Q&A Session on Financial Results for the 2nd Quarter of Fiscal Year Ending March 31, 2024

(Q) Please explain the reasons for the impairment losses in the Environment & Energy segment.

(A) The impairment losses were recorded for a solar power generation project, as the situation became different from the original business plan. This is attributable to an individual project and does not have any impact on other projects.

(Q) What assets contributed to the losses in the real estate business in the U.S.A.?

(A) Commercial real estate, primarily offices. We recorded fair value losses on the back of recent sharp interest rate hikes in the U.S.A. and tighter lending attitudes of financial institutions to commercial real estate. Although the losses occurred with an individual project, the market for commercial real estate in the U.S.A. continues to be challenging, and we will continue to monitor the market situation in the second half and beyond.
Our portfolio of the real estate assets in the U.S.A. is diversified into residential real estate (so-called apartments) rather than offices.

(Q) Are you considering reviewing your real estate portfolio in the U.S.A. in light of the losses?

(A) We think the portfolio will be reviewed gradually over time. First of all, we believe that the highest priority is to make sure that we collect our debts in the face of the recent poor market environment.

(Q) Will the rise in long-term interest rates in Japan have an impact on your business?

(A) Basically, our principle is to avoid mismatches in procurement, and the periods on the asset and liability sides match. In addition, although domestic interest rates are likely to rise in the future, they are expected to rise moderately compared with those in Europe and Americas, and we will pass the amount of rise to the new transactions. Therefore, even if there is a slight time lag, we are not worried about the rise.

(Q) One of the reasons for keeping the full-year financial forecast unchanged is an excess in the gains on sales of owned assets compared with the initial plan. What specific assets will be sold in the second half? In addition, how much upside do you expect from this?

(A) The company has sold a variety of assets since the beginning of this fiscal year, but in certain areas, gains on sales of owned assets in the first half of this fiscal year exceeded the initial plan, driven by favorable market environment. Although it is not possible to present specific areas here, we expect that the favorable market environment will result in an upturn in gains on sales of owned assets in the second half of this fiscal year.

(Q) You announced the share transfer[1] of DFL Lease and Shutoken Leasing. Are there any other leasing companies that you have invested in that you will sell?

(A) Currently, there are not many other leasing companies that jointly invested with partner companies. In the past, there were Casio Lease and SHINKO LEASE, but we sold our equity interests in these companies. This time, the share transfer was the result of considering which company would be the most desirable to promote the business. We decided to transfer our shares because it was believed that Resona Group, as well as DFL Lease and Shutoken Leasing, could achieve further growth if Resona Group took the lead.

(Q) The financial industry seems to be focusing on supporting startups these days. You recently announced your initiatives to support startups with Lenovo and Mitsubishi UFJ Trust and Banking Corporation. Are other similar initiatives being considered?

(A) We believe that in order to promote the Evolution and Layering of Business Models, we need to use new technologies and work greedily on new business models. As described on page 23 of the Financial Results, we will use the Innovation Investment Fund to actively invest in startups. But it is not just about supporting startups, it is also about thinking together with startups, and we will take the outcome of that thinking, and connect it to the Evolution and Layering of Business Models.

[1] Notice Concerning Share Transfer Involving a Change in Consolidated Subsidiary, dated November 8, 2023
Refer to (https://www.mitsubishi-hc-capital.com/english/investors/library/pressrelease/pdf/2023110802.pdf)

(Q) Could you explain in more detail why the net income in the Aviation segment is planned to be weighted toward the second half?

(A) The Aviation segment has an asset turnover business model and regularly sells assets. The net income is also expected to be weighted in the second half of this fiscal year, as gains on sales of owned assets are weighted toward the second half. This schedule was assumed from the beginning of this fiscal year.

(Q) Recently, there has been a trend toward industry restructuring in marine container leasing and North American railway freight car leasing. What is your current environmental perception and future outlook in your company?

(A) In terms of marine container leasing, we believe that the recent acquisitions of two of its competitors will have a limited impact on our business. However, due to the oligopoly of the marine container leasing industry, which is dominated by a small number of companies, restructuring of the industry is likely to happen in the future. We have also been developing growth strategies in both organic and inorganic areas.

In the North American railway freight car leasing industry, another company recently announced that it would sell its business, but we will continue our business because it is an area where the market is expected to grow as a means of transportation with low CO_2 emissions and low environmental impact. During the 2025 MTMP, we plan to strengthen our business base and improve profitability by replacing unprofitable railway freight cars with high-demand freight cars and renovating them, and by selling freight cars that are expected to become unprofitable in the future from the perspective of decarbonization.

(Q) As for portfolio transformation, while sales of less profitable and synergetic businesses appear to be progressing, the accumulation of more profitable assets does not appear. In terms of asset replacement, in what areas and to what extent will you accumulate highly profitable assets?

(A) Although it is not possible to present specific figures, as described in the Evolution and Layering of Business Models in the 2025 MTMP on page 27 of the Financial Results, we will build up highly profitable assets by expanding initiatives based on the business types such as "(5) Asset utilization business," "(4) Data utilization platform services" and "(3) Finance + services." The slide shows specific examples of the renewable investment in the real estate business and Non-FIT renewable energy projects such as aggregation projects in the environmental energy business, but we will work on a variety of areas including but not limited to these.

(Q) What is the environment of each business in the Americas?

(A) In the Americas of the Global Business segment, we are engaged mainly in leasing and financing in the U.S.A. and Canada. The proportion of trucks in the target properties is large, and many of their customers are small and medium-sized companies, so the credit costs have increased slightly compared with the initial plan. Although it will be necessary to closely monitor the situation in the future, the plan incorporates the recording of certain credit costs, and we do not expect to record large amounts outside the plan.

The marine container leasing business in the Logistics segment is in a phase of normalization from the special demand that existed until last year in the shipping industry as a whole, but the performance of CAI in our group has been better than planned. There are three factors: maintaining higher occupancy rates than other companies in the industry, reducing the cost of funds (because new investment is restrained in light of market conditions), and selling assets at the right time and the right price.

The Aviation segment is expected to exceed its initial plan as its business recovery continues to progress. Our group is engaged in aircraft leasing (JSA), aircraft engine leasing (ELF) and aircraft engine parts out business (INAV). As has been reported recently, airlines are struggling to procure aircraft due to manufacturer trouble, and some engines are also experiencing trouble. Under these circumstances, airlines will have to rotate their existing aircraft and engines, which has been a tailwind for us and is one of the reasons why we have expectation for the second-half results.

The Real Estate segment is in a very difficult situation in commercial real estate in the U.S.A., and as we explained earlier, we recorded fair value losses primarily on offices. Commercial real estate in the U.S.A. is very small scale in our overall portfolio. In the table at the bottom left of page 15 of the Financial Results, the balance of “Overseas” assets is shown as 54.7 billion yen as of the end of the second quarter of the fiscal year ending March 31, 2024, of which approximately 90% is for the U.S.A. About 60% of the assets in the U.S.A. is residential real estate (so-called apartments), which is not a concern because of the high occupancy rate, while a little over 20% is in offices, which we will keep an eye on.

(Q) Please provide more details about the impairment losses recorded in the Environment & Energy segment.

(A) Impairment losses were recorded on a domestic project due to a change in revenue-related assumptions from the original business plan. We expect we will continue the project by changing its plans in order to promote a decarbonized society and contribute to local communities, but naturally, we will make the utmost effort to improve profitability.

(Q) Have you been able to pass on higher procurement interest rates to overseas businesses (mainly Global Business, Aviation and Logistics)?

(A) As can be seen in the material, the cost of funds has increased accordingly. We operate strict asset and liability management (ALM), which basically matches currency and time periods on the asset and liability sides. For example, while aircraft and marine container leasing are traded in foreign currencies, these long-term assets are also financed on a long-term fixed rates basis, so the current rise in funding rates will not immediately affect our profitability.
On the other hand, some of them are engaged in short-term business in Japan and overseas, and they are somewhat affected there. However, the diversification of our portfolio has been effective. For example, in the UK, while the profitability of new deals has temporarily decreased due to the rise in procurement rates, the total amount of proceeds from sales of car leasing has been covered by an increase in the used car market.

(Q) Due to the troubles with some aircraft engines, I think it is possible that aircraft under leasing will be returned. Please tell us the impact on your business.

(A) Because aircraft engines can be removed or replaced, basically no leasing aircraft are returned for the engine troubles, and no JSA 210 aircraft have been returned (off-lease). Rather, the engine troubles are a tailwind to our business of leasing aircraft engines and the business of handling engine parts. Depending on how long this situation persists in the second half of this fiscal year, it could be an upside to profits.

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