Q & A at Earnings Call (FY2023) held on May 15, 2024

Tokyo Century Corporation

Profit plan for FY2024

Q.

What are your thoughts on the potential impacts of assumed domestic interest rates and interest rate hikes factored into the profit plan?

A.

In the plan, we are projecting the implementation of around two domestic interest rate hikes. The fixed funding ratio for the Japanese yen's fund procurement of the Tokyo Century Group has been set at a sufficient level. This, coupled with the relatively short-term duration gaps between operations and procurement, means we are well-prepared to adequately control the impacts of rate hikes.
Going forward, as we, from the operational standpoint, will effectively address situations in response to the pace of rate hikes, you may consider the impact due to the hikes to be neutral over the medium to long term. Tokyo Century will commit to managing operations and controlling interest fluctuation risks while continuing closely monitoring market trends.

Q.

We see some growth investment projects with large-scale investments. As you continue these investments, what financial constraints are likely to be reflected on the balance sheet?

A.

Now that the balance of segment assets has reached ¥5.7 trillion. Considering the composition of balance sheet, our policy is not solely focused on expanding investments. The Medium-Term Management Plan 2027 outlines improving asset efficiency through portfolio transformation and our commitment to investing for growth while partly engaging in divestiture to collect investment funds.

Q.

What are the risks associated with the exchange rate fluctuations in the profit plan?

A.

In our plan, we have taken into account that 1 USD is JPY140. In terms of the potential impact on the profit and loss, if the yen depreciates in comparison to the plan, earnings in dollars, primarily from the Specialty Financing and International Business segments, will be considered to increase upon conversion into yen.

Q.

Could you please provide your forecast for the expected level of gain on sales in the plan?

A.

As previously mentioned, we consider the level of gain on sales to be roughly 10% of ordinary income; therefore, our goal for fiscal 2024 is to project around 10% of the targeted ¥125.0 billion in ordinary income.

Progress in Medium-Term Management Plan 2027

Q.

What is the current progress status toward achieving the target of ¥100.0 billion in net income for fiscal 2027, the final year of the medium-term management plan?

A.

For fiscal 2027, we will manage to incorporate our four types of transformation—portfolio transformation, human resource and organizational transformation, digital transformation, and green transformation—into each of operating segments and strive to achieve the target of ¥100.0 billion.

In reference to the performance of individual operating segments, we have observed strong performance across all segments. This includes the steady recovery of aircraft leasing subsidiary Aviation Capital Group LLC (ACG), the effective implementation of measures to earn income by car rental subsidiary Nippon Rent-A-Car Service, Inc., substantial growth in U.S. IT equipment leasing subsidiary CSI Leasing, Inc., and enhanced coordination with partner companies centered on the NTT Group.

The balance sheet is projected to grow to approximately ¥7.0 trillion in total assets for fiscal 2027. Given that increases align with the yen depreciation, we will try to heighten asset efficiency through portfolio transformation. In fiscal 2023 results, we had a return on investment by reviewing our ownership stakes in some subsidiaries. Moving forward, we intend to invest newly for growth, utilizing such generated returns as starting capital.

Shelf Registration with Respect to Issuance of Bond-Type Class Shares

Q.

Tokyo Century has disclosed the shelf registration for the Bond-Type Class Shares, with a maximum issuance amount set at ¥100.0 billion. What is your future perspective on capital financing?

A.

The first optional redemption date of the Series 2 Hybrid Bonds of ¥100.0 billion issued in fiscal 2020 is scheduled for July 2025, and we anticipate executing capital financing as part of the refinancing arrangement. This time, shelf registration has been established for the backstop option, and our primary expectation is to carry out refinancing through hybrid bonds.

We would like you to understand that this approach aims to contribute to reducing procurement costs with a focus on the Tokyo Century Group’s medium- to long-term growth strategies as well as ensuring maintenance and enhancing procurement stability.

Shareholder returns

Q.

Could you share your future perspective on maintaining a dividend payout ratio of around 35%?

A.

Without any change from the previous policy, we will maintain a dividend payout ratio of around 35% and aim to increase dividends per share with profit growth. As indicated on page 9 of Consolidated Financial Results material disclosed on May 14, 2024, during the previous medium-term management plan (fiscal 2020–fiscal 2022), our dividend payout ratio hovered around 30%, excluding fiscal 2022, when one-time extraordinary losses related to Russia were recorded. In the Medium-Term Management Plan 2027, we are raising the ratio to around 35%. Moreover, as noted on the same page of the material, we initially announced our adoption of a progressive dividend policy as our basic stance and clarified our policy of not reducing dividends in principle.

Specialty Financing (ACG)

Q.

What are the forecasts for the aircraft leasing business environment and its potential downside risks?

A.

In line with the surge in the federal funds rate, ACG’s cost burden is increasing, but lease rates are rising partly due to the tightening supply and demand of aircraft.

ACG currently possesses 120 committed new aircraft on the orderbook. It is expected that roughly 30 new aircraft will be delivered annually, but there may be potential delays. The possession of an orderbook represents a significant competitive advantage over industry peers, particularly in bolstering sales activities for airlines with high credibility. The market value of used aircraft is on the rise, and in fiscal 2024, we project a threefold increase in the number of aircraft sales in comparison to the previous fiscal year, based on the number of aircraft. The gain on the sale of aircraft of ACG’s 1Q of fiscal 2024 (January to March) and its fiscal 2023 stood at $15 million and $16 million, respectively. These figures show a similar level; therefore, ACG aims to substantially enhance its gains in fiscal 2024.

Downside risks encompass the airline’s credibility and geopolitical risks. In an effort to reduce such risks, ACG is reviewing its risk appetite framework and diversifying its portfolio’s geographical exposure.

Specialty Financing (Real Estate)

Q.

Given the projected surplus of offices in the domestic real estate business, as indicated primarily by statistical data, what are your thoughts on future investments?

A.

Unlike in overseas markets, the prices in the domestic real estate market remain high, making it challenging for us to invest in new projects. In this situation, when proceeding with investments, any misstep in our investment decisions could lead to potential risks of a decline in the holding price in divestiture after a certain period. Therefore, we need to exercise caution when selecting new projects. Consistent with our basic policy, we are committed to approaching investments with careful consideration of holding periods and other factors, along with reliable partner companies.