

Q & A at Q2 FY2025 Earnings Call

Tokyo Century Corporation

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FY2026 Performance Outlook

Q.

While current fiscal year performance is expected to grow due to the insurance settlement proceeds, there is concern about the reactionary decline next fiscal year (FY2026). To achieve profit growth despite the decrease in this one-time factor, I believe capital gains will be necessary. Could you share which assets you expect to generate capital gains from, along with an image of the guidance for the next fiscal year?

A.

Specific profit targets for the next fiscal year are currently under discussion, but we aim to achieve sustained profit growth. We are committed to focusing on an "increasing profit trend" driven by our underlying earnings power, not just one-time income. Assets anticipated to generate capital gains for the next fiscal year include data centers, overseas renewable energy, and cross-held shares. This fiscal year, we are focusing on three areas: growth investments for the future, scrutinizing assets and businesses, and the reform project for the next 10 years. We intend to manage the company with a comprehensive structure from the next fiscal year onward.

Upward Revision of FY2025 Earnings Forecast

Q.

Please explain the background to the revision of the full-year earnings forecast (Net Income of ¥93 billion → ¥100 billion). You mentioned that the favorable performance beyond the insurance settlement related to Russia was one of the factors leading to the upward revision; could you specify which businesses are performing well?

A.

The primary reason for this upward revision is the increase in the insurance settlement proceeds. However, excluding one-time factors such as the extraordinary loss in the Automobility segment, we feel that all segments are generally performing well.

- Equipment Leasing: We have successfully executed structural reforms, such as passing

on rising funding costs to lease rates in an interest rate upswing environment. We are not merely passing on costs, but are also striving to improve the spread by expanding high value-added services like maintenance.

- **Automobility:** The car rental business is performing very strongly by capturing inbound demand, contributing steadily to earnings.
- **International Business:** CSI experienced a profit decrease in the first half, but its recent performance has been strong.

Status of the Risk Buffer

Q.

Are the extraordinary loss in the Automobility segment and the impairment loss recorded by ACG in Q3 included in the risk buffer (¥32 billion) set at the beginning of the fiscal year? Also, please tell us if there is a possibility that a risk buffer will be recorded in the second half of the year.

A.

The extraordinary loss in Automobility and the impairment loss at ACG are not included in the risk buffer. Please understand that these were losses that were not anticipated at the beginning of the fiscal year. In the second half, there is a possibility of recording a loss related to the biomass co-firing power generation business due to a challenging business environment, but we do not anticipate any other significant impairment losses.

Q.

Is there a possibility that the risk buffer set at the beginning of the fiscal year (¥32 billion) will be increased, or that the potential loss from the biomass co-firing power generation business will exceed this buffer?

A.

There is a possibility that the loss resulting from the asset reassessment of the biomass co-firing power generation business could exceed the risk buffer set at the beginning of the fiscal year. The external environment surrounding this business is changing significantly, with the potential introduction of carbon pricing, and we are closely monitoring the impact on its cash flow. However, even if a loss exceeding the risk buffer were to occur, we currently believe we can achieve the full-year net income forecast of ¥100 billion.

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Shareholder Return

Q.

Is it correct to understand that the dividend for the next fiscal year will be based on progressive dividends resulting from profit growth? Also, please share your thoughts on the target ROE level going forward.

A.

Our dividend policy is based on a balance among future investment capacity, a buffer to absorb financial risks, and shareholder returns. We intend to maintain our basic policy of sustainable and stable dividend increases in the next fiscal year and beyond. Regarding ROE, we recognize that the underlying ROE, excluding one-time extraordinary gains or losses, has not reached 10% and is currently below the management targets of Medium-Term Management Plan 2027.

The target ROE level will be determined through future consideration, but it needs to account for both medium- to long-term profit growth (the numerator) and appropriate capital (the denominator), which includes controlling risk volatility. The ongoing screening of our business portfolio is also being discussed actively from the perspective of ROE improvement.

Medium-Term Management Plan

Q.

With the upward revision of the current year's earnings forecast, the Medium-Term Management Plan 2027 target of ¥100 billion in net income is in sight for an earlier achievement. Is there a possibility of reviewing the content of the medium-term management plan?

A.

The current medium-term management plan was formulated three years ago, and the business environment has changed significantly since then. Considering that the future we aim for is not a simple extension of the past, and given the revision of the earnings forecast to ¥100 billion, reviewing the medium-term management plan is one of the options.

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Reform Project Led by the President

Q.

Regarding the "Reform Project" mentioned on page 14 of the IR presentation, what are the challenges and how do you intend to change them? Please highlight the most important points and the progress status.

A.

This project aims for fundamental reform that our stakeholders will perceive as "on a completely different dimension". The project, which involves mid-career employees and external perspectives, was launched in May and is promoting transformation based on the following five pillars:

- **Corporate Culture:** Starting with the creation of a "consistent story" so that all employees and stakeholders clearly understand what our company aims to achieve and what kind of company we will become.
- **Business Portfolio:** Focusing on identifying business domains to expand or scale back, and exploring "white space" opportunities. We intend to solidify our focus areas through both qualitative screening (market growth, competitive environment) and quantitative screening (capital efficiency, profitability). We are also organizing our approach to non-organic strategy (M&A) for a major leap.
- **Financial Management:** Promoting the advancement of management accounting (e.g., introduction of ROIC) and the Risk Appetite Framework. We are considering the introduction not only to suppress risk but also from the perspective of "which risks should we take".
- **Management Infrastructure:** Promoting the full-scale introduction of the Group CxO system (target: April next year), company-wide utilization of Generative AI, and reviewing the organization, goal setting system, performance evaluation, and group governance.
- **Human Resource:** Reviewing the development, evaluation, promotion, and compensation of human resources, with the aim of creating an environment where people "want to work at Tokyo Century".

Progress: After intensive discussions among management, we have entered the phase of formulating and executing specific measures toward an announcement in May of next year, and progress is on track.

Q2 Financial Results

Q.

Please provide details on the extraordinary loss related to the subsidiary's system in the

Automobility segment.

A.

Nippon Car Solutions (NCS) had been developing a core system replacement since 2022. However, quality issues were found during the testing phase, and a review of the asset value led to the recording of an impairment loss. We plan to review the project promotion structure, IT governance, and the monitoring of our Group companies based on this outcome. No other major subsidiaries currently have system development projects of a similar scale.

Q.

Please explain the background to the impairment loss recorded in ACG's Q3 financial results announced today.

A.

Our view that the aircraft market is favorable remains unchanged. This impairment loss was recorded on aircraft that were reclassified for sale because their periodic profit/loss would be negative under a long-term holding due to factors like rising interest rates. This led to the anticipation of a loss on sale. This move is expected to contribute to the improvement of periodic profit/loss and asset efficiency from the next fiscal year onward. Although an impairment loss was recorded, we have many aircraft in the pipeline for which a gain on sale is expected, and we intend to sell them strategically while monitoring the market.

Status of Each Business

Q.

Regarding the future business portfolio, please share your thoughts on which businesses should pursue scale and which businesses you believe should not simply chase scale from a risk perspective.

A.

Pursuing scale is a crucial factor in enhancing our competitiveness.

- **Businesses to Pursue Scale:**

Aircraft Leasing: We recognize the need to pursue scale in some form to become a strong player globally, given our current industry position (around 8th or 9th).

Principal Investment: Having a certain degree of scale is essential for discovering high-quality deals. Following the additional investment in Advantage Partners, we are aiming for joint scale expansion while securing their independence and expertise, targeting a segment asset balance of approximately ¥100 billion in the medium to long term.

- Businesses to be Selective (Quality over Scale):
Real Estate, Data Center, and Renewable Energy Businesses: These fields have rapid market growth, but we believe we should focus on "selecting high-quality deals" by partnering with "excellent partners," rather than pursuing scale ourselves, based on past lessons.

Q.

Do you foresee significant growth in the overseas data center business in the next few years?

A.

We recognize that the data center market is moving quite quickly due to the evolution of AI, and we believe there are significant business opportunities. We are highly optimistic that collaboration with the NTT Group and Mitsubishi Estate Group, which are focused on data center investment, will allow us to further increase our investment. However, since this business involves upfront investment due to the J-curve effect, we position it as a long-term business that will steadily incorporate earnings over a range of about five years, rather than seeing an immediate exponential increase in profits.

Q.

You are aiming for 600MW in the domestic grid-scale storage battery business by FY2029. Is the negotiation for transmission line connection with power companies progressing smoothly?

A.

We believe that connection to the power company's transmission network is the biggest hurdle for the success of the grid-scale storage battery business. Our negotiations in this area are considerably advanced, and we believe we have a certain level of advantage.

Q.

How do you manage risks related to your partners in the overseas renewable energy business?

A.

Based on past lessons and other factors, we are committed to ensuring comprehensive project management that considers local laws, regulations, and business practices. One of our key strategies is to conduct joint investments with highly reliable partners who have a strong industry presence and extensive knowledge, such as the Itochu Corporation Group.

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