Q & A at FY2024 Q2 Earnings Call on November 13, 2024

Tokyo Century Corporation

Profit Plan for FY2024

Q.

After-tax extraordinary income of ¥4.9 billion was recorded mainly due to selling cross-held shares. What is your forecast for the gain on sale of cross-held shares in the second half of the fiscal year?

A.

We have previously planned to decrease cross-held shares in order to improve capital efficiency, so we are actively implementing the plan in the current fiscal year. We would like you to understand that a certain level of gain on sale of cross-held shares is expected in the second half.

Q.

What is your current forecast for annual net income for fiscal 2024? Do you expect that the extraordinary income derived from gain on sale of cross-held shares will result in net income exceeding the annual target of ¥80 billion?

A.

There is no change in our target annual net income of ¥80 billion. We aim to reach and exceed the target while achieving profit targets in individual operating segments.

Business Environment

Q.

What are your thoughts on current geopolitical risks and changes in the business environment in view of the result of the U.S. presidential election and other developments? As an example, it is said that the presidential election result is highly likely to have an influence on renewable energy prices and the U.S.-China relations. Would you describe the impact of these changes on your business?

A.

Generally speaking, the U.S. economy is expected to expand as a result of corporate tax cuts and deregulation. In the U.S., we operate many businesses supporting infrastructure, such as IT equipment leasing of consolidated subsidiary CSI, construction machinery finance, and truck finance. Therefore, the U.S. economic upturn will increase our business opportunities and earnings.

Meanwhile, we are closely watching the U.S. interest rates as they are expected to remain high due to inflation.

As for geopolitical risks, we are managing our portfolio while paying attention to the U.S.-China relations and the situations in the Middle East, as well as country risks in particular for aircraft leasing.

Q.

What changes do you expect in lease rates and credit costs as a result of interest rates hike in Japan?

A.

With regard to interest rates in Japan, we have factored two 0.25 percentage point rate hikes into our profit plan for this fiscal year. We consider that we also need to factor an appropriate interest rate level into the profit plan for the next fiscal year while closely watching the trend going forward.

We have been reflecting the interest rate hikes in lease rates while gaining customers' understanding and also providing services of higher quality.

We had few credit costs in the first half of the fiscal year partly because we have implemented a strict risk management system. We will continue to manage risks thoroughly while flexibly responding to changes in the business environment.

Issuance of Hybrid Corporate Bonds

Q.

Tokyo Century announced on the date of earnings release that it would redeem its hybrid bonds before maturity and issue new hybrid bonds to refinance the former. What are your current thoughts on issuing bond-type class shares? How much cost advantage do you expect from hybrid corporate bonds compared to the issuance of bond-type class shares?

A.

We position the refinancing by issuing new hybrid bonds, which was announced in a recent news release, as a main scenario at the moment. As we have described before, we made a shelf registration for the issuance of bond-type class shares in May this year as a backstop option just in case the financial environment changes significantly.

Financing costs are likely to increase more or less, because interest rates have risen since fiscal 2020 when we issued hybrid bonds last time. However, our credit ratings have been revised higher since the last issuance of bonds, and therefore we think that the influence of interest rate hikes will be reduced to some extent. Generally, bond-type class shares cost more than corporate bonds, so we would like you to understand that bond-type class shares are a low priority.

Shareholder Returns

Q.

The Company has recorded extraordinary income mainly consisting of the gain on sale of cross-held shares. Taking this into account, what are your thoughts on shareholder returns?

A.

There is no change to our dividend policy. We aim to increase dividends per share by increasing profits while maintaining a payout ratio of approximately 35%. For details, please see page 35 of the IR Presentation materials for the second quarter.

Equipment Leasing

Q.

It seems that it was difficult to improve profitability in a low interest rate environment, but the business environment is likely to change, including interest rate hikes in Japan. Do you plan to increase segment assets?

A.

We plan to place importance on the quality of assets, rather than the volume, as well as asset efficiency and profitability as put forth in the Medium-Term Management Plan 2027. Including Group companies in the Equipment Leasing segment, the Tokyo Century Group has been making efforts focusing on profitability as a whole. As a result, as shown on page 38 of the IR Presentation materials, segment assets have decreased compared to the past, but profitability has improved, which has led to improved ROA. We will continue to strengthen earnings power in order to achieve our targets for the final fiscal year of the Medium-Term Management Plan 2027.

Q.

What initiatives are you implementing to increase ROA for NTT TC Leasing?

A.

We have placed importance on expanding the volume of assets since NTT TC Leasing began its operations, and its segment assets have increased by approximately ¥800 billion over the past four years or so. Going forward, we will discuss the company's portfolio mix, as well as the strengthening of management focusing on profitability and other qualities of assets, with the aim of improving ROA.

Automobility

Q.

Nippon-Rent-A-Car Service's (NRS) income for Q1–Q2 increased partly due to its gain on sale of vehicles. Would you share the progress of initiatives for NRS to achieve medium- to long-term growth, such as capturing the inbound demand and strengthening profitability at individual branches?

A.

We have been taking various measures to increase car rental revenue, aside from gain on sale of vehicles. For example, NRS has approximately 500 car rental branches across Japan and it has been renovating them one after another with the aim of improving operational efficiency, which is contributing to increasing revenues and profits. In addition, NRS has been strengthening initiatives to improve the vehicle occupancy rate, such as actively improving services for inbound tourists.

Specialty Financing (ACG)

Q.

According to the chart on page 17 of the IR Presentation materials, ACG's recent operating lease revenues in fiscal 2024 has decreased from the previous fiscal year. What are the reasons for this?

A.

ACG's operating lease revenues for the second half of the previous fiscal year and the first quarter of the current fiscal year increased due to one-off factors, mainly due to collections of lease payment which was deferred during the COVID-19 pandemic. We would like you to understand that the recent figures represent an ordinary level of operating lease revenues.

Q.

Boeing's aircraft deliveries are expected to be delayed due to its prolonged strike. Would you tell us its impact on ACG's aircraft acquisition plan?

A.

Deliveries of ordered aircraft, those from Boeing in particular, are likely to be delayed to some extent, but ACG's plan also includes acquiring aircraft through sale-and-leaseback transactions and the secondary market. In this fiscal year, ACG plans to sell more aircraft than usual while actively acquiring them for future growth. We plan to manage the portfolio by maintaining balance between sale and acquisition.

Specialty Financing (Other)

Q.

How do you evaluate the current progress in terms of increasing ROA for the Specialty Financing segment as a whole? You have set a target ROA of 1.7% (on a net income basis) for fiscal 2027, the final year of the Medium-Term Management Plan 2027. How are you planning to achieve this target?

A.

We consider our initiatives to improve ROA in progress, including strengthening asset turnover businesses centered on aircraft leasing subsidiary ACG. ACG has grown mainly with leasing income so far, but it is now strengthening its trading teams so that it can expect gain on sale of aircraft to a certain degree.

Furthermore, in the real estate business, we have been strengthening investment in data center assets with growth potential. We plan to improve ROA while ensuring capital gains based on a cycle of investment and recovery.

Q.

As for the cooperation with private equity firm Advantage Partners, the outlook for segment assets a few years later is shown on page 21 of the IR Presentation materials, and it seems that you will further increase investments. What is your view of future growth strategies?

A.

The principal investment business is on the right track, mainly in cooperation with Advantage Partners. Taking into account future pipelines and returns on investment through divestment, segment assets are expected to increase towards the range of ¥40–50 billion. We continue to aim to increase segment assets while realizing capital gains based on a cycle of investment and recovery.

Environmental Infrastructure

Q.

You plan to catch up with the net income plan by achieving gains on sale and improving the profitability of existing businesses in the second half of the fiscal year. To this end, what measures are you planning? In addition, what measures do you have in order to recover profitability such as decreased ROA?

A.

In order to achieve the profit plan for this fiscal year, we plan to take measures centered around gains on sale, but we recognize that the hurdles to overcome are relatively high. On the other side, the Environmental Infrastructure segment, which has social significance in light of decarbonization, works to make profits from a medium- to long-term perspective. Specifically, it is taking measures to improve the quality by using the existing asset base, such as storage batteries, solar power assets and technical management, and corporate power purchase agreement (PPA) for solar power. In addition, the segment focuses on expanding investments such as overseas solar power generation business, thereby advancing initiatives to improve ROA.

Change of the President and Representative Director

Q.

Mr. Fujiwara has been appointed as the next president of Tokyo Century. This replacement is different from those in the past in that the new president comes from the outside of the Company. What do you expect from this appointment?

A.

We have decided that Director Fujiwara's personal relationships he has built in his career, as well as his overseas experience, excellent career, ability, and personality, would be able to broaden the Company's partnership strategy, one of its strengths, and further strengthen its management base. We consider that Director Fujiwara is the best person for the next president of Tokyo Century to achieve the Company's target net income of ¥100 billion for the final year of the Medium-Term Management Plan 2027 and further take a great leap forward in the future. We expect that he will realize various measures centered on TC Transformation (TCX).

Q.

Would you share what were discussed in the Nomination Committee when appointing the next representative director?

A.

Director Fujiwara had a relationship with Tokyo Century when he was working for Mizuho Bank, which is our main bank. He took a post as advisor of Tokyo Century two years ago, and as external director this fiscal year. They have decided that he is well versed in our business and has overseas experience, excellent career, ability, and personality enough to be a candidate for CEO.