

Tokyo Century's Conversion of ACG in US into a Wholly-Owning Subsidiary—JCR Will Watch Future Risk Control and Financing

The following is Japan Credit Rating Agency, Ltd. (JCR)'s opinion on Tokyo Century Corporation (security code: 8439)'s conversion of Aviation Capital Group LLC ("ACG"), which is an equity-method affiliate and a major aircraft leasing company in the U.S., into a wholly-owning subsidiary.

- (1) Tokyo Century Corporation (the "Company") today entered into an equity interest transfer agreement with Pacific Life Insurance Company ("Pacific Life"), a major life insurance company in the U.S., and resolved to make a major aircraft leasing company in the U.S. ACG a wholly-owning subsidiary. Through the subsidiary, the Company currently holds 24.5% shares in ACG as its equity-method affiliate. It will acquire the remaining 75.5% shares from Pacific Life for approximately USD 3 billion yen (excluding commission such as advisory fee). ACG's income before taxes for the fiscal year ended December 2018 reached USD 265 million, and its total assets and net assets were USD 11,317 million and USD 3,225 million as of the end of the fiscal year, respectively. As of June 30, 2019, ACG had 316 aircraft in number under management, holding one of the top market shares in the aircraft leasing industry.
- (2) JCR sees that the impact of the transaction on the Company's creditworthiness will be limited over a medium term. Along with the increase of the Company's holdings of ACG's shares, risks from the owning aircraft will significantly increase. JCR sees that the downward pressure on the rating will be stronger in a phase of changing aircraft market. The Company's equity ratio will temporarily decline due to the financial burden of the making ACG a wholly-owning subsidiary. The appropriate control of risk amount will be more important. With respect to this point, factors including the following factors will support the rating: (i) the Company has been involved with ACG's management since its acquisition of the part of ACG's shares in December 2017, and the risks have been reduced as compared with a new M&A deal, in terms of due diligence, communication with management, etc.; (ii) ACG's conversion into the wholly-owning subsidiary will contribute to the earnings; and (iii) the Company plans to reduce the impact on the financial structure by financing through hybrid financing.

Kiichi Sugiura, Tsuyoshi Ohishi

<Reference>

Issuer: Tokyo Century Corporation

Long-term Issuer Rating: AA- Outlook: Stable

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