

Second Quarter Ended September 30, 2020
Financial Results Meeting (Web Live Stream) Q&A (Summary)

Hitachi Capital Corporation

【Date】 3:30 PM to 4:30 PM, November 5, 2020 (Thu.)

【Questionees】 Satoshi Inoue, Senior Vice President and Executive Officer, and CFO

【Question 1】

- Please tell us about the breakdown and the amount of costs relating to the business integration in 2nd half of FY2020.

【Answer 1】

- Preparation costs relating to the business integration and other costs of ¥1.4 billion in 1st half of FY2020 consisted mainly of financial and legal advisory fees, which we believe these are the investments to benefit our future growth.
In 2nd half, we expect to incur various preparation costs both in Japan and overseas in addition to advisory fees, so it is difficult to make an accurate estimate at this point. In 1st half, the entire Group put all its effort into reducing SG&A to offset the preparation costs, and we intend to continue such effort in 2nd half.

【Question 2】

- The volume of business in 1st half of FY2020 largely exceeded the initial forecast, but why did the gross profits in some regions fall below the forecast?

【Answer 2】

- As pointed out, the achievement rates of the volume of business and the gross profits against the initial forecasts do not really correspond with each other. For instance, Japan business fell below the initial forecast in the volume of business but exceeded in the gross profit. On the other hand, Global business largely exceeded the initial forecast in the volume of business but fell below in the gross profit. The reason, in case of Global business, is that while the volume of business rapidly recovered toward September, only part of the related revenues was recorded in 1st half with the remainder to be contributed in 2nd half and thereafter. In addition, incomes such as trading income will be affected by market conditions, so the volume of business and gross profit are not necessarily linked to each other.

【Question 3】

- According to the material provided, the entire Group was successful in cost reduction in 1st half of FY2020. In 2nd half, can we expect further cost reduction as the framework to operate business amid the COVID-19 pandemic has been established?

【Answer 3】

- As we were able to reduce costs in the entire Group in 1st half of FY2020, we will continue our cost reduction efforts in 2nd half. However, as the business operation will gradually go back to normal in 2nd half, we are aware that we will need to find other costs to reduce more than those targeted in 1st half. Also, as stated in the 2021 Mid-Term Management Plan, we intend to make aggressive investments in R&D and DX for our future growth and reduce unnecessary costs to offset some additional costs expected to be incurred.

【Question 4】

- In 1st half of FY2020, the allowance for doubtful accounts increased due to moratorium. How do you expect it to change in 2nd half compared to 1st half?

【Answer 4】

- In 1st half of FY2020, the allowance for doubtful accounts temporarily increased, but bad debt expenses in Europe and ASEAN are gradually returning to normal levels as we maintain high-quality assets, which is our strength. Japan business also managed to maintain bad debt expenses at a low level even amid the COVID-19 pandemic, and accordingly we don't expect any increase in bad debt expenses in 2nd half. We recorded the allowance for doubtful accounts of ¥2.6 billion to prepare for the potential impact of COVID-19 in FY2019, which we believe it should be enough for 2nd half.

【Question 5】

- According to the material provided, Europe business is making a strong recovery, but its volume of business has decreased due to the impact of COVID-19. Please tell us which business has decreased and which business is recovering.

【Answer 5】

- Europe business is comprised of mainly the consumer finance, the business finance, and the mobility. The lockdown started in March had a serious impact especially on the consumer finance in the UK business. However, we have recovered Europe business because we were able to continue business through the internet and we had a large number of customers, and above all, we were able to maintain high-quality assets. While Continental Europe accounts for merely 6% to 7% of operating assets in Europe business, it contributes approximately 10% to profit as the impact of COVID-19 was less than what the UK business experienced.

【Question 6】

- According to the material provided, in the Americas business, the volume of business of truck finance has returned to the FY2019 level. What about other fields?

【Answer 6】

- The Americas underwent a structural reform and shifted from long-distance large trucks to medium-size trucks and special vehicles to improve asset quality and reduced bad debt expenses. Other businesses have been promoting a shift from finance and working on new businesses, and a structure that can contribute to revenues is being formed.

【Question 7】

- At the joint press conference with Mitsubishi UFJ Lease & Finance Company Limited regarding the business integration, it was mentioned that once clearance is obtained under anti-trust laws, both companies will exchange information and start discussions about operational synergies. Has there been any progress?

【Answer 7】

- Anti-trust laws do not apply to just one country but cover multiple countries. We would like to make a persistent effort to start the discussions about operational synergies as soon as possible.

【Question 8】

- If you are going to get anti-trust clearance and start discussions about synergies of the business integration after that, does that mean preparation costs of the business integration in 2nd half will exceed those in 1st half?

【Answer 8】

- Preparation costs of the business integration in 1st half of FY2020 consisted mainly of advisory fees, and it is possible that costs in 2nd half may exceed those in 1st half. However, because some of the costs will be deferred and accounted for as costs in FY2021 or thereafter, it is difficult to accurately estimate preparation costs of the business integration for 2nd half of FY2020.

End