

“Briefing on FY2019-FY2021 Mid-Term Management Plan” Q&A (Summary)

Hitachi Capital Corporation

【Date】 October 9, 2019 (Wed.) 3:00 PM to 4:00 PM

【Questionees】 Seiji Kawabe, President and Chief Executive Officer

Seiichiro Kishino, Executive Vice President and Executive Officer

Chihiro Shirai, Senior Vice President and Executive Officer

Satoshi Inoue, Vice President and Executive Officer

【Question 1】

- Why did you reduce the amount of investments for growth in 2021 Mid-Term Management Plan from that in 2018 Mid-Term Management Plan? Do you plan to increase the payout ratio by reducing the investments for growth and generating excess funds?

In the future, if more investments for growth are required than planned, will you review the payout ratio?

【Answer 1】

- In 2021 Mid-Term Management Plan, we will not reduce investments for growth and will make investments as necessary. In 2018 Mid-Term Management Plan, we planned aggressive M&As with asset size of approx. 300 billion yen and considered various projects. However, the actual investments fell below 150 billion yen as acquisition costs rose in biddings and we carefully selected projects by evaluating goodwill risk.

In the future, we will work on enhancing collaboration with partners including minority investments.

Under such circumstance, we intend to execute M&As if we determine they are effective. Our primary objectives in M&As are to acquire know-how, skills, IT, and human resources, and not to pursue expansion, and therefore we decided that we will not need such large investments in 2021 Mid-Term Management Plan and will enhance return to shareholders instead.

【Question 2】

- In my opinion, exposures in Europe business will increase in the future. What do you think about the feasibility and risk of the projects?

【Answer 2】

- In the quantitative plan, CAGR of the entire Europe business is set at 8% or more, of which CAGR of U.K. business at around 6%. We aim to further expand our business in continental Europe, rather than to increase the proportion of U.K. business. So far, we have acquired

the mobility businesses and rolled out sales finance in 17 countries, in order to establish our business base.

Although it is difficult to make a forecast for U.K. business, we believe U.K. business has potential for steady growth taking into account its trend of the last few years. Surely there are risks but we are confident that we can achieve our plan.

【Question 3】

- Currently, the payout ratio for FY2019 is expected to be around 30%. How do you expect to achieve 40%? Does it mean you plan to achieve the payout ratio of 40% by FY2021, rather than achieving it in FY2019?

【Answer 3】

- We are considering an increase in the payout ratio to 40% including for FY2019. So far, our mid-term management plans focused on enhancement of growth while maintaining stable payout ratio of around 30%. On the other hand, in 2021 Mid-Term Management Plan, we carefully plan M&As taking into consideration uncertain future economic situations. In addition, in view of the closing of large factoring business in the Americas and China, operating assets will not grow as before while internal reserves will increase. Accordingly, we decided to return profits to shareholders through an increase in the payout ratio while maintaining a balance between sufficient internal reserves and investments for growth.

【Question 4】

- How do you plan to achieve ROA of 2% or more in Japan Business? For example, what are your plans in terms of revenues or costs? Also, please explain how exactly you will incorporate such plans in key businesses such as sales finance and collaboration with partners?

【Answer 4】

- ROA in Japan Business improved to 1.9% in FY2018. Although it included certain transient factors such as strong sales of semiconductor equipment, our efforts have successfully improved ROA to a level close to 2%. We expect to further improve ROA by increasing the ratio of highly profitable businesses with ROA of over 2%. We also achieved clear effects in sales finance (vendor solution business), with ROA improving to 1.5% in FY2018 from 0.8% in FY2015 and OHR improving by around 20 percentage points to 56.8% from 76.6%. We plan to further improve OHR with the use of AI and digital technology and expand profitable businesses with ROA of over 2%, in order to increase ROA in Japan Business to close to 2%.

End