COMPANY RESEARCH AND ANALYSIS REPORT

Mitsubishi HC Capital Inc.

8593

Tokyo Stock Exchange Prime Market

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Index

Summary

A major leasing company working to create new social value through business model transformation

Mitsubishi HC Capital Inc. <8593> (hereafter, also the Company) is a major leasing company formed by the April 2021 merger of Mitsubishi UFJ Lease & Finance Company Limited and Hitachi Capital Corporation. In "Our 10-year Vision," the Company states, "Together we innovate, challenge and explore the frontiers of the future." Based on the fusion of a bank/trading company-affiliated leasing company and a manufacturer-affiliated leasing company, as well as with the proactive utilization of M&A and alliances, the Company is transforming its business models and business portfolio, as well as developing an advanced asset business, including shifting to high value-added services that go beyond the bounds of conventional leasing and financial services. Furthermore, the Company is working to both solve a variety of social challenges such as climate change and create new social value.

1. Provides financial services centered on leasing, the Company's strength is its strong customer base

The Company offers a variety of financial services, with a focus on leasing transactions. Furthermore, in recent years, as part of its business model transformation, the Company has become proactive in acquiring business profits in fields such as renewable energy and real estate. The asset balance mix of assets by segment in FY3/23 was 33.5% for Customer Solutions, 27.5% for Global Business, 4.5% for Environmental & Energy*, 17.0% for Aviation, 11.4% for Logistics, 4.6% for Real Estate, 0.4% for Mobility, and 1.1% for adjustment. Although earnings fluctuate due to the recording of sales gain on assets, impairment, credit costs and other factors in certain segments, the Customer Solutions and Global Business segments, which are centered on leasing and loan transactions, are the pillars of the Company's stable earnings. Characteristics and strengths include a strong customer base centered on the Mitsubishi and Hitachi groups, two of Japan's leading corporate groups, and a business foundation that has enabled the accumulation of high-quality assets. Furthermore, the Company has a diversified business portfolio that enables stable growth of earnings through thorough risk management, strong financing capacity based on industry-leading credit ratings, and extensive experience in leasing transactions and financial services that handle with a variety of tangible and intangible assets as well as talent base possessing expertise in these areas.

* The segment name has been changed from Environment, Energy & Infrastructure starting in FY3/24. The FY3/23 financial results are shown as the Environment, Energy & Infrastructure segment, while others are shown as Environmental & Energy following the change.

2. FY3/23 profit increased significantly, exceeding the Company's forecast

In FY3/23 consolidated financial results, net income attributable to owners of the parent increased 16.9% year on year (YoY) to ¥116.2bn. There were negative factors such as an absence of large sales gains on strategic shareholdings posted in FY3/22, but the Company still posted a large increase in profit exceeding the forecast due to factors including the growth in the Global Business segment, profit contribution from CAI International, Inc. (hereafter, CAI), a large marine container leasing company in the U.S., a decrease in credit costs, and an increase in profit from equity-method investments in the Environment, Energy & Infrastructure segment. Looking at the factors behind the change in net income attributable to owners of the parent (up ¥16.8bn), business growth (profit contribution from CAI, business growth in subsidiaries in the Americas, etc.) had a ¥25.9bn positive effect, the decline in credit costs (a reactionary decline from the large credit costs recorded in the previous fiscal year in the Customer Solutions segment, and a decrease in costs in the Aviation and Global Business segments) had a ¥21.5bn positive impact, the increase in expenses (increase in expenses due to the full-year consolidation of CAI, an increase in expenses associated with the promotion of business activities mainly in overseas companies of the Mitsubishi HC Capital Group (hereafter, the Group), etc. had a ¥18.6bn negative impact, extraordinary income/loss (an absence of large sales gains on strategic shareholdings which was recorded in FY3/22) had a negative ¥22.9bn impact, while Others (decrease in taxes, etc.) had a negative impact of ¥10.9bn. Meanwhile, new transactions volume rose 5.3% YoY to ¥2,640.6bn, and the total segment assets as of the end of FY3/23 increased 3.1% YoY to ¥9,632.9bn.

3. Forecasting profit increase in FY3/24

For the FY3/24 consolidated financial results forecast, the Company is expecting net income attributable to owners of the parent to increase 3.2% YoY to ¥120.0bn. Looking at the factors behind the change in net income attributable to owners of the parent (up ¥3.7bn), business growth (growth of the Aviation segment against a backdrop of the recovery in passenger demand, etc.) is expected to have a positive ¥28.0bn impact, credit costs are expected to be flat, the increase in expenses (increases in investments toward "Our 10-year Vision" and expenses associated with the promotion of business activities) is expected to have a negative impact of ¥11.0bn, extraordinary income/loss (posting of expenses associated with restructuring and redefining existing business domains, etc.) is expected to have a negative impact of ¥2.0bn, while Others (an absence of reduction effect of tax expenses posted in FY3/22) is expected to have a negative impact of ¥11.0bn. Furthermore, the tasks for the post-merger integration (PMI) process (simplifying the organizational structure of the Company's main unit, integration of the Group companies in the same region and in the same sector, etc.) which was planned at the beginning of the integration, was completed by the end of March 2023 as scheduled. Management resource synergy of about ¥5.0bn was generated by FY3/23, and the amount is estimated to be ¥10.0bn by FY 3/24 as initially forecast. The Company is only forecasting a small increase in profit, taking into consideration factors such as investments toward "Our 10-year Vision," the recording of costs associated with restructuring and redefining of existing business domains, and an absence of the reduction effect for tax expenses posted in FY3/22.

4. Working to expand high value-added services and develop new businesses based on a strategy of evolution and layering of business models

In May 2022, the Company established "Our 10-year Vision," which states, "Together we innovate, challenge and explore the frontiers of the future," and toward this vision the Company expressed the medium- to long-term management direction, which is to promote CX (customer transformation) through SX (sustainability transformation) and DX (digital transformation) and business portfolio transformation. Then, in May 2023, based on the "Medium- to Long-term Management Direction," the Company released its "Medium-term Management Plan for FY2023-FY2025" ("2025 MTMP"). The 2025 MTMP is positioned as the "hop" part of the three medium-term management plans (hop, step, jump) toward "Our 10-year Vision." In terms of financial targets, the Company aims to achieve net income attributable to owners of the parent of ¥160.0bn, ROA (net income basis) of approximately 1.5% and ROE of approximately 10.0% in FY3/26, the final year of the plan period. Furthermore, the Company has a target payout ratio of 40% or more for the 2025 MTMP period, and aims to maintain "A" credit ratings as a showing of financial soundness. As business strategies, in addition to (1) Customer finance and (2) Asset finance, while maintaining and expanding the strong customer base the Company will engage in (3) Finance + services and (4) Data utilization platform services using data which will add service revenue, and the (5) Asset utilization business utilizing assets. The Company will work on evolution and layering of business models by expanding high value-added services that go beyond the bounds of the conventional leasing and financial services, and developing new businesses. On top of this, the Company will develop (3) - (5), which are expected to be highly profitable, into medium- to long-term growth drivers, and thereby not only significantly grow assets, but also grow net income, which will lead to improved ROA and ROE.

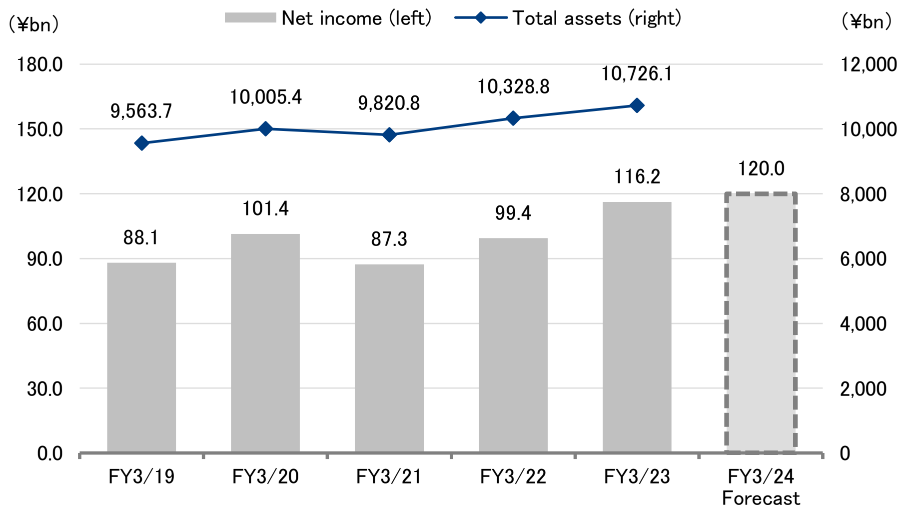
5. FISCO's view

The Company's characteristics and strengths lie in its overwhelmingly strong customer base and financing capacity, and considering its shareholder return policy of a payout ratio of over 40%, we at FISCO believe that these factors alone allow us to evaluate the Company as a stable investment target. Furthermore, under the 2025 MTMP, the Company has set an ambitious goal of ¥160.0bn in net income attributable to owners of the parent for FY3/26, the final year of the plan. This would be a difficult goal to achieve if the Company were to stay only with traditional leasing transactions, but by business portfolio transformation, the Company is pursuing the expansion of high value-added services that go beyond the traditional leasing business and financial services, as well as working on the development of new businesses. It is expected that the Company will be able to achieve its goals by leveraging its strong customer base and business foundation. For this reason, investors' interest may further increase, and we will closely monitor the progress on the growth strategy in FY3/24, which is the first year of the 2025 MTMP.

Key Points

- Major leasing company formed by merger of Mitsubishi UFJ Lease & Finance and Hitachi Capital in April 2021
- Characteristics and strengths of the Company include its strong customer base and business foundation, financing capacity based on high external credit ratings, and talent base
- FY3/23 profit increased significantly, exceeding the Company's forecast
- Forecasting profit increase in FY3/24
- Pursuing expansion of high value-added services and development of new businesses beyond the framework of conventional leasing and financial services
- Progress on the Company's growth strategy will be closely monitored

Financial results trends



*1 Business integration took place on April 1, 2021
*2 Values prior to FY3/21 are the simple sum of Mitsubishi UFJ Lease & Finance and Hitachi Capital
*3 Net income is net income attributable to owners of the parent, total assets are asset totals on consolidated balance sheets
Source: Prepared by FISCO based on the Company's financial highlights (report) and the Company's Fact Book

Company overview

Mitsubishi UFJ Lease & Finance and Hitachi Capital carried out a business integration in April 2021

1. Company overview

The Company is a major leasing company formed by the April 2021 merger of Mitsubishi UFJ Lease & Finance and Hitachi Capital. In "Our 10-year Vision," the Company states, "Together we innovate, challenge and explore the frontiers of the future." Based on the fusion of a bank/trading company-affiliated leasing company and a manufacturer-affiliated leasing company, as well as with the proactive utilization of M&A and alliances, the Company is working on evolution and layering of business models, business portfolio transformation, as well as developing an advanced asset business, including shifting to high value-added services that go beyond the bounds of conventional leasing and financial services. Furthermore, the Company is working to solve a variety of social challenges such as climate change and to create new social value.

The Company operates in over 20 countries, including Japan, Europe, the Americas, China and ASEAN. As of the end of FY3/23, the Company's total assets were ¥10,726.1bn, net assets were ¥1,551.0bn, shareholder capital was ¥1,272.3bn, the equity ratio was 14.3%, and there were 8,648 employees.

2. History

In August 2016, Mitsubishi UFJ Lease & Finance (formed by the April 2007 merger of UFJ Central Leasing established in 1969 and Diamond Lease established in 1971) and Hitachi Capital (formed by the October 2000 merger of Tokyo Hitachi Home Electric Appliance Geppuhanbai [Hitachi Credit] established in 1957 and Hitachi Leasing established in 1968) concluded a capital and business alliance. In April 2021, the two companies executed a business integration (with Mitsubishi UFJ Lease & Finance as the surviving company) and changed the corporate name to Mitsubishi HC Capital. The Company is listed on the Tokyo Stock Exchange's Prime Market and on the Nagoya Stock Exchange's Premier Market.

The two-year PMI process laid out at the time of the business integration was completed as planned, and the Company announced its Medium-Term Management Plan "2025 MTMP" in May 2023 (details explained in section on growth strategies below).

History

Date	Event
	Former Hitachi Capital Corporation
September 1957	Established Tokyo Hitachi Home Electric Appliance Geppuhanbai Corp.
October 2000	Merged with Hitachi Leasing Corp. and changed its name to Hitachi Capital
August 2016	Concluded a capital and business alliance with Mitsubishi UFJ Lease & Finance
	Former Mitsubishi UFJ Lease & Finance Company Limited
April 1971	Established Diamond Lease Company Limited with a total of 16 companies as shareholders, centered on Mitsubishi Group companies
October 1999	Merged with Ryoshin Leasing Corp.
April 2007	Merged with UFJ Central Leasing Co., Ltd. and changed its name to Mitsubishi UFJ Lease & Finance
August 2016	Concluded a capital and business alliance with Hitachi Capital
April 2021	Mitsubishi UFJ Lease & Finance merged with Hitachi Capital and charged its name to Mitsubishi HC Capital Inc.

Source: Prepared by FISCO based on the Company's materials

Business overview

Engages in financial services centered on leasing

1. Business overview

The Company engages in a variety of financial services, centered on leasing. Furthermore, in recent years, as part of its pursuit of evolution and layering of business models, the Company has been proactively obtaining business profits, such as in renewable energy and real estate. The seven reporting segments (segments were changed from FY3/23 accompanying the organizational restructuring effective April 1, 2022) are Customer Solutions, Global Business, Environment & Energy (name changed from Environment, Energy & Infrastructure from FY3/24), Aviation, Logistics, Real Estate and Mobility.

(1) About leasing transactions

Leasing transactions involve the Company purchasing the property (covers all movable assets such as industrial machinery, machining tools, office equipment, transportation equipment, medical equipment, commercial equipment, logistics facilities, etc.) desired by the customer (the lessee) on behalf of the customer, and then renting the property to the customer. The ownership of the leased property resides with the Company, and the Company receives the leasing fee, which includes the property value, interest, taxes, insurance premiums, etc., from the customer. The Company, which owns the leased property, handles administrative work such as purchasing procedures, depreciation, property tax declarations and payments, and insurance premium payments. In a survey on the benefits of leasing for lessees, the most common response was no large amount of capital is required when installing equipment, followed by other responses including costs are easy to understand, leasing reduces labor for administration, the leasing period can be set according to the planned usage period of the equipment, appropriate compliance with environment-related laws and regulations, being advantageous compared to borrowing to purchase, and being able to obtain the benefits of asset outsourcing (source: Lease Demand Trend Survey conducted in 2020 by JAPAN LEASING ASSOCIATION, a public interest incorporated association).

Customer Solutions and Global Business are the pillars of stable revenue

(2) Mix by segment

Looking at the mix of net income by segment in FY3/23, the Customer Solutions segment accounted for 32.8% of net income, while Global Business accounted for 25.0%, Environment, Energy & Infrastructure was 10.0%, Aviation was 5.3%, Logistics was 13.2%, Real Estate was 10.9%, Mobility was 3.3%, and adjustments were -0.5%. In terms of segment assets as of the end of FY3/23 (percentage of total assets for each segment), Customer Solutions accounted for 33.5% of assets, while Global Business was 27.5%, Environment, Energy & Infrastructure was 4.5%, Aviation was 17.0%, Logistics was 11.4%, Real Estate was 4.6%, Mobility was 0.4%, and adjustments were 1.1%. Financial results fluctuate as a result of the booking of factors such as sales gain on assets, impairment, and credit costs in certain segments, but the Customer Solutions and Global Business segments, which are centered on leasing and loan transactions, are the pillars for stable earnings.

Net income by segment

(¥bn)

	FY3/22		FY3/23		
	Amount	Ratio	Amount	Ratio	YoY change
Customer Solutions	32.6	32.9%	38.1	32.8%	16.7%
Global Business	40.8	41.1%	29.0	25.0%	-29.0%
Environment, Energy & Infrastructure	2.2	2.3%	11.6	10.0%	411.6%
Aviation	5.6	5.7%	6.2	5.3%	9.3%
Logistics	0.8	0.8%	15.3	13.2%	1787.4%
Real Estate	12.3	12.5%	12.6	10.9%	2.0%
Mobility	3.1	3.2%	3.7	3.3%	21.2%
Adjustments	1.5	1.6%	-0.6	-0.5%	-
Total	99.4	100.0%	116.2	100.0%	16.9%

*1 Segment divisions were changed from FY3/23, FY3/22 figures have been revised retroactively
*2 From FY3/24, the Environment, Energy & Infrastructure segment name was changed to Environment & Energy
*3 Adjustments in net income represent Company-wide expenses among SG&A expenses that do not belong to any segment
Source: Prepared by FISCO based on the Company's financial highlights (report)

Assets by segment as of the fiscal year-end

(¥bn)

	FY3/22		FY3/23		
	Amount	Ratio	Amount	Ratio	YoY change
Customer Solutions	3,337.6	35.7%	3,227.7	33.5%	-3.3%
Global Business	2,316.3	24.8%	2,644.2	27.5%	14.2%
Environment, Energy & Infrastructure	419.3	4.5%	433.2	4.5%	3.3%
Aviation	1,365.1	14.6%	1,640.2	17.0%	20.2%
Logistics	1,026.7	11.0%	1,092.9	11.4%	6.4%
Real Estate	712.7	7.6%	447.2	4.6%	-37.2%
Mobility	129.4	1.4%	41.4	0.4%	-68.0%
Adjustments	37.9	0.4%	105.8	1.1%	179.2%
Total	9,345.3	100.0%	9,632.9	100.0%	3.1%

*1 Segment divisions were changed from FY3/23, FY3/22 figures have been revised retroactively
*2 Segment assets = Operating assets + equity-method investments + goodwill + investment securities, etc.
*3 Segment assets adjustments include assets that do not belong to any particular segment, such as goodwill, investment securities related to the entire Company, etc.
Source: Prepared by FISCO based on the Company's financial highlights (report)

2. Overview by segment

(1) Customer Solutions

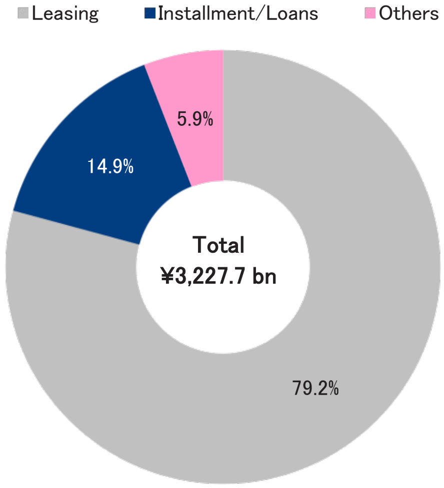
The Customer Solutions segment engages in the customer finance business and the vendor solutions business. The customer finance business provides leasing and other financial services mainly to Japanese corporations and government agencies. The vendor solutions business works with manufacturers and distributors, etc. to provide sales finance supporting product sales by offering leases and loans for customers installing property. Furthermore, the Company has expanded the scope of its business operations to include high value-added services that help solve customers' issues, such as PC lifecycle management services*1, buying and selling of used assets with engineering services*2, and the dismantling/removal of factory equipment.

The Company's strength in this segment is the fact that it has built business partner relationships with leading companies in each industry, such as Mitsubishi UFJ Financial Group, Inc., Mitsubishi Corporation, and Hitachi, Ltd. The Company has a large share of leases for industrial and machining equipment for the manufacturing sector, as well as for commercial equipment, PCs, servers and other information and communications equipment for the retail and distribution sectors.

Looking at the mix of assets (¥3,227.7bn) as of the end of FY3/23 by service, customer finance accounted for 84.3% of assets, while vendor solution accounted for 15.7%. In terms of the breakdown by transaction type, 79.2% of assets were leases, installment sales and loans made up 14.9%, and others accounted for 5.9%.

*1 A service that manages the entire lifecycle of PCs, from selection and introduction to disposal.
*2 A service that works on used machines that are obtained, then transports and installs them at the buyer's location. Furthermore, the Company also provides a one-stop service for the series of tasks related to relocating equipment for customers' multiple factory facilities, including removal, disassembly, transport, reinstallation, and precision adjustment.

Breakdown of Customer Solutions segment assets by transaction type (end of FY3/23)



Source: Prepared by FISCO based on the Company's financial results briefing materials

(2) Global Business

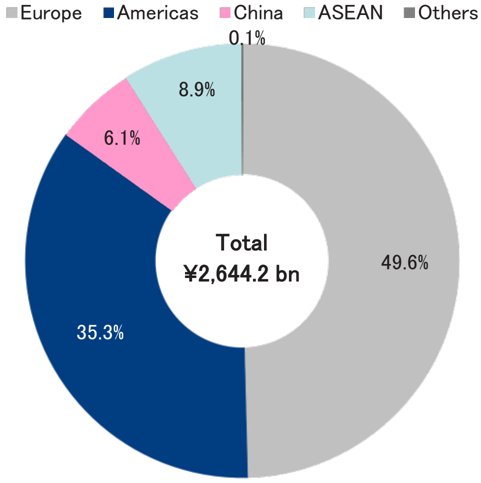
The Global Business segment has over 4,000 employees working in the four regions of Europe, the Americas, China and ASEAN. This segment provides financial services, starting with leasing, and sales finance in partnership with vendors, according to the social challenges and the needs of customers in each country and region, and in line with their respective characteristics. This segment does not include overseas businesses belonging to other segments, such as Aviation and Logistics.

In Europe, one of the Company's main regions, the Company partners with department stores in the U.K. and provides sales finance to individual customers when they purchase expensive products and services such as furniture and home appliances. Additionally, in the U.K. and continental Europe, the Company provides automobile leasing and ancillary services for passenger vehicles, commercial vehicles, etc. to companies and individuals. Additionally, the Company leases a wide range of equipment to U.K. companies, including construction machinery, agricultural machinery, industrial machinery and renewable energy generation equipment. In the Americas, the second largest region after Europe, the Company leverages its network of thousands of truck dealerships to provide commercial truck sales finance to companies in the U.S.A. and Canada. The Company also provides sales finance for a wide range of equipment, including industrial/machine tools, construction machinery, and medical equipment. In addition to sales finance, the Company also provides a variety of financial services to American and Japanese companies, including operating leases and inventory-backed loans for various machinery and equipment.

After the April 2021 integration of Mitsubishi UFJ Lease & Finance and Hitachi Capital, the Company has increased the scope of products/services and assets that it can service, and also widened its geographic scope. Subsequently, aiming to achieve additional synergies, the Company has been consolidating offices within the same country and boosting efficiency. Also, in addition to pursuing management efficiencies through the integration the Company has been transforming the business portfolio by working to create more value-added in core businesses as well as by downsizing and consolidating non-core businesses and businesses with low profitability.

The mix of assets by region as of the end of FY3/23 (¥2,644.2bn) was 49.6% in Europe, 35.3% in the Americas, 6.1% in China, 8.9% in ASEAN, and 0.1% in others. In the mainstay regions of Europe and the Americas, the customer and asset bases built up prior to the integration by both Mitsubishi UFJ Lease & Finance and Hitachi Capital are the mainstay foundations of the business.

Global Business segment asset breakdown by region (end of FY3/23)



Source: Prepared by FISCO based on the Company's financial results briefing materials

(3) Environment & Energy

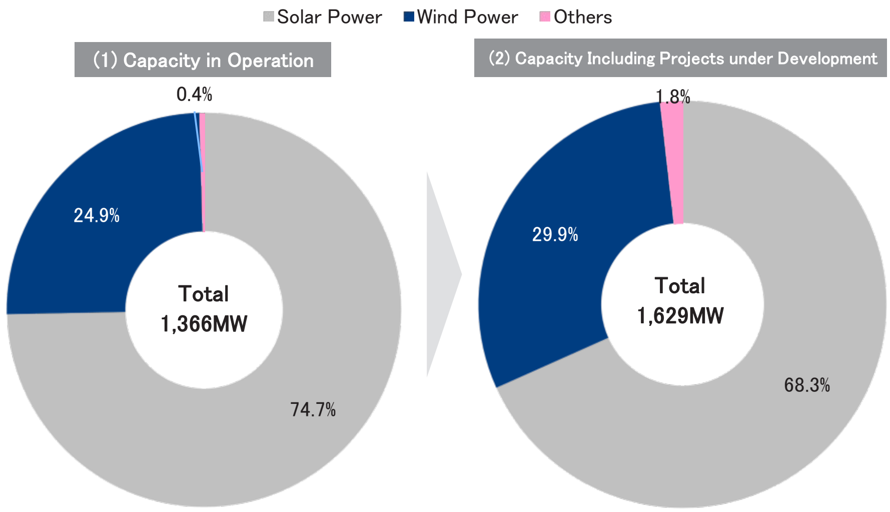
The Environment & Energy segment engages in the renewable energy business and the environment-related finance business on a global basis. In Japan, the Company mainly engages in solar power generation and onshore wind power generation. In the solar power generation business, the Company has been ramping up its business of directly supplying electric power to customers, centered on the corporate PPA*1 business. In the onshore wind power generation business, the Company operates power generation plants using both the FIT system (a system in which the offtake price of renewable energy is fixed) and the FIP system (a system in which a subsidy (premium) is added on top of the wholesale price of electricity sold in the market). The Company has also launched an aggregation business*3, which provides electric power and non-fossil value*2 based on forecasts of renewable energy generation capacity and supply-demand outlooks. Overseas, in Europe and the U.S.A., etc. where decarbonization is further along than in Japan, the Company is engaged in the renewable energy generation business and has been working to bolster its development capabilities.

The capacity of renewable energy assets owned by the Group in Japan is 1.2GW (as of March 31, 2023) putting it among the leaders in Japan within the electric power industry, and the Company plans to maintain this position going forward. Furthermore, the Group not only creates renewable energy, but also provides non-fossil value. By utilizing data on power supply and demand, weather conditions, and other variables, and by combining storage batteries, retail sales of electricity, aggregators, etc., the Group is developing new businesses aimed at providing stable power supply in the renewable energy field, which is easily influenced by environmental factors.

Looking at the mix of assets (¥433.2bn) by business as of the end of FY3/23, the environment and energy business accounted for 68.3% of assets, the finance business accounted for 21.4% of assets, while others accounted for 10.3% of assets. In addition, looking at the output from equity ownership in renewable energy generation capacity as of the end of the FY3/23 (total of Japan and overseas), the Group owned 1,366MW of capacity currently in operation (74.7% solar, 24.9% wind, 0.4% other), and 1,629MW if projects under development are included (68.3% solar, 29.9% wind power, and 1.8% other). Furthermore, in addition to large-scale solar and wind power generation, the Group has been working with partner companies on establishing corporate PPAs with domestic and overseas companies for solar power. The number of PPAs has been steadily increasing, and now stands at approximately 40 locations.

*1 Corporate PPA (Power Purchase Agreement)
A contract whereby company commits to purchase electricity from a renewable energy generation facility at a fixed price over a long-term period from a power retailer or power generator.
*2 Non-fossil value, non-fossil certificates
Non-fossil value is the value of electric power generated using a method that does not emit carbon dioxide. A non-fossil certificate is a certificate that certifies the “environmental value” of electricity generated from renewables or other non-fossil power generation technologies.
*3 Aggregation business, aggregators
Refers to managing the supply of power from power generation plants. This is the business of controlling the balance of supply and demand between power utility companies and power consumers, and the business operators engaged in this field.

Breakdown of equity ownership in output in the renewable energy generation business (end of FY3/23)



Source: Prepared by FISCO based on the Company’s financial results briefing materials

(4) Aviation

In Aviation, the Company engages in the leasing business for aircraft and aircraft engines, the engine/aircraft parts sales (dismantling engines for parts sales) business*1, and a business undertaking the origination and sale of aircraft leases as investment products to corporate investors in Japan*2.

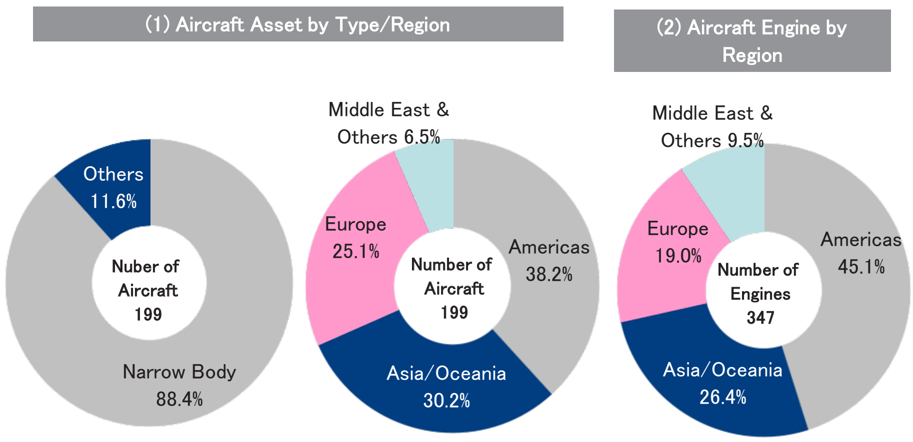
Centered on sale and leaseback (SLB) transactions*3 for new aircraft, the Company’s aircraft leasing business currently leases approximately 200 aircraft to around 60 airlines in approximately 30 countries, from major full service carriers to blue-chip low-cost carriers (LCCs) around the world. In addition, the aircraft engine leasing business leases spare engines*4 to airlines and engine maintenance factories around the world.

Approximately 90% of the aircraft owned by the Company are narrow-body aircraft which are in high demand and have a high level of liquidity, and which are mainly used on domestic routes and short-distance routes. On top of this, the average age of the Company's aircraft is young compared to industry competitors, and the high-quality portfolio of aircraft is a strength of the Company. The aircraft engines owned by the Company are also primarily for narrow-body aircraft, and the Company is maintaining a highly-liquid, diversified, and high-quality portfolio. Furthermore, the Company is among the leaders in the industry in terms of the ratio of new aircraft with high fuel efficiency and low CO_2 emissions, and thus the Company is contributing to the decarbonization of the aviation industry by increasing its ownership ratio of engines for new aircraft.

Looking at the mix of assets (¥1,640.2bn) by service as of the end of FY3/23, aircraft leasing (aircraft leasing subsidiary Jackson Square Aviation, JSA) accounted for 73.4% of assets, engine leasing (aircraft engine leasing subsidiary Engine Lease Finance, ELF) accounted for 22.3% of assets, and aircraft leasing, etc. for investment for Japanese companies accounted for 4.3%. The number of aircraft (JSA) was 199 (average age of 4.9 years), while the number of engines (ELF) was 347. Looking at the breakdown of aircraft-related assets owned by the aircraft asset type, narrow-body aircraft accounted for 88.4% of assets, while others comprised 11.6%. Looking at the mix by region, the Americas accounted for 38.2% of assets, Asia/Oceania comprised 30.2%, Europe 25.1%, and the Middle East, etc. 6.5%. In terms of the mix of aircraft engines by region, the Americas accounted for 45.1% of assets, Asia/Oceania comprised 26.4%, Europe 19.0%, and the Middle East, etc. 9.5%.

*1 A business in which aircraft engines that are nearing decommissioning are dismantled and the parts are then given maintenance or repaired before being sold to maintenance companies and airlines.
*2 An investment product limited to corporations in which they invest in the aircraft leasing business for airline companies through a silent partnership agreement.
*3 A transaction in which an asset owned by a customer (in this case, an aircraft) is temporarily sold to a leasing company and then immediately leased from that leasing company. The benefits for users include increased flexibility in terms of financing and equipment strategies.
*4 Engines require regular maintenance, so airlines need to keep a certain number of spare engines on hand so that aircraft operations will not be disrupted during engine maintenance periods. Leasing is also used to procure spare engines.

Breakdown of aircraft-related assets owned
(end of FY3/23)



Source: Prepared by FISCO based on the Company's financial results briefing materials

(5) Logistics

In Logistics, the Company conducts businesses such as marine container leasing, which supports global supply chains, and railway freight car leasing for railway companies and shippers in North America, the world's largest railway freight market.

In the marine container leasing business, the Company currently operates globally, serving approximately 300 corporate customers, including major shipping companies. In global operations, the required number of containers must be positioned in the locations where customers need them. The Company has built a global network to rapidly meet customer needs by establishing depots in ports across the world that can handle container return, repair, storage, and lending. Customers benefit from leasing containers not only by reducing their financial burden, but also by being able to flexibly adjust the number of containers they use according to changes in freight volume. Supported by this customer demand, leases account for the supply of roughly half of the marine containers in use around the world.

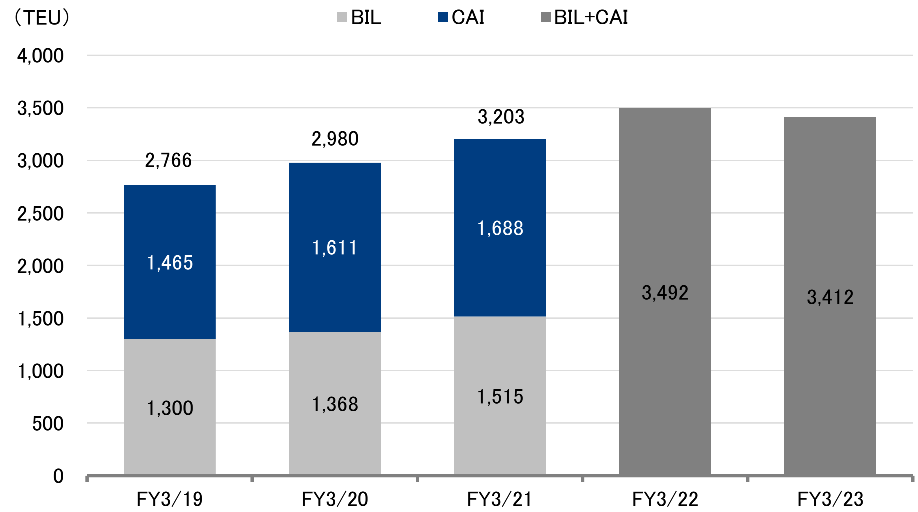
Moreover, the marine container leasing market is highly concentrated, with the top five leasing companies representing a market share of approximately 80%. The business has high barriers to entry. Against the backdrop of these industry characteristics, in November 2021, the Company acquired CAI, a leading marine container leasing company in the U.S.A., making it a wholly owned subsidiary. As a result, the Group is currently the fourth largest in the world in terms of market share on a CEU* basis. Furthermore, in January 2023, the Company merged CAI and Beacon Intermodal Leasing, LLC, a marine container leasing company that became a wholly owned subsidiary in 2014. This completed the reorganization of Group companies in the marine container leasing business.

In the Railcar Leasing Business, the Company has now grown into one of the top 10 leasing companies in North America. It leases approximately 22,000 freight cars to shippers centered on railway companies and major companies. Leasing is an effective procurement method for railway companies, which must make substantial capital investments in infrastructure such as tracks and locomotives. This business contributes to North American economic growth by supporting the value generated by railway infrastructure, which has a small environmental impact.

The mix of segment assets (¥1,092.9bn) by business as of the end of FY3/23 was as follows: marine containers comprised 72.6%, railway freight cars 23.5% and shipping 3.9% of these assets.

* CEU stands for Cost Equivalent Unit. It is a conversion unit for various container volumes, calculated on the basis of 1 CEU = the average historical price of a newly built 20-foot dry container.

Changes in marine container fleet



* The figures of CAI for FY3/19 through FY3/21 are pre-acquisition figures provided for reference.
Source: Prepared by FISCO from the Company's financial results briefing materials.

(6) Real Estate

In Real Estate, the Company conducts operations in the real estate finance business, real estate investment business, and real estate asset management business, primarily in Japan.

In the real estate finance business, the Company obtains project information from senior lenders*1 centered on megabanks, and Japanese and foreign sponsors, and uses this information to provide funds through mezzanine loans*2 to many projects.

In the real estate investment business, the Company started real estate revitalization investment by leveraging expertise it gained from reviving and adding value to projects plagued by construction and leasing problems since immediately after the global financial crisis. In 2016, the Company established Mitsubishi HC Capital Realty, which conducts real estate development and revitalization investment, and Mitsubishi HC Capital Realty Advisors, which conducts real estate asset management, and has expanded this field by integrating finance and business operations. In the hotel field, the Company conducts operations such as hotel investment businesses that increase asset value with specialist teams made up of personnel such as experts with career backgrounds at hotel management companies who are deeply involved in hotel management and work closely with hotel operators. In the logistics field, the Company has brought into the Group an asset management firm specialized in the logistics real estate field and is working to expand investment in developing logistics facilities. Furthermore, the Company has implemented pioneering initiatives such as developing large-scale logistics facilities and multi-tenant refrigerated and frozen warehouses. Notably, in 2018 the Company undertook capital participation in Centerpoint Development (CPD) (which became a wholly owned subsidiary in April 2023), and jointly established Logi Flag Development (LFD) with a business partner.

Furthermore, the Company engages in a variety of businesses that increase the value of real estate, such as real estate revitalization investment, which seeks to improve earnings power by adding value to investment properties from both tangible and intangible perspectives, and the real estate asset management business, which conducts activities such as the operation of private REITs (real estate investment trusts). In these ways, the Company currently operates under a business model that aims to generate income and capital gains through three business fields, with a particular emphasis on income-generating properties that generate regular leasing revenue. These properties include offices, residences, commercial facilities, hotels and logistics facilities.

Through the well-balanced development of these three businesses, the Group's strengths lie in its capacity to sustain and promote business in any environment. Moreover, by addressing eco-friendly real estate and real estate that takes into account the BCP*3 needs of tenant companies, the Group is helping to promote a decarbonized society and build resilient social infrastructure.

The mix of segment assets (¥447.2bn) by business as of the end of FY3/23 was as follows: the domestic business comprised 87.0%, the overseas business 12.5%, and others 0.5% of these assets. While keeping portfolio diversification in mind, the Company is stepping up efforts to address various asset types, including office buildings, logistics facilities, and housing.

*1 Lenders that provide senior loans that have a higher priority for repayment than other claims. Senior lenders are creditors with higher-ranking claims than lenders that provide mezzanine loans.
*2 Loans that are set with higher interest rates in return for assuming higher risks, such as a lower priority for repayment compared with other claims and allowing for deferral of principal and interest payments. Mezzanine loans are often provided for projects such as large-scale real estate development.
*3 BCP: Business Continuity Plan. A pre-planned strategy for ensuring the continuity of critical business operations in the event of a crisis, such as a terrorist attack, natural disaster, or system disruption.

(7) Mobility

In Mobility, the Company is primarily engaged in the auto leasing business worldwide. The mobility sector is entering a period of major upheaval. The sector is being transformed by efforts to reduce environmental impact and accelerate the widespread adoption of EVs to achieve carbon neutrality, and the expansion of new services such as CASE*1 and MaaS (Mobility as a Service)*2. In this sector, the Company provides high-value-added auto leasing and mobility services by working closely with partner companies in countries and regions around the world.

*1 CASE is a combination of the first letters of the words Connected, Autonomous, Shared & Services, and Electric.
*2 MaaS (Mobility as a Service): Services that make mobility more convenient for people by using IT to seamlessly combine all means of transportation

In February 2023, the Company and France-based ALD S.A. (hereafter, ALD), a leading global company in the auto leasing industry, established ALD MHC Mobility Services (Thailand) (hereafter, AMT) as an auto leasing joint venture in Thailand. In 2020, the Company and ALD established ALD MHC Mobility Services Malaysia Bhd., a joint venture in Malaysia, with the aim of building a shared mobility business platform in the ASEAN region. AMT represents the second joint venture established by the Company and ALD.

Additionally, as part of the reorganization of Group companies, Mitsubishi HC Capital Auto Lease (hereafter, CA) and Mitsubishi Auto Leasing (hereafter, MAL) merged in April 2023. Segment assets decreased by ¥88.0bn from the end of FY3/22 to ¥41.4bn as of the end of FY3/23, due to factors such as the impact of MAL, an equity-method affiliate, becoming the surviving company and the deconsolidation of CA. The number of operational vehicles as of the end of FY3/23 (including equity-method affiliates) decreased by 2,000 vehicles from the end of FY3/22 to 355,000.

Characteristics and strengths of the Company include its strong customer base and business foundation, financing capacity, and talent base

3. Characteristics and strengths, risk factors, profit profile, issues and countermeasures

Among the characteristics and strengths of the Company are its strong customer base, centered on the Mitsubishi and Hitachi groups, which are two of Japan's leading corporate groups, and its business foundation, which represents the accumulation of high quality assets. Other characteristics and strengths include the Company's financing capacity based on its diversified business portfolio, which enables stable earnings growth through rigorous risk management; industry-leading external credit ratings; and its talent base, which possesses extensive knowledge and expertise regarding leasing transactions that handle a variety of tangible and intangible assets and financial services.

General risk factors in the leasing industry include the curtailment of corporate capital investment associated with a global economic downturn or stagnation in the flow of people, assets, and funds, the recording of credit costs due to deteriorating business performance or bankruptcy of customers and impacts on fund procurement due to a drop in the value of asset holdings or a downgrading of credit ratings. The Company is strengthening measures to comprehensively manage risk through an integrated risk management approach, covering the aforementioned credit risk, asset exposure, investment risk, market risk, liquidity risk, and operational risk, and it is working to prevent the materialization of risks and to minimize the impact when risks materialize. Specifically, the Risk Management Committee, which comprehensively and systematically manages risks pertaining to overall management, deliberates and discusses policies for reporting and responding to the status of risk at meetings held four times a year or as necessary. Additionally, issues and countermeasures for specific risks are discussed by committees such as the Asset Liability Management (ALM) Committee, Compliance Committee, and the J-SOX (system for reporting on internal control) Disclosure Committee.

In addition, the Company's earnings may fluctuate due to the recording of sales gains on assets, impairment, credit costs and other items in certain segments. However, FISCO evaluates the Company positively, believing that Customer Solutions segment and Global Business segment serve as stable earnings drivers, centered on leasing and loan transactions based on the strengths of a solid customer base, business foundation and high credit ratings, and that the Company has taken the necessary measures to minimize overall risk.

Financial results trends

FY3/23 profit increased significantly, exceeding the Company's forecast

1. Overview of FY3/23 financial results

In the FY3/23 consolidated financial results, revenues increased 7.4% YoY to ¥1,896.2bn, gross profit increased 6.8% to ¥357.3bn, operating income increased 21.6% to ¥138.7bn, recurring income increased 24.6% to ¥146.0bn, and net income attributable to owners of the parent increased 16.9% to ¥116.2bn. New transactions volume increased 5.3% to ¥2,640.6bn. Total segment assets as of the end of FY3/23 (operating assets + equity-method investments + goodwill + investment securities, etc.) rose 3.1% to ¥9,632.9bn. Operating expenses increased due to the consolidation of new companies following M&A activity and efforts to strengthen business activities mainly in overseas subsidiaries, and an absence of large sales gains on strategic shareholdings (¥26.7bn on a pre-tax basis) recorded under extraordinary income in FY3/22 was another negative factor. However, in FY3/23 the Company delivered significant growth in earnings, which exceeded its forecast (net income attributable to owners of the parent of ¥110.0bn announced on May 16, 2022). This growth was driven by expansion in the Global Business segment, the profit contribution of CAI in the Logistics segment, a decrease in credit costs, and increases in profits from equity-method investments in the Environment, Energy & Infrastructure segment. On a net income basis, ROA rose 0.1 of a percentage point to 1.1% and ROE rose 0.2 of a percentage point to 8.2%.

FY3/23 consolidated financial results

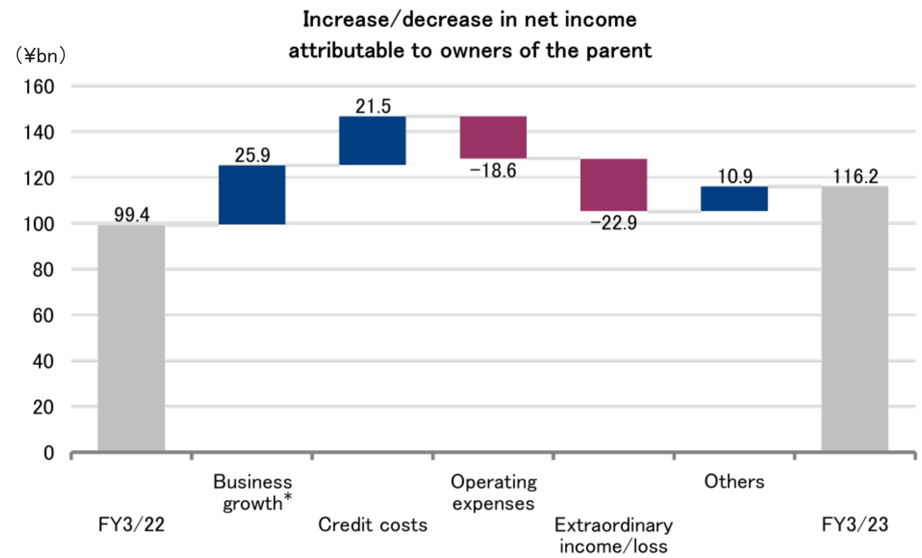
(¥mn)

	FY3/22	FY3/23	YoY change	
			Amount	Rate
Revenues	1,765,559	1,896,231	130,672	7.4%
Operating income	114,092	138,727	24,635	21.6%
Recurring income	117,239	146,076	28,837	24.6%
Net income attributable to owners of the parent	99,401	116,241	16,840	16.9%
New transactions volume (¥100mn)	25,078	26,406	1,327	5.3%
Total segment assets at end of period	9,345,376	9,632,966	287,590	3.1%
ROA*1	1.0%*2	1.1%*3	0.1pt	-
ROE*1	8.0%*2	8.2%*3	0.2pt	-

*1 Based on net income attributable to owners of the parent
*2 Numerator: net income attributable to owners of the parent for FY3/22
Denominator: average of FY3/22 equity or total assets and FY3/21 equity or total assets (calculated by adding IFRS-based figures of Hitachi Capital to those of Mitsubishi UFJ Lease & Finance in a simplified manner under J-GAAP as reference figures, then making adjustments upon the integration)
*3 Numerator: net income attributable to owners of the parent for FY3/23
Denominator: average of FY3/22 and FY3/23 equity or total assets
Sources: Prepared by FISCO based on the Company's financial highlights (report) and financial results briefing materials

Looking at an analysis of the factors behind changes in net income attributable to owners of the parent (an increase of ¥16.8bn YoY), business growth resulted in an increase of ¥25.9bn (profit contribution from CAI, business growth of subsidiaries in the Americas and other factors), a decrease in credit costs (a reactionary fall in large credit costs recorded in FY3/22 in the Customer Solutions segment, and decreases in credit costs for the Aviation and Global Business segments) resulted in an increase of ¥21.5bn. Additionally, an increase in operating expenses (an increase due to the full-year consolidation of CAI, an increase in expenses associated with the promotion of business activities mainly in overseas subsidiaries, and other factors) resulted in a decrease of ¥18.6bn, and extraordinary income and loss (an absence of large sales gains on strategic shareholdings recorded in FY3/22 and other factors) resulted in a decrease of ¥22.9bn, while others (a decrease in taxes, etc.) resulted in an increase of ¥10.9bn.

Financial results trends



* Gross profit + Non-operating income/expenses (however, non-operating income/expenses do not include gains on bad debts recovered)
Source: Prepared by FISCO based on the Company's financial results briefing materials

Substantial profit growth in the Customer Solutions, Environment, Energy & Infrastructure, and Logistics segments

2. Financial results trends by segment

In Customer Solutions, gross profit increased ¥0.5bn to ¥116.5bn, and segment profit (net income) rose ¥5.4bn to ¥38.1bn. New transactions volume decreased ¥24.8bn to ¥933.2bn (a decrease of ¥23.3bn to ¥776.2bn in customer finance and a decrease of ¥1.4bn to ¥156.9bn in vendor solution). Segment assets as of the end of FY3/23 declined ¥109.9bn to ¥3,227.7bn. Segment profit increased due to factors such as the posting of a large sales gain related to real estate leasing, non-operating income for a certain deal (insurance claim income), and an absence of large credit costs recorded in FY3/22. Segment assets as of the end of FY3/23 decreased due to the impact of a decrease in new transactions volume, among other factors.

In Global Business, gross profit increased ¥8.8bn to ¥121.1bn. Segment profit decreased ¥11.8bn to ¥29.0bn (an increase of ¥1.9bn to ¥17.6bn in Europe, an increase of ¥3.2bn to ¥10.5bn in the Americas, an increase of ¥1.4bn to ¥0bn in China, an increase of ¥1.1bn to ¥2.3bn in ASEAN and a decrease of ¥19.6bn to -¥1.6bn in Others). New transactions volume rose ¥191.6bn to ¥1,300.7bn. Segment assets as of the end of FY3/23 increased ¥327.9bn to ¥2,644.2bn (an increase of ¥153.4bn to ¥1,310.7bn in Europe, an increase of ¥216.0bn to ¥934.8bn in the Americas, and a decrease of ¥59.5bn to ¥162.1bn in China, an increase of ¥20.2bn to ¥234.5bn in ASEAN, and a decrease of ¥2.3bn to ¥2.0bn in Others). Gross profit increased due to the business growth of subsidiaries mainly in the Americas. Meanwhile, segment profit decreased due to factors such as the posting of losses from revaluation of strategic shareholdings, an absence of large sales gains on strategic shareholdings recorded in FY3/22. Segment assets as of the end of FY3/23 increased due to an increase in new transactions volume and the impact of exchange rates, among other factors.

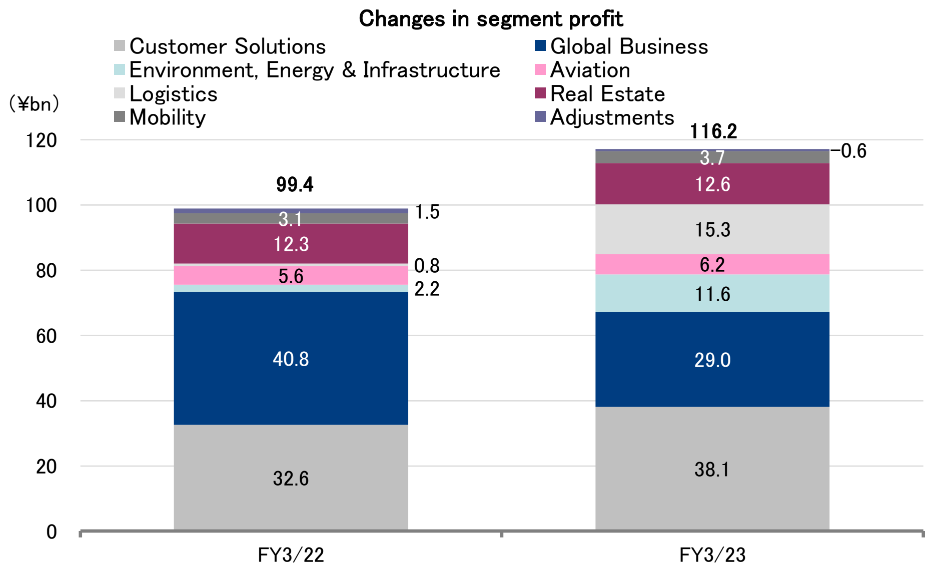
In Environment, Energy & Infrastructure, gross profit decreased ¥1.1bn to ¥16.4bn. Segment profit rose ¥9.3bn to ¥11.6bn. New transactions volume decreased ¥0.6bn to ¥35.8bn. Segment assets as of the end of FY3/23 were up ¥13.8bn to ¥433.2bn (a decrease of ¥6.6bn to ¥92.9bn in finance, a decrease of ¥1.8bn to ¥224.5bn in environment and energy business, an increase of ¥23.0bn to ¥113.2bn in infrastructure business, a decrease of ¥0.6bn to ¥2.5bn in others). Gross profit decreased because of a decrease in electricity sales revenue from the domestic wind power generation business due to wind conditions. Meanwhile, segment profit increased significantly owing to factors such as an increase in profits from overseas equity-method investments, the recording of sales gains on equity interests in certain infrastructure projects, and a decrease in credit costs. Segment assets as of the end of FY3/23 rose due to factors such as the large transactions in overseas infrastructure projects and the impact of exchange rates.

In Aviation, gross profit decreased ¥1.4bn to ¥33.6bn. Segment profit rose ¥0.5bn to ¥6.2bn. New transactions volume increased ¥14.2bn to ¥195.6bn. Segment assets as of the end of FY3/23 increased ¥275.1bn to ¥1,640.2bn (an increase of ¥208.5bn to ¥1,203.6bn at JSA in aircraft leasing, an increase of ¥66.9bn to ¥366.5bn at ELF in engine leasing, and a decrease of ¥0.3bn to ¥70.0bn at MHC in aircraft leasing, etc.) Segment profit increased mainly due to a decrease in credit costs, despite an increase in exchange revaluation losses on foreign currency-denominated borrowings in aircraft leasing transactions carried out by the Company. Segment assets as of the end of FY3/23 increased mainly due to an increase in new transactions volume.

In Logistics, gross profit increased ¥25.2bn to ¥32.1bn and segment profit increased ¥14.5bn to ¥15.3bn. New transactions volume decreased ¥19.2bn to ¥55.3bn. Segment assets as of the end of FY3/23 increased ¥66.1bn to ¥1,092.9bn (an increase of ¥56.5bn to ¥793.0bn in marine containers, an increase of ¥33.6bn to ¥256.8bn in railway freight cars, and a decrease of ¥23.9bn to ¥43.0bn in shipping). Gross profit and segment profit both increased substantially owing to factors such as the full-year consolidation of CAI. Segment assets as of the end of FY3/23 increased due to factors such as the impact of exchange rates, despite the decline in owned fleets as a result of sales of used marine containers.

In Real Estate, gross profit decreased ¥1.6bn to ¥24.9bn. Segment profit rose ¥0.2bn to ¥12.6bn. New transactions volume was down ¥28.2bn to ¥87.9bn. Segment assets as of the end of FY3/23 were ¥447.2bn, down ¥265.4bn (a decrease of ¥0.5bn to ¥145.2bn in securitization (debt), a decrease of ¥1.7bn to ¥55.1bn in securitization (equity), a decrease of ¥35.8bn to ¥157.1bn in real estate revitalization investment, a decrease of ¥13.6bn to ¥71.9bn in real estate rental business, and a decrease of ¥213.6bn to ¥17.7bn in other real estate finance). Segment profit increased, albeit slightly, mainly due to a decrease in tax expenses associated with the share transfer of DAF, while there were negative factors including the posting of market valuation losses on a certain project in the U.S.A. and credit costs for other projects in the country. Segment assets as of the end of FY3/23 decreased due to the impact of the deconsolidation of DAF, among other factors.

In Mobility, gross profit increased ¥0.7bn to ¥9.0bn and segment profit increased ¥0.6bn to ¥3.7bn. New transactions volume decreased ¥0.1bn to ¥31.8bn. Segment assets as of the end of FY3/23 were ¥41.4bn, down ¥88.0bn. Segment profit increased due to factors such as an increase in sales gain on vehicles for which the leasing term matured against a backdrop of the strong used car market in Japan, and an increase in profit from equity-method investments. Segment assets as of the end of FY3/23 decreased due to the impact of the deconsolidation of CA in connection with the reorganization of Group companies.



Source: Prepared by FISCO based on the Company's financial results briefing materials

Maintaining financial soundness and high credit ratings

3. Financial condition

Looking at the financial condition, total assets as of the end of FY3/23 were up ¥397.3bn from the previous fiscal year-end to ¥10,726.1bn. Segment assets as of the end of FY3/23 increased ¥287.5bn from a year earlier to ¥9,632.9bn. Total equity rose ¥217.5bn from the previous fiscal year-end to ¥1,551.0bn. Interest-bearing debt (excluding lease obligations) rose ¥170.0bn from a year ago to ¥8,236.1bn. As a result, the equity ratio increased 1.6 points to 14.3%.

The Company has earned the industry's highest level of credit ratings from external agencies. (Its long-term issuer ratings as of the end of August 2023 were A3 from Moody's, A- from S&P, AA from Japan Credit Rating Agency, Ltd. (JCR) and AA- from Rating and Investment Information, Inc. (R&I).) As of the end of FY3/23, interest-bearing debt had increased in step with an increase in segment assets, which forms the Company's business foundation. However, FISCO believes that this is not a reason for concern, and that the Company has consistently maintained financial soundness.

Consolidated Balance Sheets

(¥mn)

	End of FY3/22	End of FY3/23	Change
Current assets	6,171,321	6,261,670	90,349
Cash and deposits	540,942	589,688	48,746
Non-current assets	4,152,758	4,459,922	307,164
Property, plant and equipment	3,357,208	3,628,907	271,699
Intangible assets	267,641	247,730	-19,911
Total assets	10,328,872	10,726,196	397,324
Segment assets	9,345,376	9,632,966	287,590
Current liabilities	3,235,343	3,512,353	277,010
Non-current liabilities	5,760,061	5,662,813	-97,248
Total liabilities	8,995,404	9,175,166	179,762
Interest-bearing debt	8,066,082	8,236,106	170,024
Total equity	1,333,467	1,551,029	217,562
Equity capital	1,309,769	1,528,773	219,004
Total liabilities and equity	10,328,872	10,726,196	397,324
<Management indicators>			
Equity ratio	12.7%	14.3%	1.6pt
ROE*	1.0%	1.1%	0.1pt
ROA*	8.0%	8.2%	0.2pt

* Based on net income attributable to owners of the parent
Sources: Prepared by FISCO based on the Company's financial highlights (report) and financial results briefing materials

Outlook

Forecasting profit increase in FY3/24

● Outlook for FY3/24 financial results

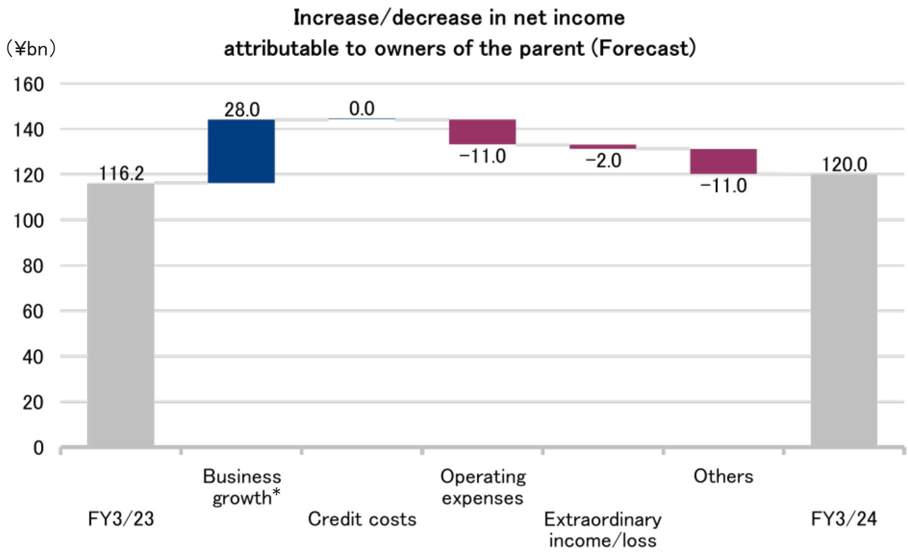
Regarding the outlook for consolidated financial results in FY3/24 (the Company only discloses its forecast of net income attributable to owners of the parent), the Company is forecasting net income attributable to owners of the parent of ¥120.0bn, an increase of 3.2% YoY. The assumed exchange rates are $1=¥130 and £1=¥160. It also expects ROA on a net income basis to remain unchanged at 1.1%, and ROE to decrease 0.4 of a point to 7.8%, considering the impact of exchange rates. The forecast analysis of major factors for changes in net income attributable to owners of the parent (an increase of ¥3.7bn) is as follows. The Company expects an increase of ¥28.0bn from business growth (growth in the Aviation segment against the backdrop of the recovery of passenger demand and other factors). Credit costs are forecast to remain mostly unchanged. A decrease of approximately ¥11.0bn is expected due to an increase in operating expenses (increases in investments toward "Our 10-year Vision" and in expenses associated with the promotion of business activities and other factors). The Company expects a decrease of ¥2.0 billion from extraordinary income and loss (posting of expenses associated with restructuring and redefining existing businesses and other factors). A decrease of ¥11.0bn is expected due to Others (an absence of reduction effect in tax expenses posted in FY3/23 and other factors). In addition, the tasks for the PMI process, which was planned at the beginning of the integration (simplify the organizational structure in the Company (MHC proper), integrate Group companies in the same business domain or sector, and other tasks) were completed by the end of March 2023 as scheduled. The Company had generated synergy of management resources of approximately ¥5.0bn by FY3/23 and expects to increase this amount to ¥10.0bn by FY3/24 as initially planned.

FY3/24 consolidated financial results outlook

(¥mn)

	FY3/23	FY3/24	YoY change	
			Amount	Rate
Net income attributable to owners of the parent	116,241	120,000	3,759	3.2%
ROA*	1.1%*	1.1%	-	-
ROE*	8.2%*	7.8%	-0.4pt	-

* Based on net income attributable to owners of the parent
Sources: Prepared by FISCO based on the Company's financial highlights (report) and financial results briefing materials



* Gross profit + Non-operating income/expenses (however, non-operating income/expenses do not include gains on bad debts recovered)
Source: Prepared by FISCO based on the Company's financial results briefing materials

Growth strategy

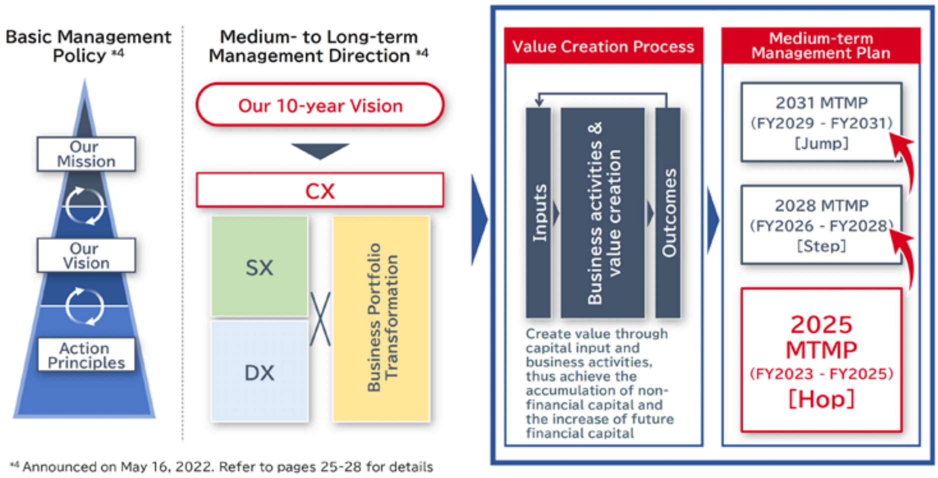
Announcement of Medium-term Management Plan 2025 MTMP in May 2023

1. 2025 MTMP: a plan toward "Our 10-year Vision"

The Company completed the two-year PMI process planned at the beginning of its merger in April 2021, as scheduled. In May 2023, the Company announced the Medium-term Management Plan for FY2023-FY2025 ("2025 MTMP").

In May 2022, the Company adopted "Our 10-year Vision," which states the following: "Together we innovate, challenge and explore the frontiers of the future." In order to achieve this vision, under the 2025 MTMP, the Company will proceed with the evolution and layering of business models by developing services and promoting business investment, utilizing tangible and intangible assets, such as data and other elements, to their fullest potential. Concurrently, the Company will aim to enhance its medium- to long-term corporate value by achieving an optimal balance sheet. It positioned the 2025 MTMP as the "hop" plan of its three medium-term management plans ("hop," "step," and "jump") toward "Our 10-year Vision." The Company will address the management plan with "sowing seeds" and "gaining a solid foothold" leading to a leap to the "step" and "jump" plans.

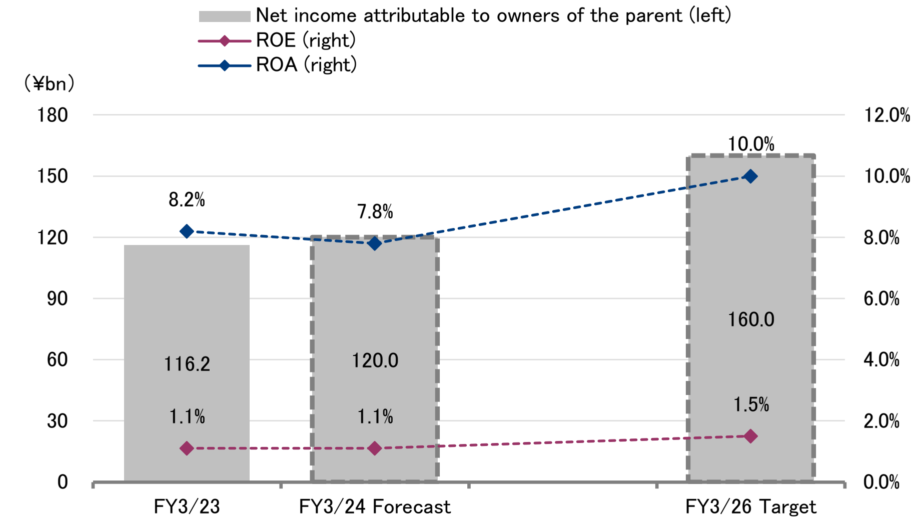
Positioning of the 2025 MTMP



Source: The Company's Medium-term Management Plan briefing materials

The Company has set the following financial targets for the 2025 MTMP. For FY3/26, the final year of the plan, the Company is targeting net income of ¥160.0bn (compound average growth rate (CAGR) of 11.2% versus FY3/23), ROA on a net income basis of approximately 1.5% (increase of approximately 0.4 of a point versus FY3/23) and ROE on the same basis of approximately 10.0% (increase of approximately 1.8 points versus FY3/23). During the 2025 MTMP period, the Company will target a payout ratio of 40% or higher and aim to maintain A ratings for financial soundness.

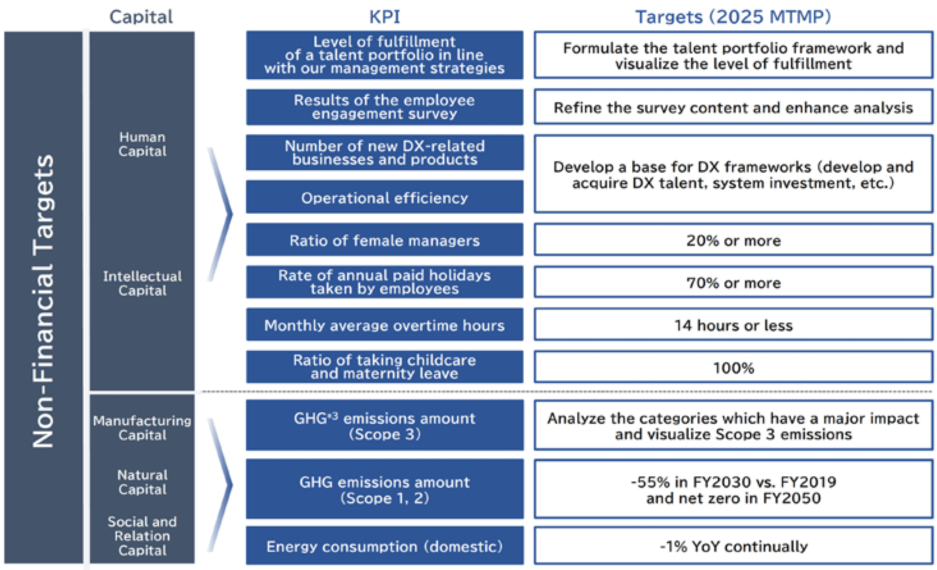
Financial targets of the Medium-term Management Plan



Source: Prepared by FISCO based on the Company's financial results briefing materials

In addition, the Company has set non-financial targets. In human capital- and intellectual capital-related areas, the Company has set targets such as increasing the ratio of female managers to 20% or more. In manufacturing capital, natural capital, and social capital-related areas, the Company has set targets such as reducing greenhouse gas (GHG) emissions (Scope 1, 2) by 55% in FY3/31 vs. FY3/20. Although certain KPIs are defined only as qualitative targets, the Company plans to move forward with designing various frameworks and implementing measures during the 2025 MTMP period.

Management plan (non-financial targets)

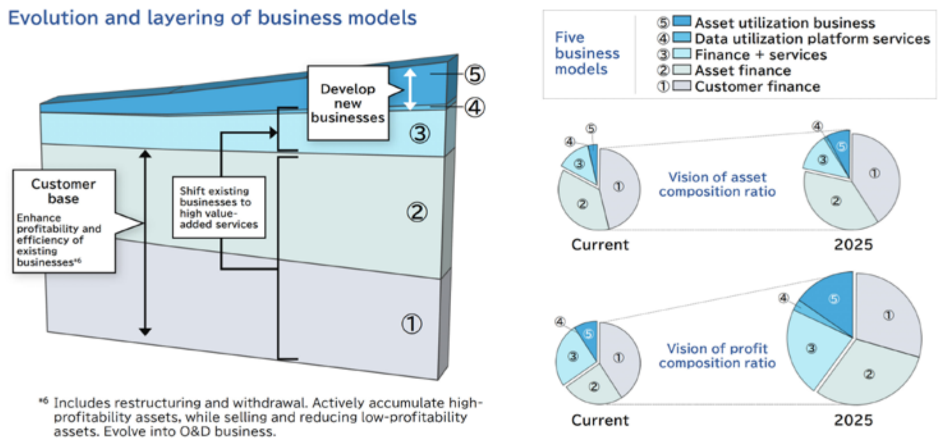


*3 GHG: Green House Gas

Source: The Company's Medium-term Management Plan briefing materials

The Company will advance a business strategy for the evolution and layering of business models. It will maintain and expand the solid customer base of its current mainstay businesses, (1) customer finance and (2) asset finance, without restricting itself to those businesses. Concurrently, the Company will shift these existing businesses to high value-added services that transcend the boundaries of conventional leasing business and financial services, specifically to (3) finance + services, which adds service revenue; (4) data utilization platform services, which utilize data; and (5) asset utilization business, which promotes business investment utilizing assets. The Company will push ahead with initiatives such as expanding its business domains and developing new businesses. Furthermore, the Company plans to develop businesses (3) to (5) into medium- and long-term growth drivers, thereby driving growth in net income without significantly increasing assets, with a view to improving ROA and ROE.

Vision of the evolution and layering of business models



Source: The Company's Medium-term Management Plan briefing materials

The Company's business strategies by segment are as follows. In Customer Solutions, the Company will achieve business portfolio transformation through the establishment of a solid customer base and the development of a new sales process by utilizing data and digital technologies, along with creating collaboration businesses. In Global Business, the Company will improve profitability through strategic allocation of management resources considering regional characteristics, and enhancing decarbonization businesses (such as EVs, charging stations, and solar power generation). In Aviation, the Company will recover profitability early on and develop a new business base by strengthening Group synergy, while firmly maintaining its competitive, industry-leading portfolio of aircraft and engine leasing businesses. In Logistics, the Company will contribute to solving social issues in the logistics field by further strengthening its business base and developing new businesses. In Environment & Energy, the Company will maintain its position as a leading renewable energy business operator in Japan and increase added value by expanding business domains, such as storage batteries and power generator aggregation. In Real Estate, the Company will contribute to building a sustainable social infrastructure through the creation of business opportunities by increasing capabilities to enhance value through investment and lending and strengthening development of eco- and society-friendly assets. In Mobility, the Company will strive to expand profits by developing and commercializing an integrated service that can extensively provide functions necessary for introducing and operating EVs (such as constructing charging facilities networks, reusing automotive batteries, and supplying renewable energies) in consideration of social decarbonization needs.

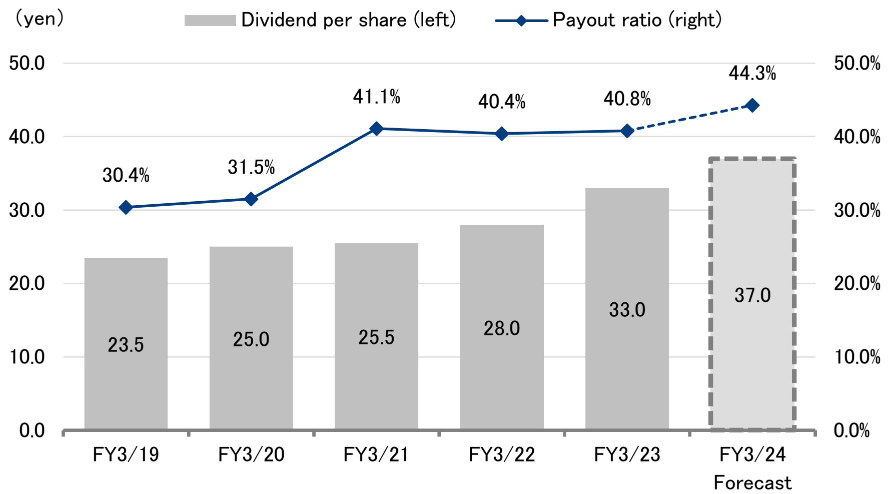
Furthermore, as its corporate functions strategies, the Company will implement major initiatives comprised of fostering and securing talent, bolstering the financial base and internal organizational base, strengthening the corporate governance framework, and enhancing stakeholder engagement.

Maintain a payout ratio of 40% or higher

2. Shareholder returns

The Company's basic policy is to return profits to shareholders through dividends. It seeks to sustainably increase profit, thereby increasing the total amount of dividend payments. Guided by this policy, the Company declared an annual dividend per share for FY3/23 of ¥33.0 (payout ratio of 40.8%). In addition, the payout ratio during the 2025 MTMP is targeted to be 40% or higher. Accordingly, the Company is forecasting an annual dividend per share for FY3/24 of ¥37.0, up ¥4 YoY. Assuming a dividend per share of ¥37 against net income of ¥120.0bn, the payout ratio is estimated to be 44.3%.

Dividend per share and payout ratio



Source: Prepared by FISCO based on the Company's financial results briefing materials

The Company is evaluated positively as a stable investment, with progress on its growth strategy to be monitored closely

3. FISCO's view

The Company's characteristics and strengths lie in its overwhelmingly strong customer base and financing capacity, and considering its shareholder return policy of a payout ratio of over 40%, we at FISCO believe that these factors alone allow us to evaluate the Company as a stable investment target. Additionally, the Company unveiled an ambitious target for net income of ¥160.0bn for FY3/26, the final year of the 2025 MTMP. This target would be difficult to achieve if the Company limited itself to conventional leasing and loan transactions. However, the Company is expected to meet this target by utilizing its solid customer base and business foundation through a shift to high-value-added services that transcend the boundaries of conventional leasing business and financial services via a transformation of its business model and business portfolio. As a result, FISCO believes that investor interest in the Company could increase even further and would like to closely monitor the Company's progress on its growth strategy in FY3/24, the first year of the 2025 MTMP.

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