

# **Investor Presentation**

October 2021

Hitachi Capital (UK) plc

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# **Robert Gordon, CEO HCUK:**

Robert joined HCUK in 2005 and was appointed as CEO in April 2015, having steered the group's direction for ten years as Group Finance Director and Chief Operating Officer.

He is also a Senior Corporate Officer for Mitsubishi HC Capital Japan, the parent company of Hitachi Capital (UK). An Economics graduate from Adelaide University and a qualified Chartered Accountant (Touche Ross).

Robert has over 30 years' of experience in financial services in diverse sectors from Treasury, Banking, and Mortgages to Aircraft finance.



# **Jeremy Johnson, Group Treasurer HCUK:**

Jeremy was appointed Group Treasurer at HCUK in November 2007, following a career in Treasury and Financial Control and management at Unilever and Nestle in the UK and the US.

Jeremy is an FCCA and has been a member of the Association of Corporate Treasurers since 1995.



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# 1. Company Overview

# 1. Overview: Hitachi Capital UK at a Glance



Hitachi Capital (UK) PLC ("HCUK") is one of the UK's leading financial services companies, providing innovative finance solutions to enable consumers and businesses to grow and prosper. We are a wholly-owned subsidiary of Mitsubishi HC Capital Inc., an affiliate of Mitsubishi UFJ Financial Group Inc., Mitsubishi Corp. (an industrial manufacturing conglomerate) and Hitachi Limited.

The Company is authorised and regulated by the Financial Conduct Authority ("FCA").

We operate through five business units and seek to establish a market leading proposition:



#### **Consumer Finance**

- The UK's leading retail point of sale finance providers
- Through more than 3,200 high street and online retail partners
- One of the top ten providers of unsecured personal loans in the UK
- With over 1.3m customers, we are a significant non-bank provider of credit



#### **Business Finance**

- No. 1 non-bank provider of asset finance in the UK. (No. 5 including the Banks)
- Focus on the small and medium sized enterprises that make up over 99% of the 5.9 million firms in the UK
- Helping customers grow by providing simple finance solutions to invest in critical business assets



#### **Vehicle Solutions**

- Hitachi Capital Vehicle Solutions ("HCVS") has more than 25 years' experience of providing bespoke
  vehicle funding and fleet management services for business car leasing, specialist commercial
  vehicles and personal contract hire
- Market leading EV proposition with 40% of the order book EV



#### **European Vendor Solutions**

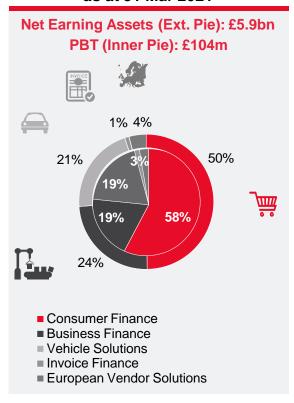
Set up as a separate unit in April 2018, Hitachi Capital European Vendor Solutions ("HCEVS")
arranges, provides and guarantees funding for a variety of Hitachi & Mitsubishi products and
services in markets throughout Europe



#### **Invoice Finance**

- Hitachi Capital Invoice Finance ("HCIF") provides cash flow solutions across a wide range of sectors to UK SMEs
- Top 10 supplier in the UK

# HCUK Assets Mix and PBT as at 31 Mar 2021

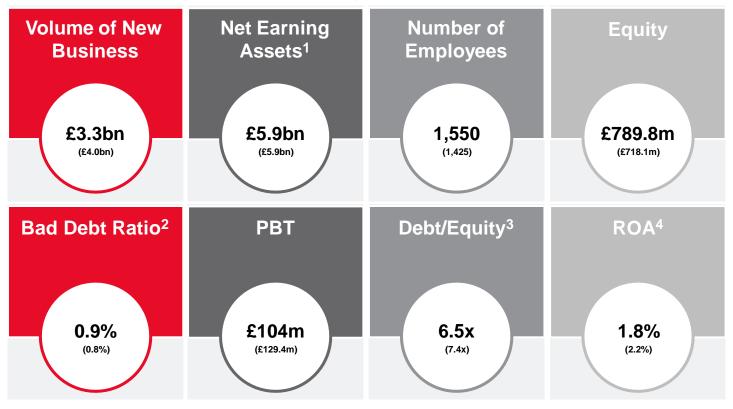


<sup>\*</sup> Does not include corporate contribution to profit

# 1. Overview: HCUK March 2021 Financial Summary



# ■ 12 months March 2021 (March 2020 prior year)



<sup>1</sup> Net Earning Assets = Loans and receivables + Operating leased assets

Source: HCUK 2021 Annual Report

Annual Report is available on the investor page of the website https://www.hitachicapital.co.uk/financial-performance/

<sup>2</sup> Bad debt provision / Net Earning Assets

<sup>3</sup> Debt to Equity is calculated on an unrevalued basis hence debt will equal approximately combination of the balance sheet value of debt, derivative assets and liabilities

<sup>4</sup> ROA is calculated based on pre-tax profit on Net Earning Assets

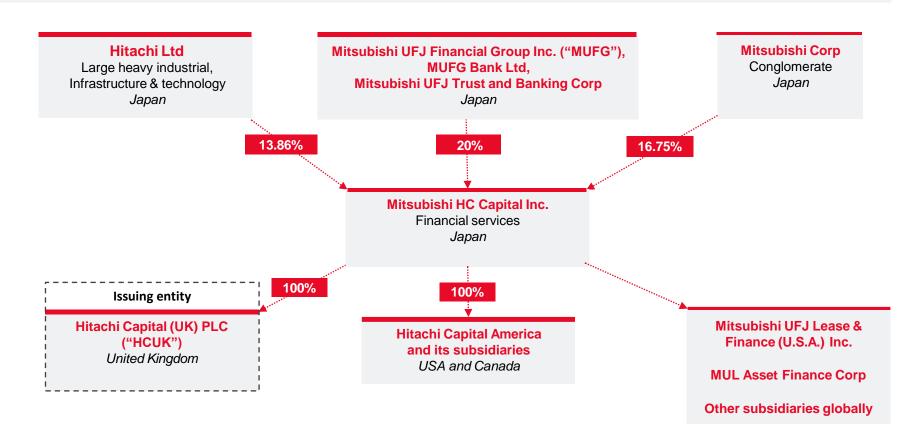
# 1. Overview: Merger of Mitsubishi UFJ Lease and Hitachi Capital Corp



# **Post merger Ownership Structure**

(percentage ownership figures rounded to 2 decimal places)

- S&P announced on 25 September 2020 indicative ratings confirming a rating of A- (stable outlook) in respect of the New Guarantor (Mitsubishi HC Capital Inc.) following the proposed Merger, which is consistent with the Guarantor's current rating.
- Post the merger announcement, on the 30th September 2020 Moody's affirmed its rating for Mitsubishi UFJ Lease & Finance Co Ltd at A3 with a stable outlook. This was the rating pre the merger announcement.



# 1. Overview: Change in trading style post merger



- In September 2021, HCUK announced a rebranding in both its corporate name and trading styles, following the merger of Mitsubishi UFJ Lease and Hitachi Capital Corp
  - New corporate name: Mitsubishi HC Capital UK PLC
  - Trading style for Consumer Finance, Business Finance, Vehicle Solutions,
     Invoice Finance: Novuna
  - Trading style for European Vendor Solutions: Mitsubishi HC Capital UK
- The rebrand is expected to be fully implemented by April next year

New **corporate name** and trading style for **European Vendor Solutions** 

Trading style for Consumer Finance,
Business Finance, Vehicle Solutions and
Invoice Finance





# 1. Overview: HCUK Key Credit Highlights



Strong Financial Performance	<u></u>	<ul> <li>Strong track record of asset growth and profitability</li> <li>Results and business model are not reliant upon one-off asset sales/trading</li> <li>Strategic focus on future growth</li> </ul>
Healthy Asset Portfolio		<ul> <li>Well diversified portfolio: <ul> <li>50% consumer / 50% business</li> <li>Policy of having no one exposure &gt; 2% assets</li> <li>Policy of top 10 customers &lt; 12% total assets</li> <li>Operating lease residuals &lt; total equity</li> </ul> </li> <li>Bad debt ratio of 0.9%</li> <li>Resilient under stressed scenarios</li> </ul>
Robust Funding Strategy		<ul> <li>Strong IG Rating of A-</li> <li>Diversified and flexible funding base</li> <li>Conservative asset and liability management</li> <li>Well capitalized with debt to equity in line with Hitachi Group's target</li> </ul>
Core Subsidiary with Parental Support		<ul> <li>Core subsidiary with significant EBITDA contribution and growing share of assets</li> <li>HCUK remains the sole UK entity post merger, continuing to be core to the group</li> </ul>
Philosophy & Sustainability		<ul> <li>Committed to achieve sustainable development goals</li> <li>Target of 20% of assets being directly connected to climate action and affordable clean energy</li> <li>Published an updated Green Financing Framework in 2021</li> </ul>

# 1. Overview: HCUK ESG Strategy



Our vision is to be the trusted brand of financial services in the UK and across Europe. We will realise our vision by supporting businesses that are making a sustainable difference in helping to achieve UN Sustainable Development Goals (SDGs). We have set an aspirational target of 20% of our assets being directly connected to climate action and affordable clean energy within the next five years. Our strategic focus is on sectors that have a positive impact on people and their lives including environment, energy, infrastructure and agriculture.



#### **Energy and Mobility**

- ✓ HCUK has formed a strategic partnership with GRIDSERVE to develop the infrastructure for large scale electric vehicle adoption
  - Purchased 19.63% of Gridserve's shares in Dec. 2020
- Developing the UK's most technically advanced hybrid solar farms and the creation of a new network of rapid charging Electric Forecourts® across the UK powered by renewable energy



#### Vehicle Electrification

✓ HCVS committed to electrify 100% of the 62,500+ funded car & small van (3.5t and under) and 50% of funded larger van fleet (vehicles over 3.5t) by 2030



#### **Agriculture**

- ✓ HC Business Finance provides funding for the agricultural sector which supports the reduction. of carbon emissions
  - During 2020/21, we provided more than £12 million of funding to farmers to invest in green energy projects such as biomass, solar panels, wind and irrigation systems



#### Infrastructure

- Hitachi Capital European Vendor Solutions is facilitating significant road and rail infrastructure projects by lending to customers in the construction sector
  - Our finance solutions have helped Hitachi Rail supply 122 Hitachi-made trains from 2017 to 2020

#### Commitment to UN SDGs

✓ The application of our core founding values at Hitachi Limited - namely, "Harmony", "Sincerity" and "Pioneering Spirit" helps us conduct business in a manner which places the United Nations (UN) Sustainable Development Goals (SDGs) at its heart







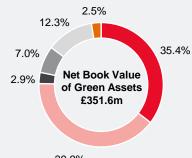








# Net BV of Green Assets as of 31 March 2021



- 39.9%
- Hybrid Vehicles
- Electric Vehicles
- Rail
- Energy Efficiency
- Green and Renewable Energy
- Recycling/Waste Equipment



# 1. Overview: Overview of HCUK Green Financing Framework



# **Framework Summary**

- In line with our ambition of providing low-carbon mobility solutions, HCUK has established this Green Financing Framework under which it intends to raise Green Financing Instruments within the Eligible Categories of Clean Transportation and Renewable Energy.
- The 'HCUK Green Financing Framework' has been developed in accordance with the Green Bond Principles (2021) as published by the International Capital Market Association (ICMA).
- Sustainalytics has provided a Second Party Opinion (SPO).









GBP / GLP Eligible Category	Eligible Green Projects	HCUK's goals	UN SDGs	EU Taxonomy alignment
Clean Transportation	Battery Electric Vehicles (provision of leases) Hybrid Vehicles (<50g CO2/km)	Target 100% of car & small van (3.5t and under fleet by 2030)  50% of funded larger van fleet (vehicles over 3.5t) by 2030	11 SUSTAINABLE CITIES AND COMMUNITIES	Climate Change Mitigation: Increasing clean or climate neutral mobility (1.c)  6.5 Passenger cars and commercial vehicles
Renewable Energy, Clean Transportation	Hybrid Solar Farms  Electric vehicle charging points, in particular the Electric Forecourts®	Rollout 100+ Electric Forecourts® across the UK by 2025, as part of GRIDSERVE partnership  Investing in the Electric Highway charging infrastructure	7 AFFORDABLE AND CLEAN ENERGY	Climate Change Mitigation: generating, transmitting, storing, distributing or using renewable energy (1.a)  4.1 Production of Electricity from Solar PV

# Governance: Project Evaluation & Selection and Management of Proceeds

- The net proceeds will be managed on a portfolio basis at HCUK Treasury, the centralised funding centre of HCUK.
- Oversight of the "Management of Proceeds" will be provided by HCUK's Treasury team. The allocated and unallocated proceeds of any Green Finance Instrument will be reported to HCUK's CSR Committee (£, %).
- On a best effort basis, an amount equal to the net proceeds raised will be allocated within 24 months.

# Reporting

- HCUK intends to provide an annual update throughout the life of the HCUK Green Finance Instruments.
- It is expected that information on the "Allocation of Proceeds" and "Impact Reporting" will be made available in such annual update.
- Impact metrics include amount financed in eligible categories, CO2 emissions saved and Solar Energy supplied.



# 2. Business Units

# 2. Business Units - Overview: Consumer Finance



Key businesses	Retail Point of Sale finance (RPoS) Personal loans (Hitachi Personal Finance Brands)
Competition	Laser, (BnP), V12 (Secure Trust Bank), Barclays, Klarna, PayPal, Shawbrook, Ikano, Omni, Newday
Format	Unsecured Personal Loans
Key retailers/partners	DFS, B&Q, Furniture Village, Carpetright, Money Supermarket
Contracts	Retail Point of Sale Customers: 3-5 years (typical life) Contracts with large retailers are 2-3 years Personal Loans: 2-5 years (typical life)
Active customers	Over 1.3 million (March 2021)

- We provide a national coverage of consumer finance products through well known high street retail outlets and via an online application process.
- Our brand recognition continues to build and we have diversified from \*RPoS by offering personal loans and motor finance to UK consumers.













"Responding in a Crisis – Supporting Colleagues"

% (net earning assets)	0.80%	0.80%	1.04%
Bad Debts	24,078	25,700	30,700
Net Earning Assets	3,221,100	3,343,000	2,950,000
RoA	2.5%	2.3%	2%
Operating profit	79,700	76,000	60,200
Revenue	185,500	205,800	191,800
Figures in (£'000s)	2018/19	2019/20	2020/21

Source: HCUK Annual Financial Statements

 New business declined by 34% YoY with falling demand for personal loans and discontinuation of the non profitable motor finance personal loan.

#### **Market Shares:**

Retail Instalment Credit 15%; Barclays 15%, BNP 15%, V12 8% Personal Loans 2%, supermarkets 10%, High street Banks 60%

- √ 90% of applications receive an automated decision.
- √ 63% of applications are accepted.
- √ 69% of new business is sourced from retail point of sale

HCCF is careful in its selection of both its retail partners and consumers to maintain a consistent balanced portfolio, and constantly monitors sector concentrations, and consumer demographics and performance.

\* RPoS = Retailer Point of Sale

Source: FLA, Mintel

# 2. Business Units - Overview: Business Finance



Key customers	SMEs & Agriculture: Pendragon PLC, GRIDSERVE, Royal and Devon NHS, Star Asset finance, Shire Leasing
Key competitors	Aldermore Bank, Lloyds, Investec, United Trust Bank, funding Circle, Soc Gen, BNP, DLL, DF Capital
Key businesses	Asset secured lending
Format	Hire Purchase Leasing
Tenor	Typically 4 to 5 years Block Discounting: Typically 3 years Stock Finance: Less than 6 months
Routes to market	<ul> <li>Broker (includes Commercial &amp; Farm)</li> <li>Vendor (includes Stock Finance &amp; Retail Vendor)</li> <li>Direct (includes Gridserve &amp; Block Discounting)</li> </ul>

- HCBF focuses on the small and medium sized enterprises that make up over 99% of the 5.9m firms in the UK helping them grow by providing simple finance solutions for assets they need. (3.6m firms have no employees; Approximately 1/3 of firms use asset finance £100bn market size)
- HCBF delivered market beating performance last year with new business volumes increasing 6% despite the 20% decline in the overall market as published by the FLA. For the 12 months to Mar-21, HCBF's market share grew to 2.6% versus 2.0% for the same period last year.

Source: HCUK Annual Financial Statements

- All of the business is in the UK and denominated in GBP.
- The sustainable energy group is in BF financing solar farms, EV charging and the Electric Forecourt













Best service from an asset based finance provider & Best motor finance provider

Figures in (£'000s) 2019/20 2020/21 2018/19 Revenue 71.400 81.100 80.500 Operating profit 21,500 24,600 20,100 RoA 1.9% 1.8% 1.4% **Net Earning Assets** 1,197,800 1,283,000 1,427,500 **Bad Debts** 500 3,800 8,400 % (net earning assets) 0.30% 0.59% 0.04%

<sup>\*</sup>Internal Finance & Leasing Association (FLA) market share analysis

<sup>\*</sup> FLA= Finance and lease association

# 2. Business Units - Vehicle Solutions Overview



Total fleet	Over 81,000 including managed vehicles
Key products	Long-term contract hire of vehicles to corporates including maintenance & breakdown Fleet management (without ownership) Contract Hire – Broker introduced (40% of volume – mainly PCH)
Format	Vehicles owned by HCUK, rented to customers
Key customers	Mainly 'Blue-chip': Centrica, Amey, Asda, Network Rail, Ocado, RAC, G4S, Environmental Agency, Sainsbury's, KPMG etc. SME: Individuals or small companies leasing 1 or 2 cars
Vehicle types	Mainly passenger car, but also specialist: LCVs (Light Commercial Vehicles), HGVs (Heavy Good Vehicles), Plant and Machinery
Contracts	Typically 3-4 years for cars Typically longer (up to 7 years) for specialist

# Top 10 UK fleet and car leasing firms

Pos.	prev.	Company	Fleet Size	Fleet prev. yr
1	1	Lex Autolease	324374	358838
2	2	Volkswagen Financial Services Fleet	187399	195503
3	4	Arval UK	177441	167505
4	3	LeasePlan UK	177316	174663
5	5	ALD Automotive Limited	145354	145133
6	6	Alphabet (GB) Limited	130083	138608
7	7	Hitachi Capital Vehicle Solutions	69614	64811
8	9	Free2Move Lease	61610	58869
9	8	Zenith	53934	54547
10	10	Arnold Clark Finance Limited	49369	53290

Source: Fleet News. Information correct as in July, 2021

Figures in (£'000s)	2018/19	2019/20	2020/21
Revenue	436,600	405,300	452,200
Operating profit	24,800	25,700	19,700
RoA	3.0%	2.6%	1.6%
Net Earning Assets	827,700	999,200	1,243,400
Bad Debts	900	700	2,200
% (net earning assets)	0.11%	0.07%	0.18%

Source: HCUK Annual Financial Statements







Winner - Leasing company of the year Winning 3 years running

# 2. Business Units - European Vendor Solutions Overview



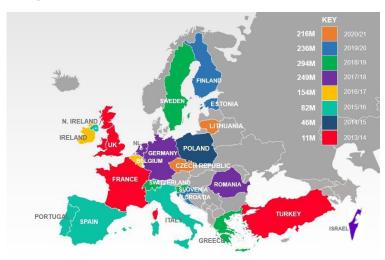
Countries	22 countries (see below)	
Direct	UK, Netherlands, Republic of Ireland, Belgium, Finland	
Indirect Partners	BNP, CaixaBank, Erste Bank	
Products	End user finance Extended Terms Finance Supplier Finance Dealer Direct Finance	
OEM	Hitachi Ltd, Tadano, Logisnext – Mitsubishi Forklifts, Bell, Bauer	
Dealers	ENKA, Rotator, Probst Maveg, TBF, DEM Group, SCAI	
Competition	DLL, Rabobank Local and Global Banks	
Sectors	Transport – Rail, Healthcare, Construction Manufacturing, Mining, Energy Efficiency, Energy Distribution	

- EVS continues to deepen its relationship with Mitsubishi and Hitachi companies, MUFG and other Japanese key accounts across Europe – we aspire to be their principal partner, structuring and leading financial solutions for their European entities and distribution channel
- EVS provides solutions at every stage of the equipment sales cycle (i.e. funding to distribution network, to end user customer for new and used equipment)
- EVS provides finance solutions in 22 countries such as: Germany, Italy, France, Portugal, Spain and Turkey
- Key milestones of EVS are below:
  - o Formally established as fifth HCUK Business Unit in April 2018
  - Established its European hub Hitachi Capital European Vendor Solutions
     B.V. in the Netherlands and a branch in Republic of Ireland in April 2019
  - Established a branch in Finland and cross-border business capability in Belgium in March 2021

Figures in (£'000s)	2018/19	2019/20	2020/21
Revenue	9,400	10,700	11,800
Operating profit	1,900	2,600	2,800
RoA	0.9%	1.1%	1.1%
Net Earning Assets	251,600	236,700	243,500
Bad Debts	800	400	400
% (net earning assets)	0.32%	0.17%	0.25%

Source: HCUK Annual Financial Statements

## **Programme Volume Growth**



# 2. Business Units - Overview: Invoice Finance



Key businesses	Invoice factoring Confidential invoice discounting Payroll finance		
Competition	Lloyds, Bibby, Close Brothers, Skipton, Advantage, High Street Bank Facilities		
Product	Secured on receivables: Factoring & Discounting: financing provided for up to 85% of invoice value  Payroll: financing provided for up to 90% of value		
Sectors	Transport Recruitment Manufacturing Start-ups Construction		
Contracts	Typically Less than 1 year		

•	FLi digital	onboarding platform,	fastest deal	completed in	17½ hours
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- 94% reduction in time taken to pay-out
- · Portfolio migrated on to new Aquarius platform
- New customer proposition with reorganised sales team focusing on valueadded offering of core, growth and corporate levels of service
- Business hit by Government Bounce Back Loan 0%
- Factoring will recover after Covid as a variable receivables finance will be back in demand as it is a product designed for growth of SMEs

(£'000, FYE 31 March)	2018/19	2019/20	2020/21
Revenue	10,800	12,600	10,200
Operating profit	(1,000)	(700)	(1,500)
RoA	-0.61%	-0.93%	-2.45%
Net Earning Assets	71,100	74,900	61,100
Bad Debts	318	323	200
% (Net Earning Assets)	0.45%	0.43%	0.33%

Source: HCUK Annual Financial Statements





Best Factoring & Invoice Discounting Provider



Best service from an invoice finance provider & Best Factoring & Invoice Discounting provider Winning 3 years running



# 3. Strategic Overview

# 3. Strategic Overview: Our Mission



#### **Our Mission:**

Exceptional people providing outstanding customer experiences today

The mission of the company suggests that we are more than just finance providers. We focus upon underserved sectors of the market where the service is not only valued but required by customers.

We enter markets where we can add value and adopted the concept of "affordability" before being regulated by the FCA.

That service may be the speed of service for small unsecured loans to managing the third largest maintenance fleet of vehicles in the UK.

We are dependent upon IT solutions to continually improving our business in terms of efficiency and information but also to deliver customer solutions, which continually reduce friction.

# 3. Strategic Overview: Development of the Business





# Continue with the Digitisation programme across all UK business divisions:

- · Enhances customer journey and essential during lockdown
- Fraud detection and consistent credit decisions
- · Efficiently providing financial solutions



# Continue with the diversification of the HCUK funding base to European Investors:

 We issued our first Green Bond in March 2021 and plan to continue issuing under the Green Financing Framework as direct evidence of our aspirational commitment to have 20% of our assets being directly connected to climate action and affordable clean energy by March 2025



# Continue to expand the European operation to develop a pan European offering for global customers:

- HCUK has a dedicated European Vendor Business to support Hitachi Ltd and Mitsubishi companies and customers
- HCUK is the core European subsidiary for the Mitsubishi HC Capital Inc. group and is central to the strategy in the region



Continue to develop the "Integrated Regional Solution" for customers with the ability to offer Asset Finance, Mobility, Consumer products to our customer base

# 3. Strategic Overview: Highlights



# COVID-19:

- Successfully migrated to home working for all employees and maintained a high level of engagement across the team
- The credit impact has been mitigated due to the average age of our unsecured finance customer being 46, meaning that they generally have greater cash reserves to weather a period of unemployment or lower income
- Scarcity of resources and depletion of stock levels created supply chain issues and inflationary environment in 2021
- · The economic recovery is subject to ongoing uncertainty

#### **Europe:**

- Predominantly UK based with a newly established Netherlands subsidiary facilitates a branch network in Europe
- This was implemented to protect our existing cross border business and accommodate our plans to grow
- Supply chain issues have been disguised by the pandemic and may impede the recovery

#### **Motor Vehicles:**

- · Tax changes, fuel sources and uncertainty affects car ownership
- Hitachi is developing new fleet finance products, specialising in commercial fleets and investing in new technologies with the aim to provide mobility solutions and address environmental concerns.
- Supply chain issues are limiting the stock of new vehicles and we are enjoying very strong 2nd hand car market

#### **Unsecured Consumer Finance:**

- The propensity to save has increased during 2020/21 and, unlike PoS, the demand for unsecured loans has fallen substantially
- No expansion in credit appetite, but a contraction that has enabled us to move to our desired balance of 50:50 Consumer:

# 3. Strategic Overview: Highlights (cont.)



#### Routes to market:

- We will continue to develop our e-commerce offering as direct/digital channels become more important to transacting in the corporate world
- As the Banks recover, their appetite for growth recovers and the increase in competition for a lower volume of deals drives down pricing as service is not an area where banks compete well
- · Our digital offering needs to be market leading to produce low cost, but well supported by strong personal customer service

# **Information Security and Fraud Risk:**

- The digital age and emergence of new banks with significantly lower levels of internal control has significantly increased the risk of fraud
- Significant investment in information security, prevention and detection and we are continually developing fraud detection applications to ensure we have actual verified evidence that we are dealing with the actual applicant, their bank accounts are verified and it is an actual transaction
- More basic information security software has been successfully implemented to scan our estate to ensure we have the latest software patches to minimise risks

#### Withdrawal of Government Support and Subsidies:

- · HCUK did not utilise furlough programmes or any other form of Government support during the pandemic
- We did provide CBILS loans to customers, which gave them Government support, but we did not participate in the Bounce Back Loan Scheme as we accessed it was to open to fraud
- Obviously these schemes have reduced company failures and unemployment during this period; so we expect as they are withdrawn in September 2021 we will see a rise in company failures and unemployment. An economic recovery is never smooth

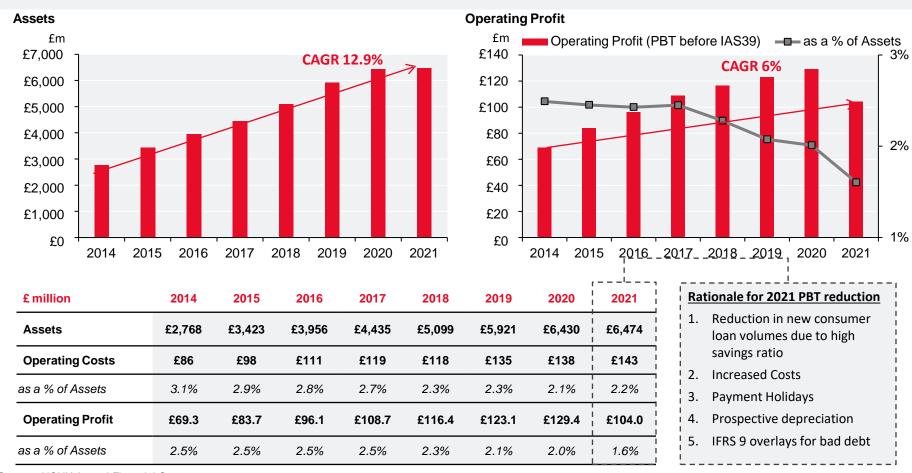


# 4. Financial Performance

# 4. Financial Performance: Continued Assets and PBT Growth



Continued 2012-2020 assets and operating profit CAGR of 12.9% and 6% respectively, reaching £6.47bn and £104m as of year ending 31 March 2021.



Source: HCUK Annual Financial Statements
Results are available on the investor page of the website
https://www.hitachicapital.co.uk/financial-performance/

# 4. Financial Performance: UK Economy Impact on HCUK



There is a strong emergence of a two tier economy in the UK. Business and services which have been able and are willing to adapt to the changes in the environment are emerging stronger

Business volumes in April 2020 for HCUK dipped relative to budget before finishing the year comfortably ahead of budget

#### Characteristics for finance company survival and success in 2020

- Customer service levels maintained
- Strong online delivery
- Focus upon essential business assets
- Focus upon EV and charging infrastructure

- · Focus upon essential services related to food, essential transport and energy
- Focus upon essential construction and home improvements
- Sustainable energy

#### Sectors of the economy which have had a significant negative impact:

- Travel and entertainment industry minimal exposure for HCUK New car sales 29% decline
- Unsecured consumer lending significant downturn in demand
- Small business loans receivables finance not attractive compared to 0% bounce back loan
- Retailers with no online presence

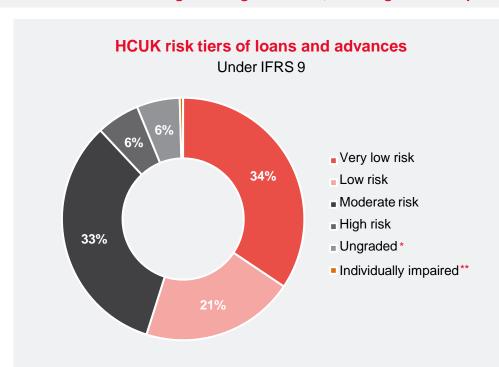
HCUK has focussed upon providing a trusted high level of service to customers and extensive IT investment for many years to provide a strong online presence. With a strong focus in essential business assets, agriculture, food delivery, supermarkets and home improvements, we were well placed in to perform well in the two tier economy. The development of our EV offer, charging and sustainable energy business was also well timed. The decline has been limited to volumes of consumer lending and receivables financing, where demand fell significantly

Source: Society of Motor Manufacturers and Traders

# 4. Financial Performance: Lending Standards Remain High

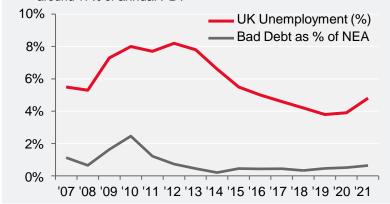


#### HCUK has maintained high lending standards, ensuring a low risk portfolio that is resilient under stressed scenarios



- \*Ungraded have not been specifically rated by the business for various reasons such as a lack of relevant or comparable information or the fact that they are short term in nature and are perceived to be low in inherent risk
- \*\*Individually impaired where regular re-scoring or other review of the obligor has detected an apparent increase in the risk of default when compared to the basis on which the extension of credit was originally underwritten

- Low risk end of spectrum with 1% loss (as a percentage of assets) unlike credit cards and payday lenders
- Diversified risk not just the consumer but also SME and vehicle leasing which are secured on diverse and business critical assets
- Bad debt would have to increase by over 3 times its current level on the existing portfolio before it wipes out profit (even if it assumed that there is no dynamic re-pricing of new business volume)
- An extreme market scenario fall in second hand value of vehicles would create an estimated loss of £22.5 million – equivalent to around 17% of annual PBT

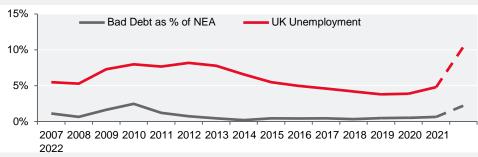


# 4. HCUK Stress Testing: Bad Debt



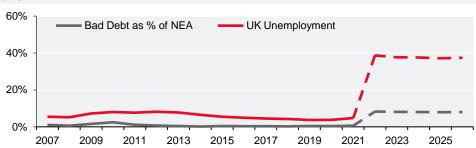
#### Scenario 1: Bad Debt to Remove Profit

• UK Unemployment to rise to **c.10.5%** (8.5% post Financial Crisis Peak, Unemployment is currently 4.8%), Bad Debt would have to rise over 3 times the current level.



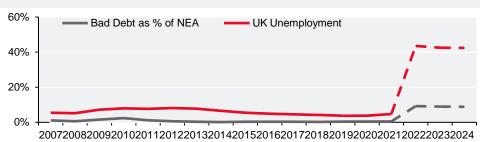
## Scenario 2: Bad Debt Required to Remove Equity within 5 years

 UK Unemployment to rise to c.39% (8.5% post Financial Crisis Peak, Unemployment is currently 4.8%), Bad Debt would have to rise to c.13 times current level.



#### Scenario 3: Bad Debt Required to Remove Equity within 3 years

UK Unemployment to rise to c.44% (8.5% post Financial Crisis Peak, Unemployment is currently 4.8%). Bad Debt would have to rise to over 14 times the current level.



### n.b. The Bank of England's Stress Testing assumes an unemployment rate of just under 12%



# 5. HCUK Funding

# 5. HCUK Funding: Diversified & Flexible Funding Base

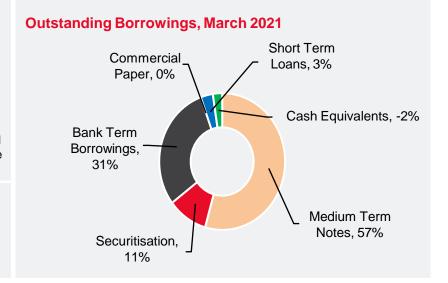


#### **HCUK** seeks to target the following in its funding strategy:

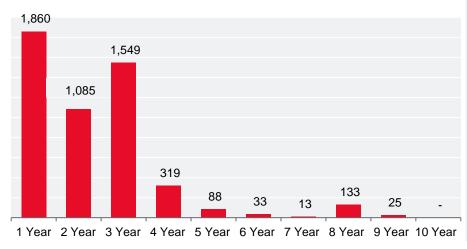
- Maintaining a diversified funding base
- Managing the term of debt to match earning assets
- Spreading maturities to minimise roll over risk
- Hedging any foreign currency debt to match earning assets
- · Seeking low cost funding
- S&P have assigned a credit rating to Hitachi Capital (UK) PLC of A- (negative outlook) Long Term and A-2 Short Term. This is in line with the rating assigned to Mitsubishi HC Capital Inc and reflects that Hitachi Capital (UK) PLC is a core part of the Mitsubishi HC Capital Inc group.

#### **FX and Interest Risk Treasury Policy:**

- HCUK has a target interest rate hedge ratio of 60-100%
- HCUK hedge all material FX risk, which arises from foreign denominated agreements/debt



# **Borrowings Maturities Profile, March 2021**



# **HCUK Credit Rating**

Agency

Ratings

Rating

A-, negative

S&P Global

#### Rating rationale

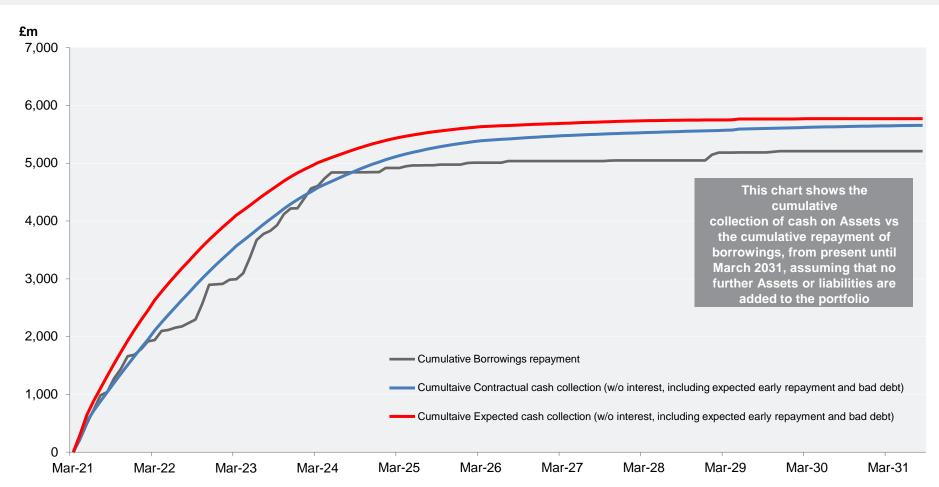
- "The ratings reflect our view that HCUK remains a core subsidiary of Mitsubishi HC Capital Inc."
- "HCUK is the U.K. entity of MHCC and plays a key role in the latter's stable domestic franchise and expanding overseas business"
- "Capitalization is a credit strength, with our calculation HCUK's risk adjusted capital (RAC) ratio was 9.9% on March 31, 2020."

S&P Research Update, 7 April 2021

# 5. HCUK Funding: Conservative ALM



#### **Cumulative Cash Collection vs Liability repayment (March 2021)**



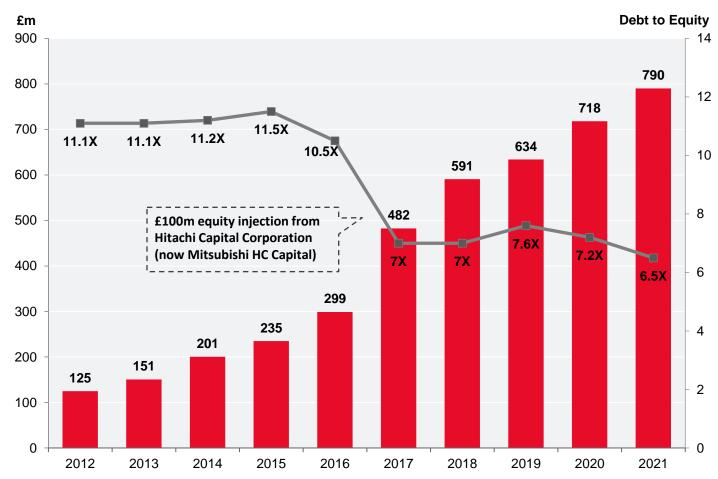
Source: HCUK Financial Statements (Period ending 31 March)

# 5. HCUK Funding: Well Capitalised



## **Total Shareholders' Equity Reaching Record High in 2021**

- Hitachi Capital Corporation (now Mitsubishi HC Capital) demonstrated their continued commitment to Hitachi Capital (UK) PLC in December 2016 by increasing HCUK's equity by £100m
- The Debt to Equity multiple is in line with the rest of the group
- Dividends will be paid and capital will be injected from the parent to target a Debt to Equity to maintain a consistent level of debt to equity across the Mitsubishi HC Capital Group



Source: HCUK Financial Statements (Period ending 31 March)



# **Appendices**



# Appendix: Risk Management Framework

# A. Board of Directors



#### **Board of Directors**

#### **Guy Munnoch**

#### Chairman

Over 20 years' experience, including being the CEO of Zurich Financial Services.



#### **Robert Gordon**

#### **CEO**

Over 30 years' experience in Treasury, Banking, Mortgages and Aircraft finance.



#### **Alan Hughes**

#### **Deputy Chairman**

Over 35 years' experience at HSBC Bank PLC, including being the CEO of First Direct Bank.



#### **Anne Whitaker**

#### **Chair of the Audit Committee**

Over 30 years' experience at Ernst & Young, and was UK Head of Audit, UK and Financial Services Practice for four years.



#### Hiroyuki Fukuro

#### **Non-Executive Director**

Over 35 years' experience in banking, including Mitsubishi UFJ Trust and as president of Hitachi Capital Trust



# A. Risk Management Framework



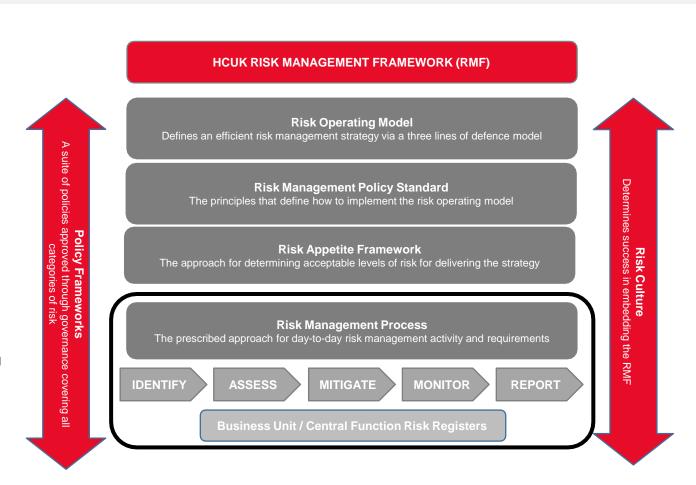
# HCUK operates a three lines of defence enterprise wide risk management framework typical of UK financial services firms

1st Line - All revenue generating business and support functions have 1st Line responsibility for managing risks and controls within their areas of responsibility.

**2nd Line** - Risk & Compliance team led by the Chief Risk Officer provides oversight and advice and maintains the enterprise wide risk management and policy frameworks.

**3<sup>rd</sup> Line** – An independent Internal Audit function provides independent assurance reporting to the Chair of the Board's Audit & Risk Committee (ARC).

- The risk management framework addresses all categories of risk (strategic, conduct, operational and financial).
- The 2<sup>nd</sup> line of defence overseeing a risk and control assurance programme aligned to J-SOX requirements.
- The annual 2<sup>nd</sup> Line Risk Oversight and Compliance Monitoring Plan and Internal Audit Plan are reviewed and approved at ARC which also monitors progress and findings throughout the year.
- Key risk and control matters are reviewed and discussed at the Executive Risk Committee and ARC with any significant matters further discussed at the main Board meeting.





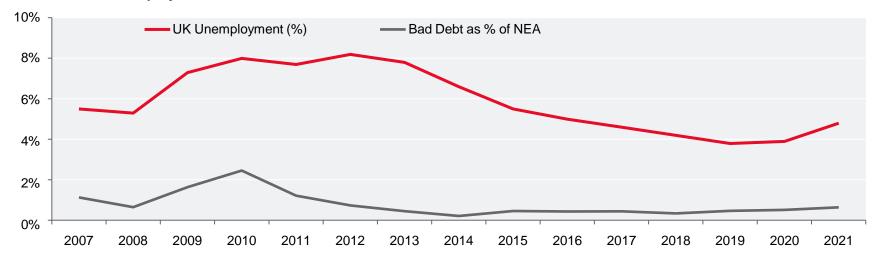
# Appendix: Additional Financial Information

# A. HCUK Stress Testing: Bad Debt



- HCUK has undertaken stress testing to see how much the UK economy would have to deteriorate before it became an issue for HCUK's debt holders
- First, we tested the level of bad debts required to wipe out all of our profits earned in the FY20/21
- Second, we tested the level of bad debts that would be required to eradicate our equity over the next 5 and 3 years (based on equity being allocated to each year in line with note 15 of the financial statements)
- Based on these bad debt levels we then considered what level of unemployment would lead to these levels of bad debt assuming the average multiple of the most adverse 3 years (2009, 2010, 2011) following the Global Financial Crisis (4.66x) i.e. when HCUK bad debts rise by the highest amount per change in unemployment

#### **Bad Debts v UK Unemployment**





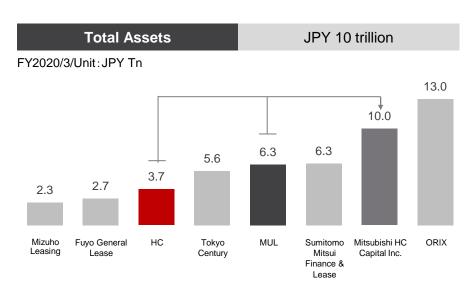
# Appendix: Additional Information on the Merger Between and HC

# A. Overview: Merger of Mitsubishi UFJ Lease and Hitachi Capital Corp



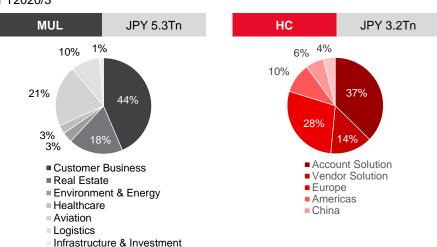
- On 24th September 2020, Mitsubishi UFJ Lease & Finance Company Limited ("MUL") and Hitachi Capital Corporation ("HC") announced that the two companies resolved, at the respective board of directors meetings of the two companies, on their business integration (the "Business Integration") through a merger (the "Merger") and concluded the business integration agreement and the merger agreement, as indicated below.
- As a result of the Business Integration, the two companies became a global player in the sector in terms of size and business lines by being able to complement each other's business domains and strengthen their respective management bases.
- Upon the Business Integration, a new integrated company ("Mitsubishi HC Capital Inc.") will aim to create sustainable social value by
  operating an advanced asset business beyond the leasing business framework and providing customers with new value in countries
  and regions across the world.
- The Business Integration became effective on April 1, 2021 (the "Effective Date"), upon the approval granted at each of the extraordinary meetings of shareholders of the two companies held in late February, 2021. The implementation of the Business Integration is premised on the receipt of necessary authorizations and approvals from relevant domestic and overseas authorities, as well as other approvals necessary for its implementation.
- Prior to the Effective Date (April 1, 2021), the common stock of HC was delisted as of March 30, 2021 from the Tokyo Stock Exchange, Inc. (the "Tokyo Stock Exchange").
- The full notice of the Merger can be found on the Mitsubishi HC Capital website<sup>1</sup>: https://www.mitsubishi-hc-capital.com/english/mul/investors/index.html

# A. Overview: Merger of Mitsubishi UFJ Lease and Hitachi Capital Corp



# **Balance of Assets\* by Segment**

FY2020/3



# **Credit Ratings**

As of March 31, 2020

MUL						
Rating agencies	Long- term	Short- term				
S&P	A-	A-2				
Moody's	А3	-				
JCR*	AA	J-1+				
R&I*	A+	a-1				

	HC	
Rating agencies	Long-term	Short-term
S&P	A-	A-2
Moody's	-	Prime-2
JCR*	AA-	J-1+
R&I*	A+	a-1

**Net Income** JPY 100 billion over FY2020/3/Unit: JPY100MM 3.027 1,014 708 612 563 307 261 175 Sumitomo Mizuho Fuyo General Tokyo MUL Mitsubishi HC ORIX Century Mitsui Capital Inc. Leasing Lease Finance & Lease

<sup>\*</sup> Business assets for MUL, operating assets for HC

<sup>\*</sup> JCR: Japan Credit Rating Agency, R&I: Rating and Investment Information

# A. Merger - Purpose of the Business Integration



- Under a unified vision and philosophy, the two companies developing the business as an integrated entity, it will achieve (i) to complement each other's business domains, (ii) to strengthen their management bases, and (iii) to create new value based on (i) and (ii)
- In addition to establishing a solid and stable revenue structure that will be less susceptible to the external environment, we aim to increase profitability via expanded investment activities utilizing enhanced capabilities
- Aim to build a stronger management bases which the source of competitiveness, and offer new value that goes beyond the framework of traditional leasing companies



# (i) Complementing Each Other's Business Domains

- Diversify the portfolios in terms of both business domains and geographical areas
- Establish a solid and stable revenue structure
- Expand investment activities utilizing enhanced capabilities



# (ii) Strengthening the Management Base

- Bring together resources and expertise of the two companies
  - Utilization and enhancement of human resources
  - Utilization of partner networks
  - Reinforcement of financial bases
  - Advancement of risk management
  - Promotion of Digitalization



# (iii) Creating New Value

- Offer new value beyond the framework of traditional leasing companies
- ✓ Transform into one of the largest players in the leasing sector, and contribute to customers and communities across the world, by utilizing its expanding scale and builtup capital
- Develop into a company that can provide solutions to modern social issues

# A. Purposes of the Business Integration:

# **Complementing Each Other's Business Domains**

Mitsubishi UFJ Lease & Finance (MUL)



- The strength of MUL is various asset businesses, such as real-estate and global assets in addition to corporate finance
- The strength of HC is sales finance and overseas local businesses, such as Hitachi Business and consumer finance
- The strength of the two companies' businesses in social infrastructure, environment & energy, and mobility place them in an ideal and mutually complementary relationship
- The Mitsubishi HC Capital Inc. will establish an extensive and comprehensive lineup of businesses and reinforce and expand the businesses in which both companies have strength

Cha		Corporate Finance							<b>—</b>	Sales Finance								
ract		Strengths in Japan							Strengths in Europe									
Characteristics of companies		Real-estate Business (Securitization, Real-estate investment)				nt)	Hitachi business (Important finance partner)											
s of the		Global Assets (Aviation, Railcar and sea container leasing)						,			Oversea onsume							
ne two	Common focus Priority areas	Social Infrastructure, Environment & Energy, Mobility etc.																
Bus		Corporate	Overseas	Sales F	inance	Health	-	nment & ergy	Overseas	ı	Real-estate	;		G	lobal Ass	et	Corporate	
Busine comp		Corporate Finance	Overseas Local Business			Health Care	Ene Solar-	ergy Wind-	Overseas Infrastructu re				Mobility	G	lobal Ass Railcar	et Container	Corporate Investmen t	вро
Business compar			Local	Sales F	Finance Vendor		Ene	ergy	Infrastructu	Leases		Investment	Mobility					вро
_	Mitsubishi HC Capital Inc.		Local				Ene Solar-	ergy Wind-	Infrastructu				Mobility					ВРО
_	Mitsubishi HC Capital	Finance	Local Business	Supplier	Vendor	Care	Solar- power	Wind- power	Infrastructu re	Leases	Finance	Investment		Aviation	Railcar	Container	Investmen t	
$\rightarrow$	Mitsubishi HC Capital Inc.	Finance	Local Business	Supplier	Vendor	Care	Solar-power	Wind- power	Infrastructu re	Leases	Finance	Investment	0	Aviation	Railcar	Container	Investmen t	
dom nies'	Mitsubishi HC Capital Inc.	Finance	Local Business	Supplier	Vendor	Care O	Solar-power	Wind- power	Infrastructu re	Leases	Finance	Investment	0	Aviation	Railcar	Container	Investmen t	0

<sup>\*</sup> JII : Japan Infrastructure Initiative Company Limited
Source: Business Integration presentation: https://www.mitsubishi-hc-capital.com/pdf/english/hc/hcc/ir\_english/20201001em\_1.pdf

**Hitachi Capital Corporation (HC)** 

# A. Overview of Mitsubishi UFJ Lease & Finance



	Mitsubishi l	JFJ Lease & Finar	nce				
Location of head office	5-1, Marunouchi 1-chome, Chiyo						
Name and title of representative	Takahiro Yanai, President & CEC						
Stated capital	33,196 million yen						
Date of establishment	April 12, 1971						
Number of employees	3,301 (Consolidated)						
Main banks	MUFG Bank, Ltd., Mizuho Bank, The Norinchukin Bank, Developm		Bank, Limited,				
Main shareholders	Mitsubishi Corporation		20.10%				
	Mitsubishi UFJ Financial Group, I	nc.	13.50%				
	MUFG Bank, Ltd.		6.11%				
Long-term issuer credit ratings	S&P:A-	Moody's:A3	JCR*:AA	R&I*:A+			
Earnings (Fiscal Year Ended)		JGAAP	JGAAP (JPY1MM)				
(FISCAL FEAL ETILLEU)							
	March 2018	Mar	ch 2019	March 2020			
Revenues	<b>March 2018</b> 869,948		ch <b>2019</b> 4,224	<b>March 2020</b> 923,768			
Revenues Operating income		86					
	869,948	86	4,224	923,768			
Operating income	869,948 79,285	86 80 87	4,224	923,768 91,853			
Operating income  Recurring income  Net income attributable to	869,948 79,285 86,177	86 80 87	4,224 0,371 7,605	923,768 91,853 94,376			
Operating income  Recurring income  Net income attributable to owners of the parent	869,948 79,285 86,177 63,679	86 87 68	4,224 0,371 7,605 3,796	923,768 91,853 94,376 70,754			

<sup>\*</sup>JCR: Japan Credit Rating Agency, R&I: Rating and Investment Information
Source: Business Integration Agreement Notice: <a href="https://www.mitsubishi-hc-capital.com/english/investors/mul/library/pressrelease/pdf/2020100101.pdf">https://www.mitsubishi-hc-capital.com/english/investors/mul/library/pressrelease/pdf/2020100101.pdf</a> / MUL Annual Financial Statements: <a href="https://www.mitsubishi-hc-capital.com/english/mul/investors/library/report/index.html">https://www.mitsubishi-hc-capital.com/english/mul/investors/library/report/index.html</a>

# A. Overview of Hitachi Capital Corporation



	Hitachi C	apital Corporation		
Location of head office	3-1, Nishi Shimbashi 1-chome, Mi	nato-ku, Tokyo		
Name and title of representative	Seiji Kawabe, President & CEO			
Stated capital	9,983 million yen			
Date of establishment	September 10, 1957			
Number of employees	5,643 (Consolidated)			
Main banks	MUFG Bank, Ltd., Mizuho Bank, L Sumitomo Mitsui Trust Bank, Limit		ng Corporation,	
Main shareholders	Hitachi, Ltd.		33.39%	
	Mitsubishi UFJ Financial Group, In	C.	23.00%	
	Mitsubishi UFJ Lease & Finance		4.20%	
Long-term issuer credit ratings	S&P:A-	JCR*1: AA-	R&I*1:A+	
Earnings		IFRS (	JPY1MM)	
(Fiscal Year Ended)	March 2018	Marc	th 2019	March 2020
Revenues	404,124	453	3,253	464,020
Adjusted operating income*2	45,423	29	,396	39,874
Income before income taxes	44.005	0.0		
moonie botote moonie taxoe	44,295	32	,706	42,526
Net income attributable to owners of the parent	32,057		,363	42,526 30,693
Net income attributable to owners of the		19		
Net income attributable to owners of the parent	32,057	19 390	,363	30,693

<sup>\*1</sup> JCR: Japan Credit Rating Agency, R&I: Rating and Investment Information

<sup>\*2</sup> Adjusted operating income is calculated by deducting Cost of Revenue, Selling and General Administration Expenses from Revenue Source: Business Integration Agreement Notice: <a href="https://www.mitsubishi-hc-capital.com/english/investors/mul/library/pressrelease/pdf/2020100101.pdf">https://www.mitsubishi-hc-capital.com/english/investors/mul/library/pressrelease/pdf/2020100101.pdf</a> / MUL Annual Financial Statements: <a href="https://www.mitsubishi-revenue">https://www.mitsubishi-revenue</a> / MUL Annual Financial Statements: <a href="https://www.mitsubishi-revenue">https://www.mitsubishi-re



# **END**