

Profit Plan for Fiscal 2025

Q.

Regarding the profit plan for the next fiscal year (fiscal 2025), I assume that Tokyo Century will face high hurdles to increase income because of the absence of one-time gain from the sale of cross-held shares which was recorded in the current fiscal year. What outlook do you have?

A.

In the third quarter financial results, we recorded an extraordinary income of approximately ¥8 billion (after-tax), including gains on the sale of cross-held shares, which was not scheduled in our initial plan. As a result, we expect net income for the current fiscal year to be higher than planned. We are currently working on the profit plan for the next fiscal year, so we cannot provide details yet. However, we aim to secure an increase in profits, and as stated in our shareholder return policy, we would like to strive for the distribution of progressive dividends through increased profits in the next fiscal year again.

Progress of the Medium-Term Management Plan 2027

Q.

What is each operating segment's progress towards achieving the profit targets of the Medium-Term Management Plan 2027?

A.

We are in the second year of the medium-term plan. As shown on page 38 of the IR Presentation material, progress in operating segments is varied. However, overall, we are steadily advancing toward our profit target of ¥100 billion.

In the Equipment Leasing segment, NTT TC Leasing, which is the segment's core business, is showing strong performance with its highest profit ever. In order to achieve our goal, we must strengthen the earnings power of our own leasing business, progressing toward the final year of the Medium-Term Management Plan 2027.

The Automobility segment has already exceeded its profit targets. Its most recent performance has partially benefited from the rise in used car prices. Considering the current trends, we believe that the risk of a sudden price decline is low, and we expect the business to continue its strong performance.

The Specialty Financing segment is strong, centered on the aviation business. To achieve the targeted performance, we believe that the segment needs to steadily post capital gains every year through asset turnover. The ability to take action is needed, including assessing market conditions.

The International Business segment has the data center business with the NTT Group and a number of pipelines in sight, in addition to the growth of its core business, CSI Leasing. We believe the segment can achieve its profit targets.

As for the Environmental Infrastructure segment, as previously explained, please understand that it takes some time before recording profits due to the initial cost burden immediately after investment. While continuing investment, we aim to achieve the profit targets by realizing a certain level of capital gains through divestments.

Q.

What factors will be the key to continuing to increase ROE during the medium-term plan period?

A.

Recent fluctuations in exchange rates are affecting ROE. Further increasing the capital efficiency of overseas subsidiaries will be essential for achieving sustained improvements in ROE. The ratio of our overseas business is increasing. The profit, which is the numerator when calculating ROE, will be positively affected by a weakening yen, while the denominator, capital, will also increase due to the foreign exchange translation adjustment. When the overseas subsidiaries have low ROEs, it can also be a factor that pushes down the ROE of the entire Group. Therefore, the key focus is to strengthen the management of the overseas subsidiaries to ensure that they generate adequate returns on our capital investment.

Financing

Q.

As the yen interest rates are rising, how much do you hedge your yen-denominated interest-bearing debt?

A.

We hedge approximately 70% of our interest-bearing debt in yen. The remaining 30% is exposed to interest rate fluctuation risk. On the profit and loss statement, the increase in financing costs will precede. However, the impact will be neutralized as it is passed on to the lease rates. The duration gap between asset and debt is approximately less than one year.

Return to shareholders

Q.

Are you considering raising the current dividend payout ratio of 35%?

A.

Our shareholder return policy for the period of the medium-term plan is to pay progressive dividends with a payout ratio of 35%, based on our policy of paying stable dividends over a long period. We recognize

that this is lower than our competitors and do not intend to adhere to this level. It is our policy to use the most appropriate capital strategy depending on the situation of the time. There are two elements to consider: the need to maintain a certain level of capital from the perspective of credit ratings to secure stable financing and the need to make future growth investments, including M&A, to achieve ongoing growth. Therefore, while maintaining a dividend policy, we will decide on the payment considering a balance between growth investments and returns.

Equipment Leasing

Q.

You stated that the increase in SG&A expenses is the reason for the year-on-year decline in Equipment Leasing's income. Could you explain this in more detail?

A.

Although gross profit increased, operating income decreased due to increased SG&A expenses. The main factors behind the increase in SG&A expenses were expenses associated with the system's modernization, an increase in personnel expenses due to wage increases, and an increase in bad debts. Although the plan factored in increases in system and personnel expenses, we could not accumulate sufficient profits to offset these costs fully, which was the reason for the decrease in income.

Q.

The Bank of Japan has decided to raise interest rates again this January, and it looks like interest rate hikes will continue. To what extent could the future movement in the government's monetary policy pose downside risks?

A.

The current rise in the policy interest rate is already factored into our profit targets in the medium-term plan. Since lease yields are linked to market interest rates, yields on new lease contracts have been increasing. The timing of yield increases on the asset side inevitably delays relative to cost increases on the debt side. It will catch up once interest rates stop rising.

Specialty Financing

Q.

Regarding the medium- to long-term ordinary income projection shown in "Aviation Business Strategies" on page 16 of the IR Presentation material, could you detail the profit level you aim for, the time axis, and the drivers you assume to increase profits?

A.

The core businesses of the aviation business are ACG, an aircraft leasing subsidiary, and GA Telesis, an equity-method affiliate that trades used aircraft parts. The segment is making steady progress towards achieving the profit level shown on page 16.

We believe that ACG will recover to the profit level that we expected at the time of its acquisition as our subsidiary by the final year of the medium-term plan. The aviation market is strong, and the impact of the COVID-19 crisis has almost disappeared. However, aircraft leasing is a recurring revenue business. So, the remaining assets with low lease rates contracted in the past and dollar interest rates higher than expected are negative factors for the expected recovery of profitability. It is essential to consider how to overcome these factors.

GA Telesis primarily engages in the trade of parts and is performing very well, reflecting the favorable market environment. Further growth can be expected.

Environmental Infrastructure

Q.

What are the risks involved in investing in renewable energy overseas, and what is your investment policy going forward?

A.

In addition to the risk of interest rate fluctuation, there is also the risk of changes in environmental policies in the countries where we do business. We believe that working with partners with a wealth of expertise in local business operations is essential.

Rather than blindly investing to expand assets, we will look at the composition of our portfolio and monetize assets, such as by turning over assets that need to secure profits as soon as possible while watching market conditions.