

FY2019 Financial Results Meeting (Web Live Stream) Q&A (Summary)

Hitachi Capital Corporation

【Date】 May 29, 2020 (Fri.) 3:00 PM to 4:00 PM

【Questionees】 Seiji Kawabe, President and Chief Executive Officer

Satoshi Inoue, Senior Vice President and Chief Financial Officer

【Question 1】

- Please give us the breakdown by area of allowance for doubtful accounts in FY2019 and tell us about the outlook.

【Answer 1】

- We recorded allowance for doubtful accounts of approx. ¥2.6 billion in FY2019 for the potential impact of the novel coronavirus infection. It consists of ¥1.2 billion in Japan Business and ¥1.4 billion in Global Business, and we incorporated the assumption that credit risk will increase in early FY2020 (approx. six months) based on the interviews with group companies. We will review our plan as needed to reflect changes in the situation.

【Question 2】

- Please give us the breakdown of the potential impact of the novel coronavirus infection on your profit forecast for FY2020 by area.

【Answer 2】

- We estimated the novel coronavirus infection will have a negative impact of approx. ¥8.4 billion on profit before tax in FY2020. We expect that about 80% of it will result from a decrease in volume of business, and the impact of the decrease will be severe especially in the U.K. and the U.S. where lockdown orders were issued. We also took into account a decrease in gains from sales due to deteriorating market conditions and the estimated future credit loss, etc.

【Question 3】

- Some of your peer companies consider profit decrease in FY2020 to be temporary and plan to maintain or increase their dividends. Will you decrease dividends if profit decreases in FY2020? Or will that decision be based on equity ratio?

【Answer 3】

- We increased the payout ratio to approx. 40% in FY2021 Mid-Term Management Plan announced last October. We hope to maintain the dividend payout ratio of 40% while considering the balance between investments for future growth, internal reserves to maintain credit ratings, and return to shareholders. We must first achieve the profit forecast for FY2020 in order to maintain the payout ratio of approx. 40%. We recognize dividend as one of the important management matters and intend to meet investors' expectations by maintaining the payout ratio of approx. 40% on an ongoing basis.

【Question 4】

- Are operating assets expected to decrease?

【Answer 4】

- We estimate the volume of business in FY2020 will decrease by 20% from FY2019, and operating assets will also decrease accordingly. However, our aim is to accumulate high quality profitable assets, not just to increase asset size. The volume of business and operating assets will decrease not only because of the novel coronavirus infection but also because we are reviewing various businesses, while gross profit remain flat from FY2019 and we believe we are getting closer to our vision. The volume of business will decrease due to the impact of the novel coronavirus infection, but we should not be swayed by short-term fluctuations as we believe the important thing is the quality.

【Question 5】

- Please give us the estimated quarterly decrease in volume of business in FY2020 forecast due to the novel coronavirus infection.

【Answer 5】

- We estimated the volume of business in FY2020 will decrease by 20% from FY2019 based on the scenario that the first quarter (from April to June) will be hit hardest by the novel coronavirus infection and the volume of business will recover gradually from the second quarter to the third and fourth quarters. According to the discussions with the head of each business, situations vary depending on the area and business.

【Question 6】

- Profit before tax in FY2020 forecast is approx. ¥47.5 billion excluding the impact of the novel coronavirus infection. There seems to be a big difference from the target in FY2021 Mid-Term Management Plan (profit before tax of ¥55 billion). How do you assess the status?

【Answer 6】

- When we developed FY2021 Mid-Term Management Plan, the planned profit before tax was ¥45 billion for FY2019, ¥47.5 billion for FY2020, and ¥55 billion for FY2021. While the growth in FY2021 seems big, our four key businesses which we are focusing on will be highly profitable and we plan to achieve profit before tax of ¥55 billion by growing these businesses without increasing operating assets. Although the environment is changing due to the novel coronavirus infection, we do not think it is necessary to revise the targets of FY2021 Mid-Term Management Plan at this point, and we will proceed our business strategy taking into account the pace of the economic recovery and the government's support measures, etc.
- We expected to record profit before tax of approx. ¥53 billion in FY2018, but because of the inappropriate factoring deals in China, we closed our large-scale factoring businesses in China, the U.S. and certain ASEAN countries and reorganized our business. We believe we can achieve profit before tax of ¥55 billion in FY2021 if we successfully shift toward key businesses and transform business model in FY2019 and FY2020. Our scenario has changed due to the novel coronavirus infection, but we think we can still make it work.

【Question 7】

- What is your prospect for the 5G-related lease demand? What impact do you think the novel coronavirus infection will have on that demand?

【Answer 7】

- The novel coronavirus infection revealed the importance of infrastructure including digital tools. Introduction of digitization and IoT into our lives and working style will be accelerated. Amid such circumstances, 5G will significantly increase communication speed, improve convenience, and radically alter what we can do remotely. Speeding up data communication is crucial in establishing a service model for lease using IoT and enables us to further increase added value.

End