Message from the CFO

Pursuing Healthy and Sustainable Growth with Disciplined Financial Strategies and Strengthened Group Governance

Haruhiko Sato

Director, Managing Executive Officer
Head of Corporate & Strategic Planning Division
CFO

Achievements and challenges during the two years following our business integration

Over two years have passed since Mitsubishi HC Capital's business integration. One of our major achievements during this period was the successful completion of the post-merger integration (PMI) process exactly on schedule. The smooth progress in integrating our sales and corporate departments has enabled us to strengthen both our offensive and defensive capabilities. The two-year PMI process and the formulation of our first Medium-term Management Plan (2025 MTMP) after the business integration proceeded in tandem. During this time, we held active discussions at various levels ranging from top management to employees, and I believe this dialogue contributed tremendously to fostering a sense of unity within the MHC Group.

Furthermore, during this period, we encountered and overcame various domestic and overseas headwinds. We worked to strengthen our existing businesses while focusing on quickly achieving profitability of a large-scale M&A project and reducing credit costs. Thanks to the success of these strategies and measures, we achieved a record-high profit in FYE 3/2023, as we posted strong financial results that clearly underscore the effectiveness of our responses. Even during the COVID-19 pandemic, when markets stagnated, we persisted with our earnest efforts to evolve our business model and I believe our excellent business results were the fruition of this hard work.

Meanwhile, our business integration has significantly expanded the scale of the consolidated Group, including its business portfolio and regions. This means that strengthening group governance is also an important issue in achieving sustainable growth. We previously formulated a Consolidated Management Philosophy that incorporates various policies, such as emphasizing financial discipline on a consolidated basis. We will now work to further permeate this on a global basis.

Financial strategies for achieving the targets set in 2025 MTMP

Following the two-year period of our PMI process, we formulated the 2025 MTMP that runs through FYE 3/2026, and we announced this plan in May 2023. Within the 2025 MTMP, we have set high financial targets and believe that improving ROA is essential for achieving these targets. Improving ROA is no easy feat for a company that undertakes the asset business. Therefore, we have made the evolution and layering of business models the centerpiece of its business strategy in the 2025 MTMP. While building on the strong customer base and revenue base of our core businesses of corporate finance and asset finance, we will continue our business portfolio transformation by focusing on "strengthening and increasing the efficiency of existing businesses," "shifting existing businesses to high-value-added services," and "developing new businesses." In doing so, we will increase the weighting of our businesses away from traditional low-risk, low-return businesses toward middle-risk, middle-return business areas.

As a financial strategy for this purpose, appropriately balancing financial soundness, return on capital, and growth potential will be important.

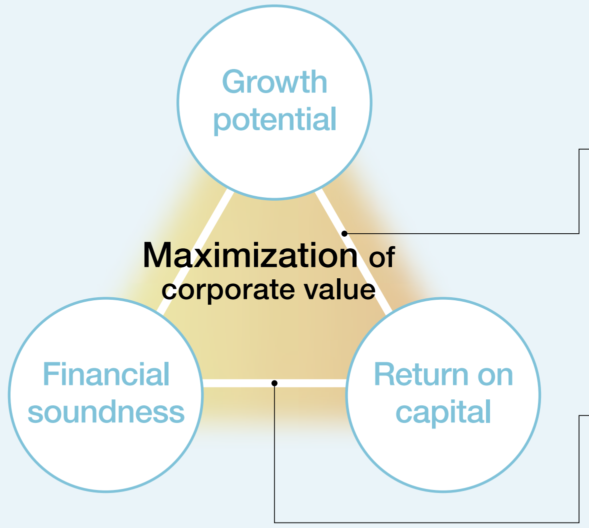
First of all, regarding our financial soundness, we recognize that financing is the lifeline for Mitsubishi HC Capital, which undertakes an asset business that utilizes a variety of tangible and intangible assets exceeding 10 trillion yen. To take on the challenge of middle-risk, middle-return businesses, I believe it is extremely important that we preserve our financial soundness, including maintaining an A rating, which is one of the financial targets of the 2025 MTMP.

Although we need to appropriately expand capital to promote the evolution and layering of business models while maintaining financial soundness, simultaneously pursuing return on capital (ROE) is also essential. In other words, this means we must raise the overall return on capital by ensuring improvements in profitability that exceed our expansion of capital. To do so, "management with an awareness of cost of capital" is crucial. Although the company has been putting this into practice in the past, we will continue efforts to improve our company-wide return on capital by aiming to achieve profitability that exceeds the cost of capital set for each department and business.

On the other hand, just pursuing a balance between financial soundness and return on capital could fall into diminishing equilibrium. Mindful of this, maintaining growth potential by allocating capital after paying dividends to growth investments is also important.

In this way, we will continue emphasizing a balance among financial soundness, return on capital, and growth potential and will strive to optimize its balance sheet as it aims to maximize corporate value.

Balance between the Three Perspectives



Concept of cash allocation

- Actively invest cash flows after paying dividends in high value-added businesses, including the development of new businesses.
- Pursue the generation of ongoing expected returns and an increase in absolute revenue by transforming the business portfolio and the quality of assets in the medium to long term, with an awareness of the cost of shareholder equity.

Achievement of an optimal balance sheet to maximize our corporate value

- Optimize our capital/debt structure according to changes in asset risks, in the course of transforming the quality of assets in the medium to long term by the evolution and layering of business models.
- Give consideration to both financial soundness (maintain A ratings) required for stable funding and return on capital(ROE).

Maintaining financial discipline and realizing stable financing

As I mentioned, we recognize that financing is the lifeline for the company, which carries out the asset business. Therefore, to ensure we maintain financial soundness, we have established a system that allows it to appropriately respond to changes in the external environment, such as rising interest rates and exchange rate fluctuations, through ALM (comprehensive asset and liability management) based on financial discipline on a consolidated basis. Moreover, we have established a system that allows us to maintain business without major impact, even in the event of a crisis. This system includes implementing thoroughgoing “predictive management" using two analytical approaches consisting of risk scenario analysis for the future and analysis of the current situation based on past market trends while always having contingency plans in place in the event of an emergency.

On the basis of this financial soundness, we continue to aim for stable and competitive financing and an expansion of our financing capacity. For these purposes, our policy is to maintain a balance between direct financing from the market and indirect financing from financial institutions, while also working to diversify financing methods, financing regions (domestic and overseas), and financing sources.

Our approach to increasing PBR

One of Mitsubishi HC Capital’s important management tasks is to increase PBR to more than 1x as quickly as possible. We asked ourselves what we must do to increase PBR. I believe the answer is to increase corporate value by fully utilizing our financial and non-financial capital.

Regarding financial capital, I believe it is important to sustainably improve ROE along with growth in absolute revenue and to foster growth expectations through “management with an awareness of the cost of shareholders’ equity.” In this sense, we have no current plans to implement share buybacks to improve ROE in the short term. With abundant investment opportunities for growth at present, our policy is to allocate capital after dividend payments to growth investments, which will lead to sustainable improvements in ROE.

At the same time, by accumulating non-financial capital, we will raise expectations for the company’s growth potential and lower our cost of capital to raise our PER and improve our PBR. Therefore, in our recently announced 2025 MTMP, we position our “value creation process” as a guideline for the three medium-term management plans and express how the company will accumulate non-financial capital while setting non-financial targets to measure the degree of capital accumulation.

We expect that the accumulation of financial capital and non-financial capital through the promotion of these initiatives will lead to value creation and this will ultimately enable an increase in our share price and PBR.

Basic policy for shareholder returns and strengthening relationships with stakeholders

Our basic policy is to return profits to shareholders by distributing dividends. Furthermore, we are aware that the market has high expectations that we will increase returns, so we have set a target dividend payout ratio of 40% or higher during the 2025 MTMP as a level that enables us to both accumulate capital and raise shareholder returns.

In strengthening relationships with shareholders and other stakeholders, we will respect the interests of minority shareholders while seeking to fully utilize our collaboration in finance, customers, and business with our major shareholders, Mitsubishi UFJ Financial Group, Inc. and Mitsubishi Corporation, as well as our business partner, Hitachi, Ltd., to increase corporate value.

Aiming to evolve our business model

The environment surrounding us will likely remain difficult in the foreseeable future. Even so, I believe that completing our PMI provides us with a golden opportunity at present in the sense that the conditions are ripe for further transformation and taking on challenges. So we asked ourselves what is needed to spread the momentum for change throughout Mitsubishi HC Capital and further energize the Company. The result of serious discussions of this question is “Frameworks to Promote Transformation” advocated in the 2025 MTMP, which encompasses initiatives such as the “Innovation Investment Fund” and the “In-house Entrepreneurship Program”.

The “Innovation Investment Fund” is based on our conviction that new mechanisms are needed to quickly incorporate the know-how and business models of startup companies to the evolution and layering of business models. The “In-house Entrepreneurship Program” provides a “stage” where each employee can consider and take on new challenges as his or her own business. Each of these initiatives serves as the stage for verifying and materializing the future business hypotheses and future asset business envisioned by the group. We have expectations that these initiatives will become an important piece in transforming our group’s business.

In conclusion

We will maintain a healthy balance sheet with discipline while boldly promoting transformation. To maintain that balance, I place great importance on being fair. Occasionally conflicts arise between maintaining financial discipline and driving transformation. To achieve common goals that transcend the standpoints of both sides, I will continue initiatives without forgetting fairness.

When attending financial results briefings and participating in various IR activities, I have received comments from shareholders, investors, and many other market participants expressing their expectations of Mitsubishi HC Capital in the future. As a Director in charge of corporate and financial strategy, I am determined to devote all my efforts to promoting transformation aimed at achieving the group’s sound and sustainable growth and maximizing corporate value based on solid ALM and a risk management system. I would like to ask all of our stakeholders for their continued support.