Q&A Session on Financial Results for the Fiscal Year Ended March 31, 2023 and Medium-term Management Plan for FY2023-FY2025 ("2025 MTMP")

(Q) I'd like to hear about the guidance of the financial forecast for FY2023 in greater details, for example your expectations about fluctuations in each segment. You explained that the Aviation Business will grow in FY2023, but the economic situation is still unclear, so for other businesses, which will increase the profit and which will decrease the profit compared to the previous fiscal year? I'd like to confirm the current status and strategies of each business.

(A) Aviation and Real Estate will be the main contributors to the amount of increase in our profits in FY2023. With the aviation market recovering, we expect improvements to the gross profit out of leasing revenue and gains on sales of owned assets. In Real Estate, we expect increased profits from having made CenterPoint Development (CPD) a consolidated subsidiary. In other segments, we are seeing stable profit in the Customer Solutions. Although it's not a big change either way, the Customer Solutions is one of our mainstays. In the Global Business, we are expecting some weakening there due to the absence of gains on revaluation of securities in previous fiscal year. And while FY2022 was a good year for the container leasing market, we anticipate some weakening in Logistics as that market normalizes.

(Q) As to the improvement of the profitability and efficiency of existing businesses in the 2025 MTMP, in your financial forecast for FY2023 you are planning for expenses in restructuring and redefining existing businesses. Specifically, what will this entail, and what kind of profit outcomes do you expect? If you don't mind, could you tell us how much you expect ROA to improve, for example?

(A) We're planning to spend about 10.0 billion yen in total on investments and restructuring and redefining existing businesses in FY2023. If we didn't have these expenses, we would achieve net income of around 130.0 billion yen.

(Q) What kind of initiatives are you planning in these investments and the restructuring and redefining of your existing businesses and what sort of results do you expect from them?

(A) Specifically, investing in the future, such as DX and human capital, is one part of it. We consider these investments to be moving forward with the evolution and layering of our business models in order to achieve a net income of 160.0 billion yen in the 2025 MTMP. Another factor will be the cost of "gaining a solid foothold;" the cost of replacing low-profitability assets and reforming business structures.

From a results perspective, spending this nearly-10.0 billion yen is like an upfront investment toward achieving that the net income of 160.0 billion yen in FY2025. Our plan is to make the leap from a projected net income of 120.0 billion yen in net income in FY2023 to 160.0 billion yen in FY2025, and it will be ensured by reforming business structures through "sowing seeds" and "gaining a solid foothold." These costs have been positioned in order to increase our earning capacity to 160.0 billion yen in the two-year period from FY2024 to FY2025.

(Q) You have a very large scale of portfolio in existing businesses. I think it will be quite difficult to increase their profitability, but I'd like to hear your opinion.

(A) Investment in DX and human capital will account for under half of that upfront investment of around 10.0 billion yen. The rest will be spent on restructuring and redefining existing business domains. Essentially, we will replace low-profitability businesses with new businesses, and replace existing businesses with more highly profitable ones.

(Q) You mentioned a payout ratio of 40% or higher for the 2025 MTMP. In FY2023, it is 44%. In the breakdown of profits in FY2022, there were some troughs and peaks. If you choose to continue the O&D business model going forward as well, I think that the state of the market could have an effect on profits. Is your plan to maintain a trend of increasing dividends while allowing for flexibility in that payout ratio?

(A) The dividend forecast for FY2023 has been calculated by applying that 40% payout ratio to an assumption of 130.0 billion yen in profits, which incorporates the approximately 10.0 billion yen cost of investments and the restructuring and redefining of existing businesses. The announced payout ratio of 44.3% for FY2023 was just calculated based on the net income of 120.0 billion yen.

(Q) In the 2025 MTMP, ROE and maintaining the corporate credit ratings are important focal points, however, from the perspective of achieving those ROE targets, would it be possible for you to control the accumulation of equity capital? To achieve that ROE, if your net income is even less than you assumed it would be, would you potentially adjust to meet the shareholder returns by managing the equity capital?

(A) When it comes to shareholder returns, our main concern is paying dividends. When profit amounts—a numerator when calculating ROE—are low, managing equity capital—the denominator—to achieve our ROE targets by share repurchasing is not something we are considering.

(Q) How have roles been defined in your work with Kasumigaseki Capital and with the consolidated subsidiary CPD with regard to logistics facility development?

(A) In the Real Estate segment, our business model is to increase income through the well-balanced allocation of a variety of asset types. Logistics facilities are a part of that. We consider the consolidated CPD and LOGI FLAG DEVELOPMENT—a joint venture between MHC and Kasumigaseki Capital—not as competition, but as entities we can collaborate with. I hope we can each put our areas of expertise to work and exercise that synergy.

(Q) As a company that deals with issues in the logistics industry, how is MHC planning to solve those issues?

(A) With the mere mention of the word "logistics," vehicles, logistics facilities (warehouses), decarbonization, and all sorts of other areas come into play. Logistics is one of the cross-segment key themes that we identified in the 2025 MTMP. If I were to give you an example of one of these key theme initiatives, I might point to our investment in NEXT Logistics Japan, a joint venture company that was established to solve the issues that come with logistics. Companies from a range of industries that deal with logistics in some way are involved with NEXT Logistics Japan, mainly Hino Motors. Although it was initially established to solve the issue of driver shortages, as its work progressed it came to notice a variety of other issues, such as logistics facility development, the reduction of CO2 emissions by trucks, the shift to automation, and the shift to standardized sizes and shapes of palettes and cargo to increase logistics efficiency, and it is now making various attempts at tackling these issues via a number of different companies. Our role is that of an organizer, and to provide solutions when it comes to real estate investments and decarbonization, etc. Just as in this example, a wide variety of industries are involved in logistics, and so MHC's related departments will engage across segments and keep working on solving these issues.

(Q) I understand that the 2025 MTMP's financial targets are largely unchanged from the Medium- to Long-term Management Direction you announced in May 2022. But this past year has seen changes to various aspects of the external environment, such as interest rates, inflation, and credit. How have you reflected these external changes in the 2025 MTMP?

(A) Discussions about measures to be taken in the 2025 MTMP began eighteen months ago. The assumed external environment was the first thing we discussed, and we constantly revised these assumptions in response to external changes that occurred during the course of the formulation of the 2025 MTMP. However, I would like to say first that the 2025 MTMP has been formulated based on global megatrends. From there, there are a number of pressing external issues that we are aware of.

- The COVID-19 pandemic is somewhat returning to normal, and so we are taking a relatively optimistic stance. As seen in aviation and tourism industry, economic activity is largely returning to past levels, as is the movement of people.
- On the other hand, as Russia's invasion of Ukraine seems set to continue for the foreseeable future, we also expect global inflation to continue to a certain degree. However, even as rapid inflation particularly in the West continues throughout 2023, we believe that increasing interest rates will see things gradually settle down afterwards.
- As to the sudden, sharp interest rate increases in Europe and the Americas, as there is a time lag between rising our procurement costs and passing them on to customers, some of our margins have become slim. With that said, if we can wait out the somewhat time lag, I believe we will be able to pass on those costs, and that those tight margins will ease up.

In these ways, while we are aware that immediate external environment factors won't have a huge influence on our business, we do of course recognize that times of change in the external environment can also bring great risk. Specifically, as a company in the finance industry—in particular, one that is a non-bank—we consider the greatest risk for us to be a chaotic financial market caused by changes in the social landscape, which will influence our funding.

The second biggest risk is a global recession triggered by too much interest rates increasing to curb inflation. But even in the event of a recession, our comparatively diversified portfolio will come into play and weaken its impact. The third biggest risk is securing human resources, mainly here in Japan. The worldwide need for specialists in digital technology and globally competent workers is increasing, and these kinds of workers will be essential to the evolution and layering of our business models, which we introduced in the 2025 MTMP. The risk is that we may not be able to get the people that we want.

(Q) And how about the Tokyo Stock Exchange's requirement that companies with a PBR of below one formulate plans for improvement?

(A) When discussing Our 10-year Vision, one of the targets our management team put forth was achieving a PBR of one at an early stage. At the same time, we consider the evaluation of both our financial and non-financial capital to be decisive factors in determining our medium- to long-term corporate value, and so we will aim for a PBR of one from both of those perspectives. As a financial capital KPI, ROE is of great importance, and so in terms of sheer numbers, by backcasting we set achieving a PBR of one in at most 10 years as one of our financial targets in the 2025 MTMP.

However, as 10 years is an exceptionally long time frame in which to achieve a PBR of one, we will strive to get there sooner by reinforcing our non-financial capital. Specifically, by fostering long-term expectations for the company and reducing the cost of equity through continually producing results that exceed the consensus estimates, accumulating non-financial capital, and strengthening stakeholder engagement (including engagement with shareholders), we will aim for improved market appraisal and an improvement to our PER. Ultimately, we want to achieve that PBR of one as soon as possible.

On that note, we are not considering going after a PBR of one with short-term increases to our share price and ROE via share repurchasing. As a non-bank financial entity, from the perspective of risk buffers and maintaining corporate credit ratings, ensuring adequate equity capital is our lifeline. Even looking at when the bubble burst in Japan, the 2008 global financial crisis, and the current collapse of American banks that began with Silicon Valley Bank, equity capital is of enormous importance to financial institutions. As such, we believe that, even if it takes some time, achieving sustainable growth and gaining market recognition in both financial and non-financial terms is vital. According to an interview article on a magazine, the Tokyo Stock Exchange itself has said in no uncertain terms that it is not asking companies to take a PBR of one as an absolute and to look for short-term solutions just to achieve it. Likewise, we would prefer to go beyond the PBR by achieving sustainable growth, even if it does take some time.

(Q) You made an announcement about your transition loan with MUFG Bank in March 2023. I'd like to know if you are currently considering any other collaborations in your financing business with external financial institutions such as MUFG.

(A) The transition loan in March 2023 wasn't particularly large in scale, however it was undertaken with MUFG. We had been issuing green bonds until that point, and then in April we announced our Sustainable Bond Framework. This is not simply a green initiative, but rather involves financing in all kinds of social areas, including caregiving and medical services.

We intend to actively contribute to financing all aspects of ESG.

(Q) President & CEO Hisai, you are from a banking background. What are your expectations for banks?

(A) First of all, I'd like them to properly lend us the cash that we require. However, my expectations are not simply that we will be able to borrow money. This relates to the evolution and layering of our business models, but if a business has no added value, then it has no way of distinguishing itself. I want to offer our customers, and society in general, services with added value, like the project utilizing our transition loan with Tokyo Gas. I want to team up with various industries and various players, not just our shareholders in MUFG and Mitsubishi Corporation, to provide these services.

(Q) I'd like to confirm your stance on M&As. What kind of scale do you anticipate for M&As, and where do you feel you must strengthen your M&As? Do you have an order of priorities?

(A) We don't have any particular area where we are focusing M&As. Rather, if the opportunity for expansion is there, we would definitely like to try our hand in all areas. One of the synergies that came from the business integration between the former Mitsubishi UFJ Lease & Finance and former Hitachi Capital was that our capital strength increased. As a result, our first M&A was that of CAI International. And we still have some room for investments, so if a good opportunity arises, we would certainly consider it.

(Q) How big could those investments potentially be?

(A) I'd prefer not to answer that.

(Q) I have three things that I'd like to confirm.
(1) What do you perceive to be your current capital cost?
(2) In May 2022, you announced in the Medium- to Long-term Management Direction a target ROE of approximately 10%. What sort of discussions are you having at meetings of the Board of Directors regarding the gap between profitability and capital cost at MHC, and about your current stock price?
(3) The Tokyo Stock Exchange is demanding that companies disclose this information, and so my third question is do you have a plan for this disclosure?

(A) (1) We do not disclose our capital cost.
(2) Discussions at meetings of the Board of Directors are being conducted in the context of aiming at the PBR of one.
The Board of Directors had these discussions many times during the formulation of the 2025 MTMP.
(3) We plan to consider that disclosure moving forward.

(Q) With the disclaimer that I am not concerned with stock prices in the short term, your PBR has been less than one for quite some time. I think you understand that having some quantitative information to support you in your disclosure would be beneficial. I really hope that you will provide some quantitative materials at the mid-term results briefing or on some other occasion.

(A) I noted your concern.

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