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Tokyo Century to Make an Aircraft Leasing Subsidiary an Equity-Method Affiliate—No Impact on the Rating

The following is Japan Credit Rating Agency, Ltd. (JCR)'s opinion on the announcement by Tokyo Century Corporation (security code: 8439) to transfer 50% of shares issued and outstanding of a U.S.-based major aircraft leasing company, its wholly owned subsidiary, to ITOCHU Corporation (security code: 8001) and make the subsidiary an equity-method affiliate.

(1) Tokyo Century Corporation (the "Company") engages in the aircraft leasing business through Aviation Capital Group LLC ("ACG"), a U.S.-based major aircraft leasing company. ACG is a wholly owned subsidiary of TC Skyward Aviation U.S., Inc. ("SKY-U"), and the Company holds 100% voting rights in SKY-U. It reached basic agreement today to transfer 50% of shares issued and outstanding of SKY-U to ITOCHU Corporation (long-term issuer rating: AA+, "ITOCHU") (the "Share Transfer"). The Share Transfer is slated to be executed in November 2026, and, once completed, ACG and SKY-U will be excluded from the consolidation and become equity-method affiliates of the Company. In order to further strengthen and expand ACG's business base, the Company has decided to pursue the aircraft leasing business as a joint venture with ITOCHU, from which medium- to long-term business synergies can be expected, with the aim of maximizing ACG's corporate value and improving the capital efficiency of the Tokyo Century Group.

(2) The Share Transfer has no impact on the rating. While ACG's performance is improving, it is highly likely that the profits contributed to the Company's consolidated results will temporarily decline due to ACG becoming an equity-method affiliate. That said, JCR assumes that ACG's investment capacity will increase with ITOCHU's participation as a partner and the consequent increase in market share could help expand the profits incorporated into the consolidated results over the medium to long term. Moreover, because the aircraft leasing business, which accounts for a high proportion of the Company's risk exposure, in fact pales compared to other businesses in terms of profitability, JCR considers that the benefits of greater capacity created by the Share Transfer for investment in highly profitable businesses are significant. Attention will be paid to the future growth strategies of the Company and ACG, as well as the outcomes thereof.

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<Reference>
Issuer: Tokyo Century Corporation
Long-term Issuer Rating: AA   Outlook: Stable

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