Q&A Session on Financial Results for the fiscal year ended March 2021

(Q) Regarding the shareholder composition of the New Integrated Company, your forecast as of March indicated that Mitsubishi UFJ Financial Group (MUFG) would comprise approximately 20%, while Mitsubishi Corporation would comprise approximately 18%, but this differs from the ratios for when the New Integrated Company was launched. Does this conform to your initial expectations? Furthermore, now that the New Integrated Company is no longer an equity method affiliated company of Hitachi, Ltd (Hitachi), how do you intend to pursue synergy on a business level with Hitachi?

(A) There has been no change to our initial expectation that MUFG would retain around 20% (including shares held by consolidated subsidiaries), and that Mitsubishi Corporation would retain around 18%. Our company has been positioned as an equity affiliated company of both MUFG and Mitsubishi Corporation.
Our transactions with the Hitachi Group remain extremely vital to Mitsubishi HC Capital. We will continue placing great emphasis on the departments that collaborate with the Hitachi Group. We will also continue exchanging human resources.

(Q) Have the effects on goodwill caused by the business integration been factored into your consolidated earnings forecast for the fiscal year ending March 2022?

(A) The goodwill amount stemming from the business integration has not be determined yet, but we do not believe it will significantly impact our results. We should be able to explain the impact by the time we announce our 1Q results.

(Q) Regarding your sale of shares held for strategic purposes, you posted approximately 10 billion yen in gains on sales for your results for the fiscal year ended March 2021, and your earnings forecast for the fiscal year ending March 2022 also anticipate +4.1 billion yen in extraordinary income compared to the previous year. Going forward, what will your sales policies for shares held for strategic purposes be, and how will this affect your profits?

(A) Formerly, as Mitsubishi UFJ Lease & Finance Company Limited (MUL), we had started revising our portfolio from the preceding medium-term management plan, and had reorganized our non-core assets, including our Group companies, and others. In the meantime, we had proceeded to sell the shares held for strategic purposes, but some large scale shares which we planned to sell still remained, so we continued our sales both in the fiscal year ended March 2021, and the fiscal year ending March 2022. Our expectation is that, from the fiscal year ending March 2023 onward, large sales will not be expected.

(Q) With respect to your operating expenses in your earnings forecast for the fiscal year ending March 2022 (+17.9 billion yen compared to the previous year), you explained that you anticipate an "increase in expenses associated with the promotion of business activities mainly in overseas offices," but can you provide us with more specific details? Furthermore, do you expect that there will be none of these expenses from the fiscal year ending March 2023 onward?

(A) We have anticipated that operating expenses will increase as performance improves and business activities revitalize. The earnings forecast for the fiscal year ending March 2022 were developed by figures that each former company had built up by March and adjusted overall after the business integration. The forecast was developed by giving proper deference to the numbers reported by each division and the head office, but, as my intuition suggests that the operating expenses should not be quite this high, we will examine them more closely in the future.

(Q) Due to COVID-19, I assume that you were not able to send many employees on business trips for the fiscal year ended March 2021, but have you factored in, to some extent, business trip increase in your earnings forecast for the fiscal year ending March 2022?

(A) The expenses aren't limited to business trips, but our thought process is largely as you say. It's not as if we're attempting to pile up expenses trying to do a lot of new things that we did not do before COVID-19.

(Q) Regarding the results for the fiscal year ended March 2021, the simple sums of both companies have been indicated for reference on page 3 of the materials. Are these reference values close to the actual values for the New Integrated Company? Furthermore, were the prior term comparison values for 1Q results onward totaled using the same accounting standards (J-GAAP) for both companies?

(A) The simple sums of the results for the fiscal year ending March 2021 hardly differ from the actual values, although the accounting standards differed.
Furthermore, with respect to disclosures following the 1Q results for the fiscal year ending March 2022, we will consider whether or not to provide previous year comparisons based on J-GAAP.

(Q) How will the segments be classified in the New Integrated Company? Furthermore, what segments do you expect will pull profits forward for fiscal year ending March 2022 and beyond?

(A) Following several years of deliberations between the two companies prior to the business integration, we came to understand that our business areas did not overlap as much as we had believed. As a result, the business organizations for both former companies continue to coexist, at present. Therefore, we basically intend to follow the segments of both companies. However, with respect to environment/energy engagements for both companies, we intend to disclose combined totals for both businesses.
We expect all fields to contribute to revenues, but with respect to the fiscal year ending March 2022, we believe the recovery of areas that performed poorly in the previous fiscal year due to COVID-19 will contribute greatly. For the former MUL, we have high expectations for recoveries in aviation and domestic Customer Business, and, for the former Hitachi Capital (HC), we expect to see strong recoveries for European business.

(Q) Regarding the segment classifications for 1Q results onward, is it safe to assume that we will be seeing 12 segments total, combining 7 segments for the former MUL and 5 segments for the former HC?

(A) Although we anticipate separating segments in Japan by business field, we would like to solidify the details by the time we announce our 1Q results. The segmentation may be conducted in a somewhat more detailed manner than simply lining up the segment classifications of both former companies.

(Q) Which business fields' recoveries and growth do you anticipate will pull results for the fiscal year ending March 2022 forward?
Furthermore, with respect to aviation, what was significantly impacted by COVID-19, and could you share your forecast for the business environment with us?

(A) With respect to YoY figures (the fiscal year ended March 2021), we expect recoveries in fields that were heavily affected by COVID-19.
Furthermore, we have denoted future business strategies for each business in pages 17 through 19 of the materials, and each strategy aims to do something different from what was being done in the past. For example, we will be putting our energy toward the creation of new businesses, such as collaborative businesses with our partners, and database marketing. The world is experiencing massive changes because of factors, such as COVID-19, and global efforts to become carbon-free, and our customers and partner companies are trying to change along with it; a key issue for our company is determining how we involve ourselves in that change, and how we will work to benefit our society and our customers.
In order to start the development of new businesses that may lead into the next fiscal year, or even our new medium-term management plan, our various divisions and our head office are working to develop various strategies, and we believe it will be crucial that we make sure those strategies are realized in the future.
Our forecast regarding the macro environment is denoted on page 22 of the materials, and although we expect to see recovery in 2021 compared to 2020, we will not necessarily see a full return to pre-COVID-19 levels. We also do not expect the aviation market to return to pre-COVID-19 conditions.
According to the data announced at the start of May by the International Air Transport Association (IATA), passenger travel demand is expected to improve by 26% compared to 2020, but will still be -57% of 2019 figures. Based on these figures, we do not expect to see passenger travel demand return to previous levels. Recovery is expected to center around domestic lines or routes in narrow areas, while recovery for long-distance and international lines will likely take somewhat longer. In that sense, given that our company's portfolio is 90% narrow body, although we will not recover to pre-COVID-19 levels, we can expect aviation to make some contributions to revenue this fiscal year.

(Q) When do you expect to be able to publish your new medium-term management plan?

(A) To begin with, for this fiscal year, PMIs are crucial. We will solidify a strategy to realize "synergy on cost for optimization of management resources and others.", "sales synergy", and "synergy utilizing capital capabilities generated by the business integration," and realize each synergy sequentially. Although we have yet to deliberate on the matter altogether as a company, I would personally like to start environmental analyses from the latter half of the current fiscal year. By the latter half of the fiscal year, we should have a better grasp of how vaccine dissemination and the spread of variants will affect our circumstances. We will announce the new plan at the appropriate time as we conduct environmental analyses and firm up our new medium-term management plan in the next fiscal year. The medium-term management plans for both former companies shall remain valid. Our target totals do not include the effects of COVID-19, so we will need to modify them, but that does not modify the initiatives we intend to pursue. Furthermore, we will also develop our strategies by taking into consideration both with-COVID-19 and post-COVID-19 societies. With respect to our earnings forecast for the fiscal year ending March 2022, we intend to further improve the forecast based on present environmental changes, and to use the last fiscal year of the former HC's medium-term management plan, and the second fiscal year of the former MUL's medium-term management plan as the basis.

The personal envision is as follows. For this fiscal year, we primarily plan to place our focus on PMIs, and, starting from the latter half of this fiscal year, will develop a fiscal year plan for the fiscal year ending March 2023 at the same time we begin environmental analyses for the medium-term management plan, and then begin thinking about the new medium-term management plan for the New Integrated Company.

(Q) The former HC medium-term management plan sets forth a “55 billion yen profit before tax” for the fiscal year ending March 2022, the final year of the plan. Based on present conditions, won’t it be difficult to achieve this target?

(A) The plans for the fiscal year ending March 2022 incorporates figures and policies that adequately consider the medium-term management plans of both former companies. At the time we announced the medium-term management plan, our figures for the fiscal year ended March 2021 approached 50 billion yen, and so we anticipated that we would reach 55 billion yen by the fiscal year ending March 2022. As for our forecast for the fiscal year ended March 2021, we had set the figure at 38.5 billion yen, after incorporating approximately 8 billion yen in COVID-19 impacts. Our results for the fiscal year ended March 2021 reached 42.5 billion yen, and, taking into account roughly 8 billion yen in COVID-19 impact and the fact that the expenses related to the business integration reached approximately 3 billion yen, our results exceeded 50 billion yen on a simple calculation basis. This is thanks to the fact that environment/energy, mobility, and other key businesses in which we focused our efforts in the medium-term management plan, realized strong results.
Although presumptions will differ in the new management environment, had COVID-19 not interfered, I believe we would have reached levels that would have allowed us to satisfy the medium-term management plan.

(Q) Regarding the expected dividend per share for the fiscal year ending March 2022, the minimum is set at 26 yen, while the maximum dividend payout ratio is set at 40%, which suggests that there is also an upside; would you agree with that assessment?

(A) Dividend forecast is as explained earlier at this briefing session. We are not thinking in terms of maximums or minimums. We have not yet been able to disclose our dividend policy for the medium-term, and so we set the amount at 26 yen based on the previous dividend policies of both former companies; in other words, the amount was based on a continuous dividend increase and dividend payout ratio in the 30% range for the former MUL, and a dividend payout ratio of approximately 40% at the former HC. It's not so much a dividend payout ratio level. Rather, we would like for you to think of it as a 26 yen dividend based on continuous dividend increases that ultimately resulted in a dividend payout ratio of 39.3%.

(Q) Will expenses related to the business integration arise in fiscal year ending March 2023 and onward as well? Furthermore, when do you expect to be able to explain externally regarding the effect of the expenses paid out?

(A) We still have things we must do related to the business integration, and while we do not believe that expenses related to the business integration will zero out in the fiscal year ending March 2023, they should be smaller compared to the same expenses for the fiscal year ending March 2022.
At the time the business integration was announced on September 24, 2020, we reported that we expected to see cost synergy and others in the form of approximately 10 billion yen in net profit before tax for the third year of the integration (fiscal year 2023/fiscal year ending March 2024). In other words, we had decided to conduct the business integration based on the expectation that we could realize sound integration effects by the third year. We intend to steadily promote PMIs throughout this fiscal and next fiscal year, and, in addition to cost synergy, realize, to the extent possible, both sales synergy and investment synergy, but we expect that the effects of these efforts will become visible and notably potent during the fiscal year ending March 2024.

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