input to heart as I seek to address the issues you speak of.

Requirements for Improving Tokyo Century's PBR

**Fukuta** I have a high opinion of Tokyo Century's disclosure activities, which are based on your approach toward management that emphasizes cost of capital and share prices. What I have the most praise for is how you have disclosed your cost of shareholders' equity as being 10% based on meetings with investors. This is proof of how Tokyo Century is a company that really values the opinions of the market. If a simple calculation is used to produce a figure for cost of shareholders' equity, that figure might be different from the estimates of investors. Tokyo Century's approach, meanwhile, has successfully eliminated this disparity.

Tokyo Century is currently advancing initiatives to heighten its price-to-book ratio (PBR). Nevertheless, we

cannot forget that the indicator institutional investors tend to care most about is return on equity (ROE). The dividend payout ratio is also an important factor considered. However, institutional investors who prioritize long-term holdings would rather see a quality company, one with the potential to keep growing, devote its cash to growth investments, rather than being preoccupied with the dividend payout ratio. After all, growth investments contribute to higher earnings power, which in turn can raise ROE and ultimately boost PBR.

**Baba** I am overjoyed by your praise. Your high opinion of Tokyo Century is our reward for our earnest stance toward incorporating feedback from the market. I completely agree about the

Dialogue between an Institutional Investor and the President

importance of ROE when it comes to improving PBR. ROE is generally perceived to be the combination of a company's ROA and its financial leverage. This is another reason why we place such emphasis on ROA. Medium-Term Management Plan 2027 targets ROA of 1.4% and ROE of 10%. As we do not currently anticipate any significant changes in our financial leverage, improvements in ROA will translate directly to higher ROE, which means that heightening ROA is vital to raising corporate value. This brings us back to the portfolio transformation we talked about earlier. To improve ROA going forward, it will be crucial for us to steadily advance portfolio transformation initiatives and thereby heighten asset efficiency and profitability.

And, of course, improving PBR requires us to talk about PER, an indicator of our growth potential. PER hints at the likelihood that our growth will be ongoing. If we are going to increase PER, we will be compelled to

conduct growth investments to boost our earnings power and to divest from low-profit businesses for efficiently circulating cash in the type of cycle that you talked about earlier. Through this process, we must also foster a sense of anticipation with regard to Tokyo Century's future growth. This process is something I am emphasizing in management.

**Fukuta** Tokyo Century has already evolved to become more than simply a leasing company. I therefore want it to become a company that investors choose based on its own distinctive virtues, as opposed to merely deciding to invest by comparing it with other companies in the financial sector. There are cases in which the stock prices of companies growing under strong leadership benefit from what could be called a "management premium." These cases indicate the importance of the ability of a leader to propel a company forward in improving corporate value.

Investments in Human Capital

**Baba** The strength of our human resources is crucial to advancing our business model based on Tokyo Century's "Finance × Services × Business Expertise" concept. For this reason, we conduct regular employee engagement surveys to measure the employee engagement index. Discussions based on the findings of these surveys are organized as part of officer training sessions, and we have thus seen a large increase in discussions about this topic among management in recent years.

In the past, it was common for companies to refer to their people as "human resources," but there has recently been a rise in companies using the term "human capital." At Tokyo Century, we do not view the money used to recruit and train employees as a cost, but rather as a growth investment. Based on this view, we are expanding our training programs to help employees refine their specialized skills and thereby strengthen our human resources. This approach is apparent in the rapid rise in the amount of time and money devoted to training on a per-employee basis.

**Fukuta** Whether a company's leader is directly involved in enhancing human capital is an important consideration when it comes to investors' evaluations of a company's corporate value. The workforce in the asset management industry is incredibly

fluid. This means that a company in said industry must provide some kind of value for its employees to encourage them to remain. If a company cannot do so, it will not be able to maintain its workforce. In fact, workforce fluidity is on the rise across Japan. We might thus be at a point where all companies need to adopt such a perspective.

**Baba** You may be right there. We have to consider employee engagement and well-being when thinking about human capital. Institutional investors thoroughly scrutinize a company before deciding to invest their money, or their capital. For your average employee, they are their own capital. Accordingly, similar to institutional investors, they want to invest their capital in, or to work at, companies that seem appealing to them. Appealing companies are thus able to attract a lot of human capital, and this comes to be reflected in their corporate value. However, it is difficult to quantify how human capital is contributing to improvements in corporate value. I think that many companies struggle with this. It can take a lot of time for a human capital initiative to begin generating benefits. I therefore intend to be patient and to steadily advance such initiatives while verifying their progress and results through means such as employee engagement surveys.

*I am firm in my resolve to steer management based on a long-term perspective to ensure that Tokyo Century can continue to grow. I will guide us in making steady progress in the hope that, 10 or 20 years from now, people will look back with praise at the contributions I made.*



Hopes for Tokyo Century

**Fukuta** As an investor who prioritizes long-term holdings, I want companies to focus on how to resolve the issues they face at any given time, as opposed to becoming preoccupied with short-term results. Accordingly, I assess companies by looking at the long-term processes that involve their initiatives and how these initiatives contribute to improved corporate value. As I maintain my investments over the long term, I pay particular attention to factors that are indicative of true transformations within companies, such as portfolio reforms, human capital investments, and initiatives for improving ROE, all of which are areas where short-term results should not be expected. I would have praise for any company that is led by individuals capable of driving such transformations. Our conversation today has made it apparent that you, President Baba, are capable of exercising strong leadership while being accommodating toward employees and inspired by a forward-looking passion to bring about change at Tokyo Century. I hope to see you generate a greater management premium in order to contribute to further improvements in Tokyo Century's corporate value.

**Baba** I am always committed to living up to the expectations of investors. As you mentioned, the transformation initiatives we are so passionately advancing at the moment include those not likely to contribute to profits in the short term. Rather, we are moving forward with some of these initiatives with an eye toward generating results in the medium to long term. Tokyo Century will no doubt be in new hands when these initiatives finally begin realizing tangible benefits. Nevertheless, I am firm in my resolve to steer management based on a long-term perspective to ensure that Tokyo Century can continue to grow. I will guide us in making steady progress in the hope that, 10 or 20 years from now, people will look back with praise at the contributions I made.