

## **Q & A at Q1 FY2025 Earnings Call**

### **Tokyo Century Corporation**

Date: August 14, 2025

Presenter: Tatsuya Hirasaki

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### **FY2025 Earnings Outlook**

Q.

Approximately ¥22 billion (based on an exchange rate of ¥150 per dollar) is set to be recorded as extraordinary income due to additional insurance settlement proceeds (\$147 million). What are the reasons you decided not to raise your earnings forecast? In addition, is it possible to review the biomass co-firing power generation business for impairment, even if it is profitable in this fiscal year?

A.

We decided not to raise our earnings forecast as we are not yet able to assess the uncertainty surrounding the risk buffer included in our plan. The biomass co-firing power generation business, a key factor covered by the risk buffer, went into the black in the first quarter due to a higher utilization rate. However, we need to monitor the situation during the remaining nine months.

Additionally, under accounting standards, an impairment assessment must consider not only profits and losses but also significant changes in the business environment. Therefore, it is generally possible to record an impairment loss even for a profitable business. Our biomass co-firing power generation business uses coal as fuel. As Japan aims for carbon neutrality, trends in carbon pricing and other related factors might impact its future cash flow.

### **Status of the Risk Buffer**

Q.

Would you tell us which businesses, if any, are facing increasing risks due to changes in the business environment?

A.

The status of the risk buffer remains unchanged from our previous explanations. Currently, we assess that the biomass co-firing power generation business is the primary factor that can affect the risk buffer. As we have a diverse portfolio and operate globally, some of our projects may not meet our initial expectations. However, we do not consider that they will have a significant impact on our annual net income forecast of ¥93 billion.

## **Use of Insurance Settlement Proceeds Related to Russia Exposure**

Q.

How will you use insurance settlement proceeds totaling approximately \$545 million, including the newly-announced additional proceeds?

A.

Our plan remains unchanged from what we outlined in the last earnings call in May. Our basic policy is to allocate these proceeds to growth investments, such as purchasing aircraft for ACG. As of now, we have not revised our earnings forecast and dividend policy based on the gain from this additional insurance settlement. Any future decision on revisions will depend on our assessment of market conditions, our performance trends, and the risk buffer.

## **ROE**

Q.

How do foreign exchange fluctuations impact ROE?

A.

Foreign exchange fluctuations increase or decrease net income and shareholders' equity through currency translation adjustments, which in turn affects ROE. In this fiscal year, we will receive a large amount of insurance settlement proceeds in dollars. Therefore, excluding the one-time gains from the settlements, we believe that yen depreciation will likely have a negative impact on ROE, given the current earnings power of our subsidiaries.

Q.

If the potential risks covered by the ¥32 billion buffer do not materialize, and those funds are retained instead of being paid out as dividends, shareholders' equity will increase. I believe that this would, in turn, make it more difficult to achieve your 10% ROE target under the Medium-Term Management Plan 2027 (the "medium-term plan"). What discussions are underway to achieve 10% ROE?

A.

The 10% ROE target remains a key management goal under the medium-term plan and we are continuously discussing how to achieve it. We formulated the medium-term plan based on an exchange rate of ¥130 per dollar. If the yen depreciates, shareholders' equity will ultimately increase beyond our projections, which would put downward pressure on our ROE. Our primary focus, therefore, is to pursue increased profits in each of our businesses to offset this effect and achieve our ROE target. If we ultimately determine that the shareholders' equity has become excessive, we will need to consider options to control it, such as raising the dividend payout ratio.

## **State of Core Earnings**

Q.

As shown on page 7 of the IR Presentation, the increase in core earnings was small, even after excluding the impact of ACG's one-time gains recorded in the same period last year. This suggests that your earnings power is rather weak. What is your assessment on this?

A.

Our first quarter financial results were mostly as planned, and currently, we do not regard our earnings power as insufficient. From a medium- to long-term perspective, we assess that we are making steady progress toward achieving the medium-term plan.

In the Automobility segment, we have already achieved the medium-term plan's targets due to NRS's strong performance.

As for Specialty Financing, we assess that the segment has not yet reached its true potential due to the impact on ACG from the COVID-19 pandemic and continuing high interest rates in the U.S. However, ACG secured higher profits with its steady performance in the second quarter. Against this backdrop, we anticipate that the segment will recover to its initially forecast profit level in the final year of the medium-term plan.

In Environmental Infrastructure, we are facing a challenging business environment, but we intend to develop our domestic storage battery business, a new key revenue source, to achieve the segment's targets.

The pipelines of growth investments are steadily increasing. We are committed to ensuring that these investments bear fruit and will report their results to the stakeholders.

## **Cost Structure**

Q.

The year-on-year change in SG&A expenses is larger than that in gross profit, which seems to have decreased profits. What measures, if any, are you taking in terms of cost reduction?

A.

We have been aware of the increase in SG&A expenses and have already started scrutinizing them company-wide. The main reasons for their increase are growing personnel expenses at Tokyo Century, Nippon Car Solutions, and other Group companies in Japan, as well as business expansion at CSI overseas. We view personnel and IT system expenses as important investments. It is essential to recover investments by achieving profits through improving productivity and providing added value. We need to consider if the increase in SG&A expenses is contributing to profits.

## **Reform Projects Led by President**

Q.

According to page 14 of the IR Presentation, the reform projects will be described by the time of FY2025 financial results announcement. Do you also plan to disclose the details earlier?

A.

As just mentioned, we plan to provide details of the reform projects by our financial results announcement in May 2026 but may disclose them earlier once the details are finalized. These projects are underway as planned, with the mid-level staff members leading discussions, bringing a fresh perspective that challenges previous ideas.

## **Aviation Business**

Q.

A news report said that the Japanese government agreed to buy 100 Boeing aircraft as part of tariff negotiations with the U.S. government. Do you think this will create business opportunities for leasing companies?

A.

No specific discussions have been made public, so the information remains unclear, including who will buy them and how. I cannot say anything definite, but my assumption is that Japanese airlines could buy aircraft on their own or use Japanese Operating Lease with Call Option (JOLCO) as a financing measure.

Q.

Given your recent aircraft purchases and leasing rates, your business conditions seem favorable. Can you provide ACG's profit outlook?

A.

Although leasing contracts signed during the COVID-19 pandemic still impact ACG's profit level, we aim to achieve a 2% ROA by the final year of the medium-term management plan. To hedge financial risks, approximately 90% of ACG's financing is fixed-rate debt. Therefore, if the U.S. policy interest rate is cut, ACG's financing costs will not decrease significantly in the short term. However, we will realize the benefits gradually as we refinance our bonds.

## **Truck Leasing in Partnership with Isuzu Motors in Australia**

Q.

Is it reasonable to think that you can reduce your initial investments by leveraging Isuzu Motors' existing networks and locations? In addition, what is your profit target?

A.

Isuzu Motors has a network of approximately 70 dealers in Australia. By utilizing this network, the project will not require a significant upfront investment, aside from the costs of establishing a joint venture. The project is not expected to contribute significantly to our total profits, as the new company will be accounted for as an equity-method affiliate due to our 20% ownership stake. This is the second collaborative project with Isuzu Motors. Leveraging Isuzu Motors' high market share in Australia, we will increase profits by building

up leasing contracts and also steadily enhance core earnings from maintenance and interest revenue.