

Q&A Session on Financial Results for FY3/2020

(Q) Please explain the concept of the reference information on results (net income attributable to owners of the parent of 35-40 billion yen) in "Reference information about FY3/2021" and how much profit declines in which specific business you have preliminary calculated.

(A) Our company has always been conducting risk capital management by quantifying various risks under the framework of integrated risk management. In this process, stress tests based on multiple scenarios are conducted to verify risk tolerance. The risk scenarios used in stress testing assume considerably strong stress to ensure the soundness of capital. Novel coronavirus impact scenarios have been added to test the risk tolerance.

This reference information takes into account, for example, an increase in credit cost, a decrease in gains on the sale of assets, an increase in asset impairment losses, a decrease in stock revenues, and a slowdown in the acquisition of new assets under the scenario described in the document. This is a summary of some of the concerns in terms of risk capital management.

The scenarios described in this document have been developed based on the assumption that the impact of the novel coronavirus would be somewhat prolonged, while taking into account the IMF's outlook and other factors. Of the scenarios assumed, it is not a very optimistic one.

We will refrain from disclosing the figures for individual businesses.

(Q) What is the most important factor in determining performance for FY3/2021?

(A) We believe that the outcome of the macro scenario is the most important factor; for example, when the pandemic of the novel coronavirus will peak in major countries, and how the economies of Japan and other major countries will be affected.

(Q) Please explain what action will be taken if the scenario of "approximately 35-40 billion yen of net income attributable to owners of the parent" is actually realized.

(A) The situation still needs to be monitored. In light of risk management, it is important to identify in advance "what should be grasped" and "what should be assumed," and we have already identified items to be addressed and started to reduce risks. On the other hand, this timing could be a great buying opportunity to increase quality assets, and we are beginning to see areas where we can have high expectations under these circumstances. In such areas, we will not only be defensive, but also offensive.

(Q) Do you intend to change the numerical targets in the Medium-term Management Plan (net income attributable to owners of the parent of 85 billion yen or more for FY3/2023)? Do you see this as achievable even under the current circumstances?

(A) We do not intend to change our targets. It remains to be seen how long the pandemic of the novel coronavirus will persist and how much the domestic and global economies will suffer as a result, but it is likely to subside sometime this year or next. In that case, we do not believe that the mega global trends from a perspective of 10 years, which are the premises of the Medium-term Management Plan, will change significantly. If the domestic and global economies return to a cruising course in the final year of the Medium-term Management Plan, we believe it is possible to achieve the target of 85 billion yen of net income attributable to owners of the parent. Of course, the contents will likely change somewhat. Earnings that were planned for this year and next will likely be partially deferred to the final year. In addition, the speed of asset expansion for this fiscal year and next may be moderate.

(Q) Are the negative factors indicated in the risk scenarios expected to continue over a certain period of time, as they have already shown some signs?

(A) While some indications have emerged, the majority of such factors are based on the risk factors assumed under the scenarios described in "Reference information about FY3/2021."

(Q) Regarding the reason for not disclosing a dividend forecast, is it due to your inability to disclose an earnings forecast, your consideration about future communication with rating agencies in light of financial soundness, or your desire to retain a possibility of increasing the dividend?

(A) With a difficulty in forecasting the environment and an inability to expect the performance for FY3/2021, it was not possible to decide only the dividend in advance. That is why it was explained in this way. When we reach the stage where we can forecast our business performance, a dividend forecast will be comprehensively determined based on all items pointed out.

(Q) Under what circumstances will the dividend increase stop?

(A) That would be the case where the impact of the novel coronavirus will not be contained even in FY3/2022 and the economic growth of major countries, including Japan, continues to be negative. On the other hand, if we can see some signs of recovery, we will take into account the fact that the company has increased its dividend for 21 consecutive years.

(Q) Even if net loss is incurred due to impairment or other causes, is it the company's policy to consider increasing dividend if the loss is temporary?

(A) Although the company was not in the red at the time of the Lehman financial crisis, net income attributable to owners of the parent were down nearly 80% year on year. However, the dividend payout ratio was increased to 57.4%, and that led to 21 consecutive dividend increases to date, something which has been appreciated by investors. With this in mind, we would like to decide dividend after comprehensively considering the level of income and capital adequacy, including dividend.

(Q) To what extent are there requests for deferrals, etc. in the aviation and logistics businesses?

(A) In the aviation business, as with other companies, about 80% of airlines have asked for deferred lease payments. That is just over 10% of our annual lease payments, but the situation has already settled down considerably. The logistics business does not have such a large number of deferral requests. In aircraft leasing, there are various maintenance factors, for example, a security deposit¹ and maintenance reserve² are cumulated in advance. Then transactions are made by dividing the amount into two types of risk, credit risk and asset risk, so not all the amount invested in the aircraft is a loss.

(Q) Given the current situation, how does the company view the business impact of impairment risk in the aviation business? If the market value declines significantly after aircrafts are returned, or if the lease payments have decreased even during the lease period, is it necessary to recognize an impairment loss?

(A) Generally speaking, if the difference between the book value and market price becomes negative when the aircraft is returned, the amount of that difference is impaired. However, there are cases where the aviation business is sufficiently covered by maintenance reserves. Also, when a buyer appears for a failed airline company, or when government assistance is provided, then there is not much need to consider depreciating the asset value. So it is hard to generalize.

If the market price declines when aircrafts are returned, there will be an impairment loss. With an extremely young average aircraft age that is in the three-year-old range, our highly liquid portfolio is about 90% narrow-bodied. Narrow-bodied aircrafts are somewhat dominated by domestic and short-haul flights, and we expect them to move relatively quickly once the action restrictions are lifted. It is not that there is no possibility of an impairment if lease payments fall, but we view the impact as being far more limited than a decline in the value of the aircraft itself.

¹ Security deposit : Deposit to cover lessee's lease payments and other obligations

² Maintenance reserve : Deposit to cover maintenance and repair through the use of aircrafts and engines