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Custom Fit.

# ORIX Corporation USA

## *Business Strategy*

Terry Suzuki, Deputy President  
Paul Wilson, Chief Financial Officer  
Marc Kutik, Chief Risk Officer

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# ORIX USA | ORIX Corporation USA – Overview



- ✓ ORIX USA is the 3<sup>rd</sup> largest in ORIX's 16 business units in FY19.

**FY19.3**  
**(JPY Bn)**

## Segment Profits

1	RE Investment and Facilities Operation	70.5
2	Life Insurance	49.5
3	<b>ORIX Corporation USA</b>	<b>48.8</b>
4	Aircraft, Ships	35.8
5	OCE (ORIX Corporation Europe)	35.1
6	Auto	28.0
7	Banking	24.1
8	Domestic Sales	19.9
9	DAIKYO	18.8
1 0	Investment and Operation	14.2
1 1	Concession	12.9
1 2	Environment and Energy	11.1
1 3	Rentec	10.8
1 4	Credit	10.6
1 5	Asia and Australia, and other	5.7
1 6	Yayoi	5.6

## Segment Assets

1	Banking	2,132.7
2	Life Insurance	1,254.7
3	<b>ORIX Corporation USA</b>	<b>1,152.9</b>
4	Asia and Australia, and other	996.7
5	Domestic Sales	860.7
6	Auto	745.2
7	Aircraft, Ships	646.3
8	RE Investment and Facilities Operation	515.4
9	Environment and Energy	395.6
1 0	ORIX Corporation Europe	343.1
1 1	Investment and Operation	288.9
1 2	DAIKYO	204.8
1 3	Credit	184.1
1 4	Rentec	128.6
1 5	Yayoi	99.1
1 6	Concession	49.2

**Units**  
**16**

*\*As the figures less than 0.1 JPY bn are rounded off, the total of each business unit figure does not necessarily match the segment figures*

## *ORIX Corporation USA is a diversified financial services business*

ORIX Corporation USA (“ORIX USA”) pursues a hybrid strategy that relies upon our strong balance sheet as both an investor and as a bridge toward asset management and capital market solutions.

Our strategy to drive earnings growth focuses on proportionately increasing our balance sheet investing, while meaningfully growing our assets under management and fee generation businesses.

Our ability to raise third party capital around organically grown investment teams will accelerate our recognition as a best-in-class alternative asset manager.

### ***Principal Investment Management***

#### ***Principal Balance Sheet***

- ORIX USA is patient capital and deploys a medium to long-term mind set
- Only 1% of our investments are marked to market
- Our performance is tied to the quality of our underlying assets
- Investments classes include:
  - Real Estate
  - Corporate Credit
  - Equity

#### ***Market Distribution***

- ORIX USA’s business units utilize diverse distribution channels to market originated assets and drive yield
- Market distribution channels include:
  - Agency Lending (Ginnie Mae, Fannie Mae)
  - Asset Management
  - Equity Fund Investments
  - Multi-strategy Hedge Funds
  - CLOs

**38-year history:** Diversified financial services platform with a strong credit culture providing capital solutions

**\$284M**  
Pre-Tax Net Income  
in FY15



**\$450M**  
Pre-Tax Net Income  
in FY19

Deployment of equity capital with **5 North American strategic acquisitions since 2010**. Successful public offering of **Houlihan Lokey** in 2015

**Over 35 offices across the U.S.**

**\$10B**

Segment Assets  
on Balance Sheet

**\$55B**

Assets under Management,  
Administration & Servicing

**5**

Strategic Affiliates

**Real Estate      Equity**

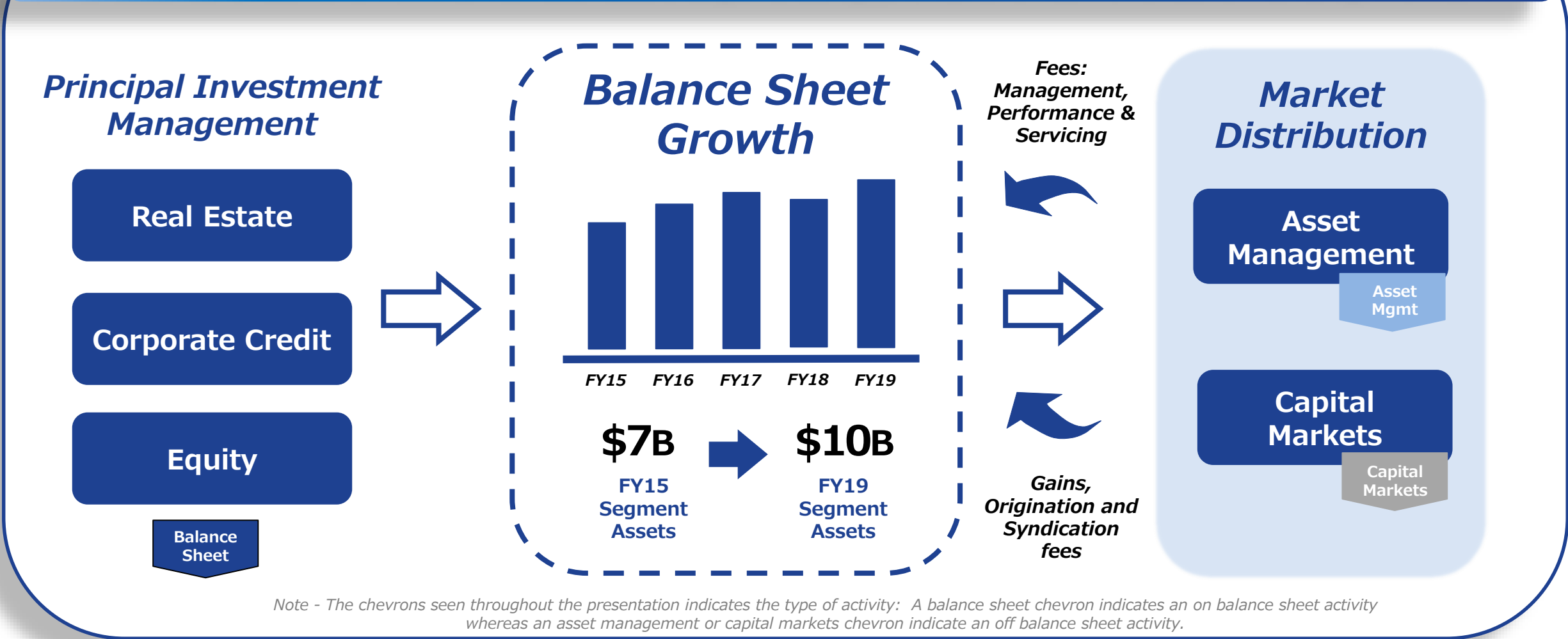
**Corporate Credit**

**Wholly-Owned Subsidiary of ORIX Corporation:**  
**Executive Center** based in New York City and  
**Operations Center** in Dallas, Texas

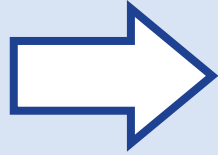
Approximately

**1100** Employees

ORIX USA’s origination and investment teams create and aggregate financial products for its balance sheet and for market distribution, generating profits and fee revenue enhancing the ROA

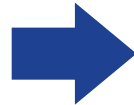


**Balance  
Sheet**



**Investments in originated real estate, corporate credit and equity asset classes provides stable interest-based income, supplemented with capital gains**

**Recurring Fees**



**Annual revenue, such as servicing, management, and performance fees, generated from servicing assets or managing assets**

**Origination and  
Syndication Fees  
and Gains**

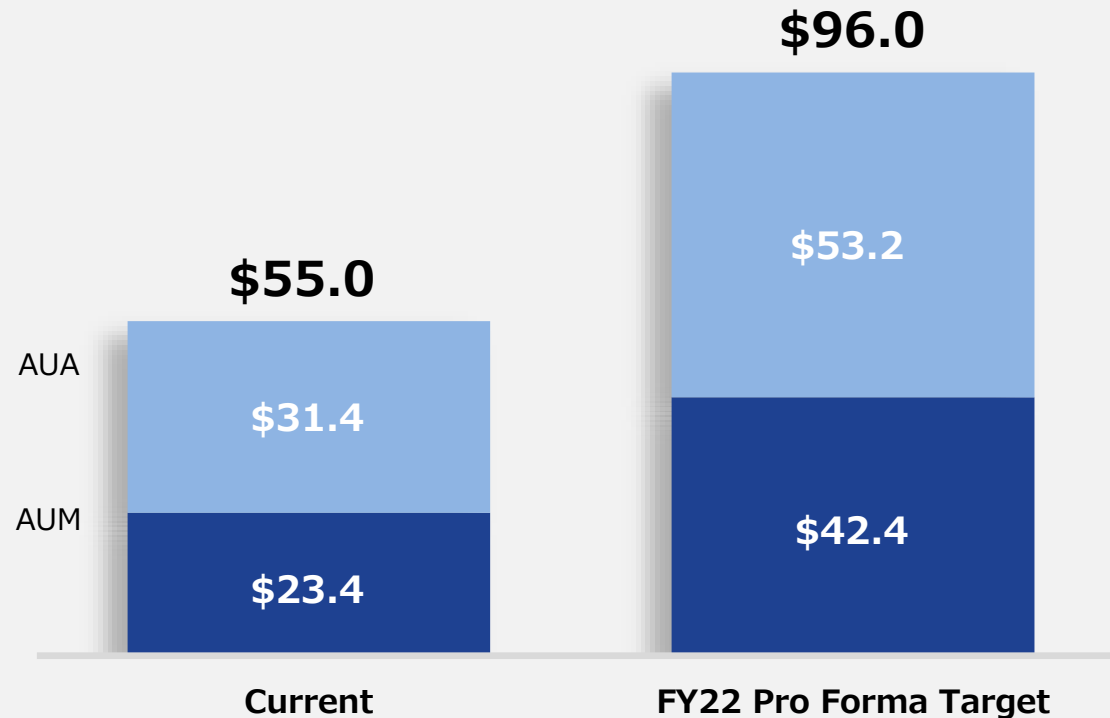


**Revenues, such as origination and syndication fees and gains from syndicated assets, generated from market distribution**

***ORIX USA currently oversees approximately \$55 billion of off balance sheet assets, with a 3-year target (through organic growth and acquisition) of \$96 billion***

## ORIX USA's Asset Growth Forecast

USD Billions



\*As of 3/31/19

## Total Off Balance Sheet Asset Growth Strategy:

- Total asset growth:
  - (1) assets under administration ("AUA") and
  - (2) assets under management ("AUM")
- Growth includes both M&A and organic growth in existing products

*ORIX USA's origination and investment teams create and aggregate financial products in three assets classes for its balance sheet and market distribution*

## Principal Investment Management

**\$10.4 billion**  
**Segment Assets**

**\$23.4 billion**  
**AUM**

**\$31.4 billion**  
**AUA (Servicing Assets)**

### Real Estate

- Real Estate Finance
- Multifamily Housing Finance
- Senior Housing Finance
- CMBS
- Municipal Finance

### Corporate Credit

- Middle Market Leveraged Finance
- Syndicated Loans
- Growth Capital
- Energy Capital
- Mezzanine Debt
- CLOs

### Equity

- Middle Market Private Equity
- Independent Sponsor Equity
- Secondary Funds
- Affordable Housing

**Supported by Common Operations Infrastructure**

***ORIX USA enhances the value of each affiliate strategy by providing a common governance and operations infrastructure, investment and relationship collaboration amongst all groups***



***ORIX USA provides its affiliates the autonomy necessary to operate in their respective markets and keep brand identity, which preserves optionality for future exit opportunities or spin outs***

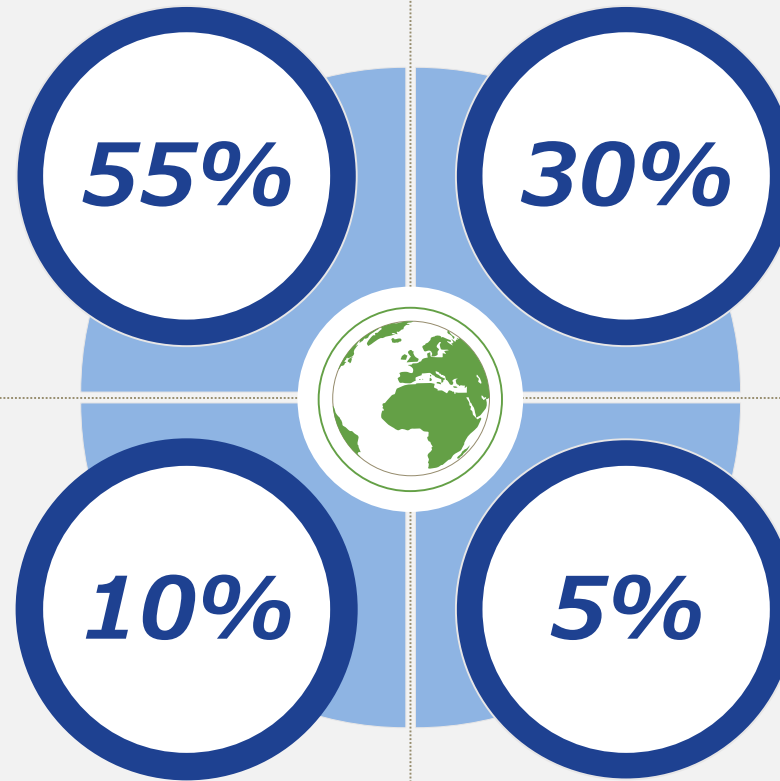
*Despite signs that the US economy is doing well, there are certain headwinds looming which could create a significant drag on economic growth in 2020. Most economists have fairly similar calls for the near-term economy. ORIX ascribes to the below scenarios and the following probabilities:*

## **Modest Growth**

- Consumer spending growth
- Fiscal stimulus
- Continued low interest rates

## **Slower Growth**

- Business tax cuts fail
- Lack of global trading arrangements
- Tariffs raise costs
- GDP growth falls



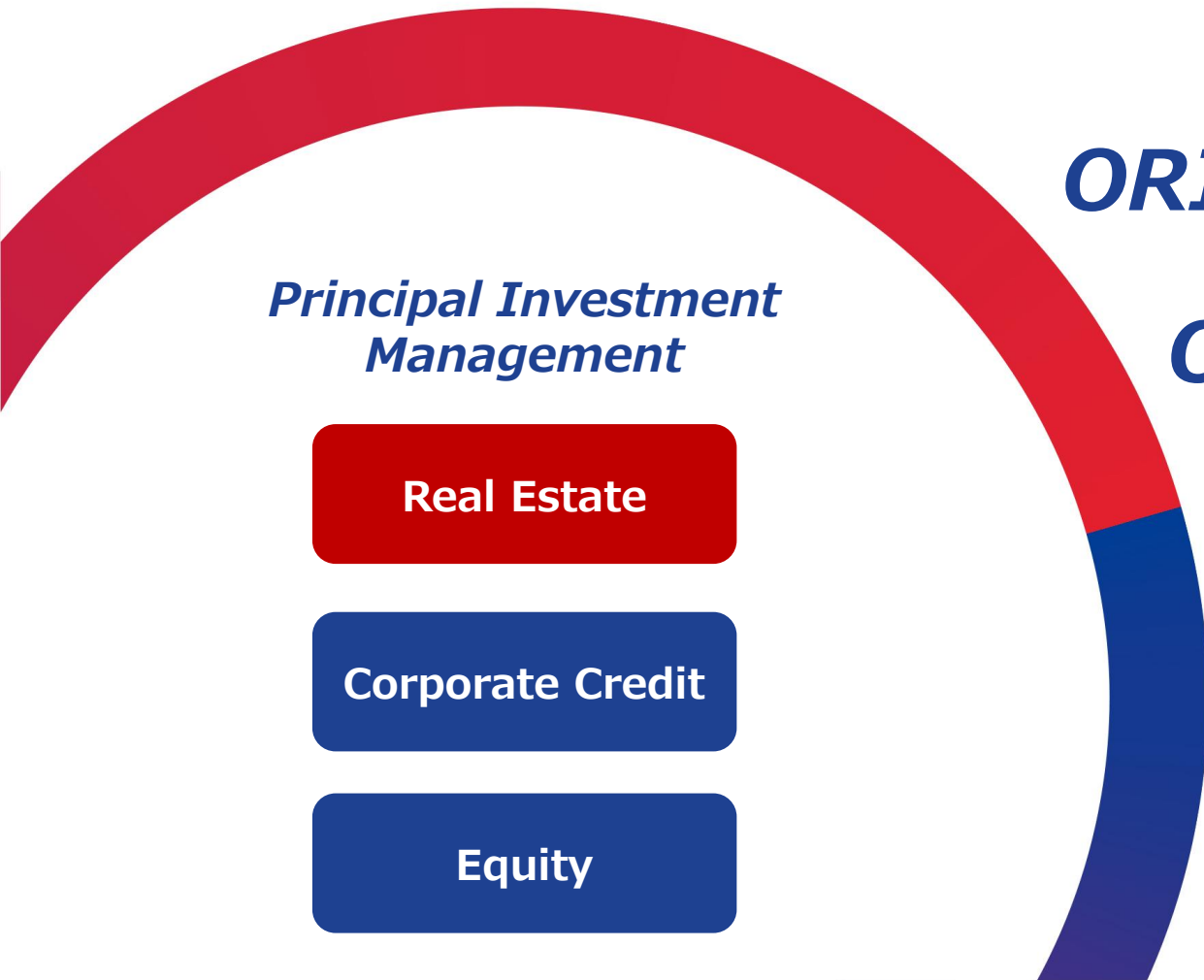
## **Recession**

- Weak economy end of 2019 into 2020
- Small financial crisis
- Quick recovery
- GDP falls then recovers

## **Higher Growth**

- Technological advances
- Business confidence improves
- Infrastructure investment boosts growth
- Tariffs are short lived

**ORIX USA continues to pursue its business strategy with a cautious eye to some disruption in early 2020**



***ORIX Real Estate Capital***

***ORIX Municipal Finance***

***ORIX Real Estate Holdings***

**ORIX Real Estate Capital (“OREC”) operates through two brands: RED Capital and Lancaster Pollard.**

**OREC executes its strategy through use of its balance sheet supporting distribution and retention of servicing rights**

**red**capital group

*Multifamily & Affordable Housing Focused*



LANCASTER POLLARD

*Senior Housing & Healthcare Focused*

- **\$100 billion** of capital to **multifamily, affordable** and **senior living** industries
- **13<sup>th</sup> largest originator** across all U.S. housing agencies
- **\$6+ billion** in annual originations
- **\$24 billion servicing portfolio** comprised of more than **3,600 multifamily loans**

**Fannie Mae**

Affordable  
DUS  
Seniors  
SBL

**FHA**

MAP  
LEAN

**Freddie Mac**

SBL

## 2018 FHA Originations (\$ bns)

#	Lender	\$	Market Share
1	ORIX Real Estate Capital	\$ 2.618	15.0%
2	Greystone	\$ 1.851	10.6%
3	Berkadia	\$ 1.468	8.4%
4	Walker & Dunlop	\$ 0.999	5.7%
5	Wells Fargo	\$ 0.997	5.7%
6	Merchants Capital	\$ 0.892	5.1%
7	Dwight Capital	\$ 0.823	4.7%
8	KeyBank	\$ 0.760	4.4%
9	JLL	\$ 0.704	4.0%
10	Dougherty Mortgage	\$ 0.543	3.1%
	Other	\$ 5.742	33.0%

*ORIX USA's real estate platform is a fully-integrated commercial real estate finance, asset management, and investment business that utilizes ORIX USA's balance sheet to originate CRE assets and distribute excess to capital markets*

## ORIX Real Estate Lending

Active since 1990 in commercial property loans and participating equity, since 2016, over \$1 billion of deployed and committed capital

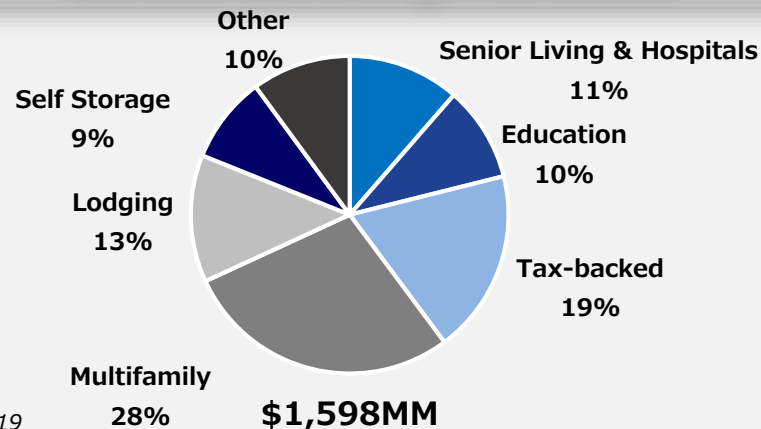
## ORIX Municipal Finance

Originates high yield municipal securities collateralized primarily with real estate, warehousing on balance sheet with a medium-to-long hold

## ORIX Real Estate Securities

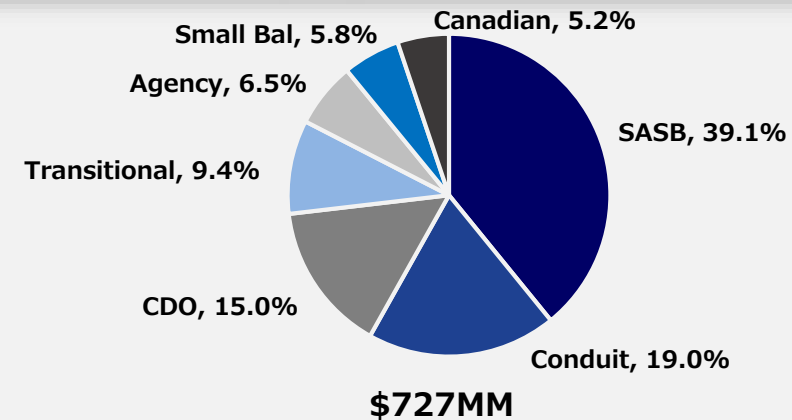
Invested over \$1.5 billion of capital in the last 5 years into high yield, relative value opportunities backed by commercial real estate

## Direct Lending Portfolio



\*As of 3/31/19

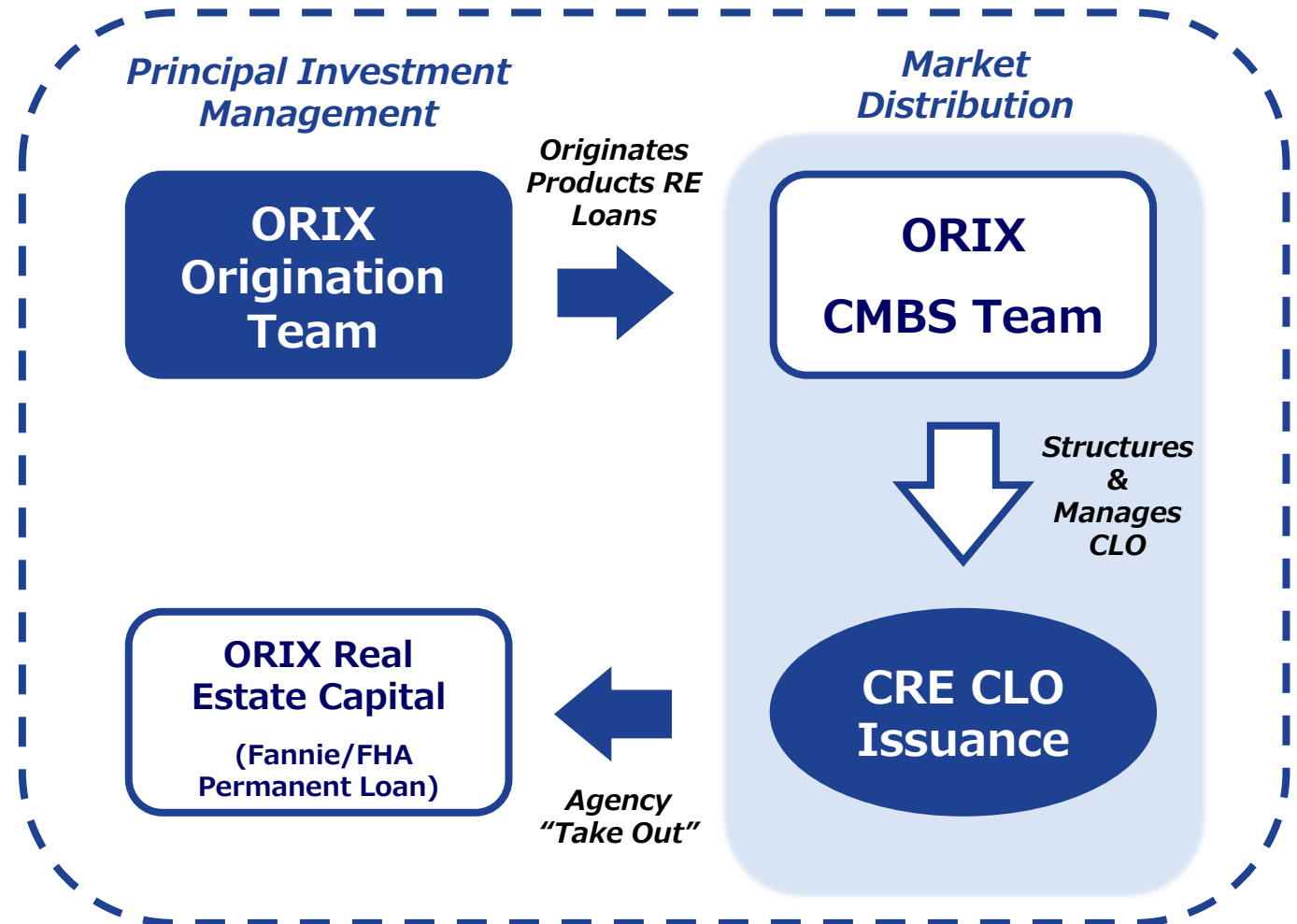
## CMBS Portfolio



*ORIX's U.S. Real Estate teams each contributed to integrated CRE-CLO, advancing our recurring fee business*

**Key objectives:**

- *Stable and diversified U.S. capital sources*
- *Lower cost of capital*
- *Increase our competitiveness in the U.S. agency mortgage market*
- *Increase ORIX USA Brand Awareness*





***US Leveraged Loans remain a “core asset” class for ORIX USA. Our disciplined approach to managing broadly syndicated leveraged loans provides confidence in investing in the market throughout economic cycles***

## US Leveraged Loan Market

- The loan market is exhibiting late cycle behavior - higher leverage and looser structures
  - Default rates have been inching up (1.83% as of July) but remain well below the long-term averages of 3.07%
- Loan spreads widened since early 2019 for technical reasons
  - Retracting some of the spread widening in recent months as new issuance has slowed and paydowns have increased

## US CLO Market

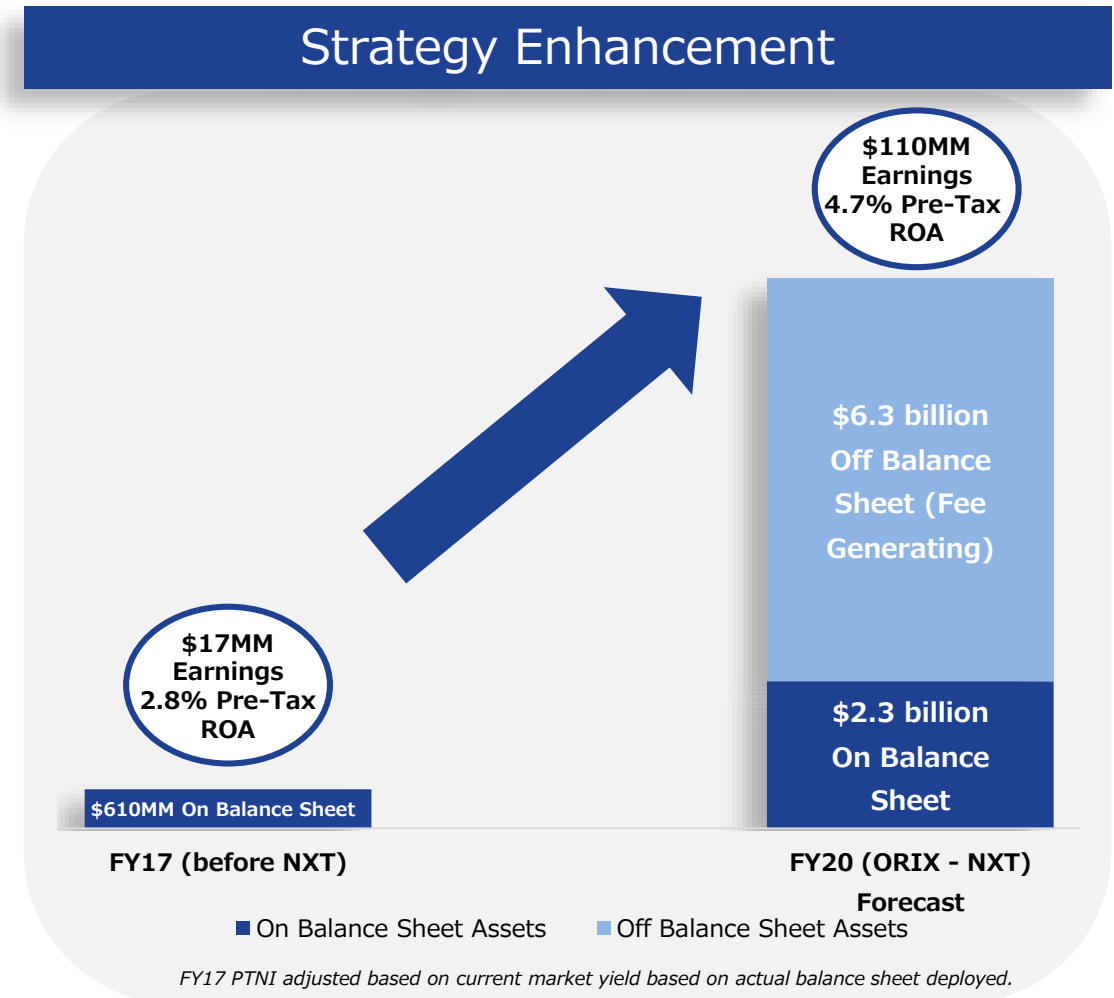
- CLO fundamentals are relatively healthy but...
  - Structures are loosening - elevated OC cushions and WARFs are high on a historic basis
  - YTD CLO issuance is marginally behind 2018 in dollar volume

### ***Summary***

*Given the 30% probability we ascribe to a possible recession in 2020, discipline in asset selection remains a key focus*

*Acquisition of NXT Capital accelerated the transformation of our corporate credit platform from a solely balance sheet focused strategy, increasing our competitiveness and profits per dollar deployed*

- Senior loans to U.S. middle-market companies with EBITDA \$5 - \$75 million
- Enables ORIX USA to participate, agent and syndicate larger transactions
- Increased ROA via fees as deal agent and recurring fees from our participating investors
- Enhances the quality, breadth and diversity of our portfolio

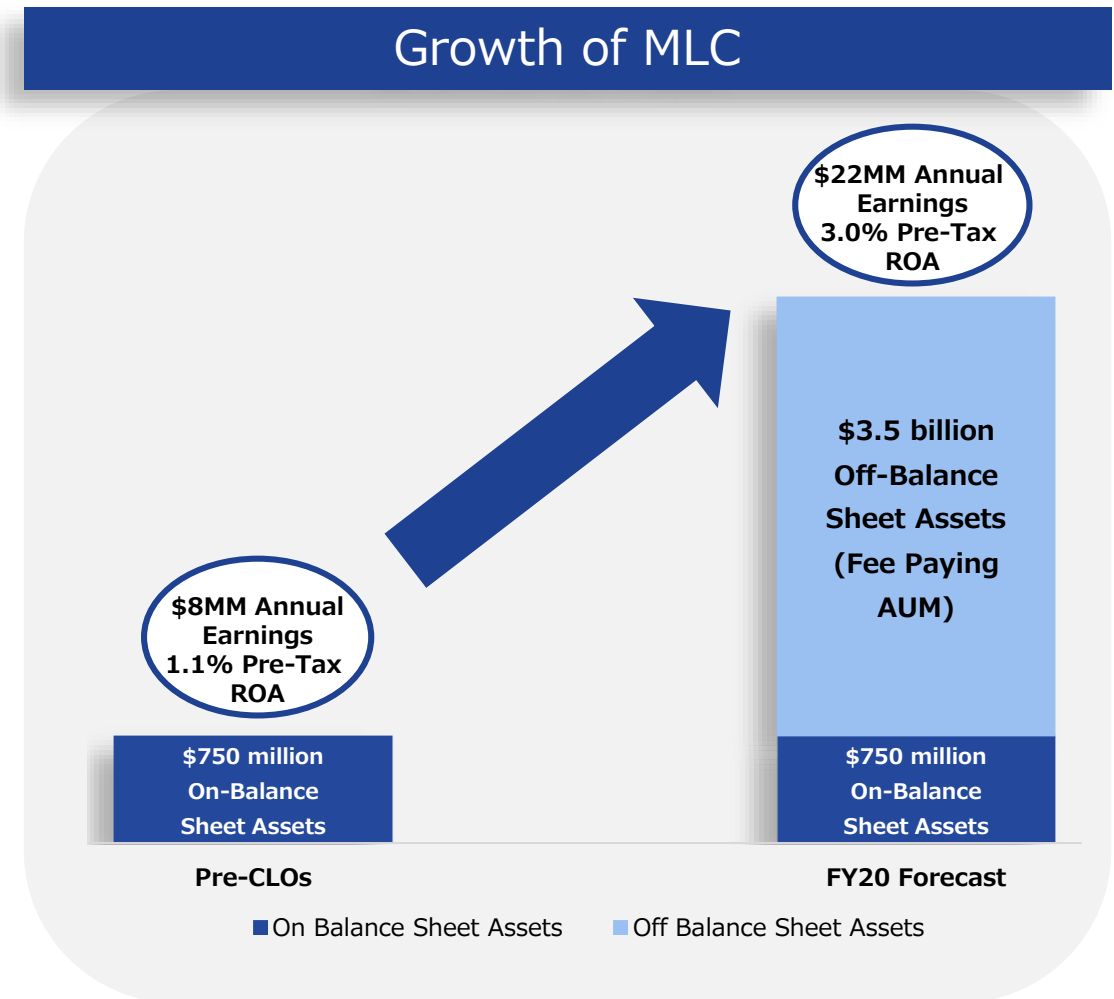


## *Strategy focused on the broadly syndicated U.S. bank loan leveraged loan market, Mariner Leveraged Credit invests in and manages loans through CLOs*

- Formerly a balance sheet only business transferred starting in 2014 to manage 3<sup>rd</sup> party CLOs
- Currently 7 CLOs issued with inventory of managed loans on ORIX balance sheet – increasing earnings and reducing balance sheet risk

### *Among the Top 80 CLO managers, Mariner ranks in the top quartile in 4 key measurements of risk:*

- WARF – Mariner score of 2701 vs Top Quartile Average of 2722 and Median of 2832
- Weighted Average Loan Price – Mariner 97.8 vs Top Quartile Average of 97.9 and Median of 97.2
- OC Cushion – Mariner score of 500 vs Top Quartile Average of 500 and Median of 430
- Adjusted Net Asset Value – Mariner score of 76.7 vs Top Quartile Average of 78.1 and Median of 68.7.



***ORIX Growth Capital (“OGC”) originates highly customized growth capital, early debt products for ORIX USA’s balance sheet, having invested more than \$1.7 billion to more than 160 companies since 2001***

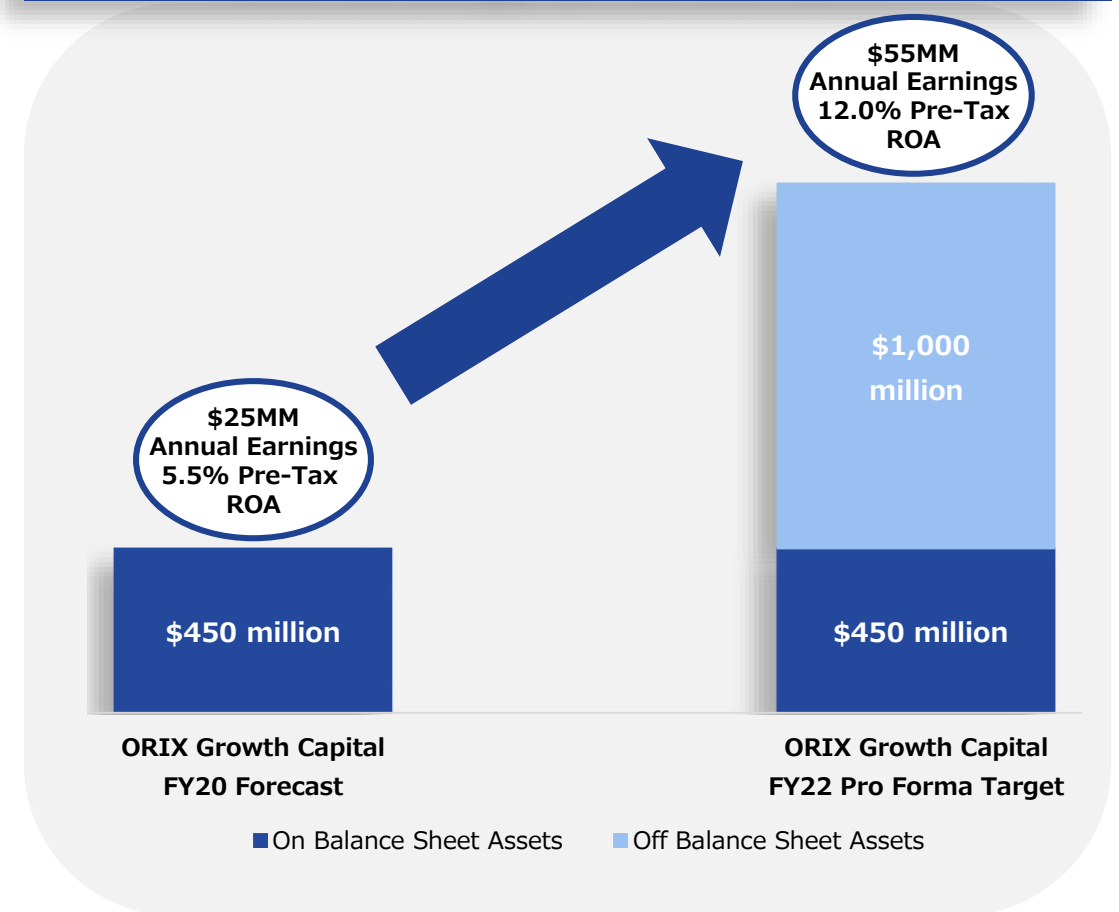
## Balance Sheet Lending

OGC invests in late-stage technology companies

## Next Organic Growth Opportunity

ORIX USA is exploring strategic opportunities to raise institutional capital around OGC’s growth lending platform and track record. Introduction of an asset management function to OGC would combine ORIX USA’s on balance sheet origination ability with management and performance fees typical to the alternative investment management industry

## OGC Strategy Enhancement





*Principal Investment  
Management*

Real Estate

Corporate Credit

Equity

***Boston Financial***

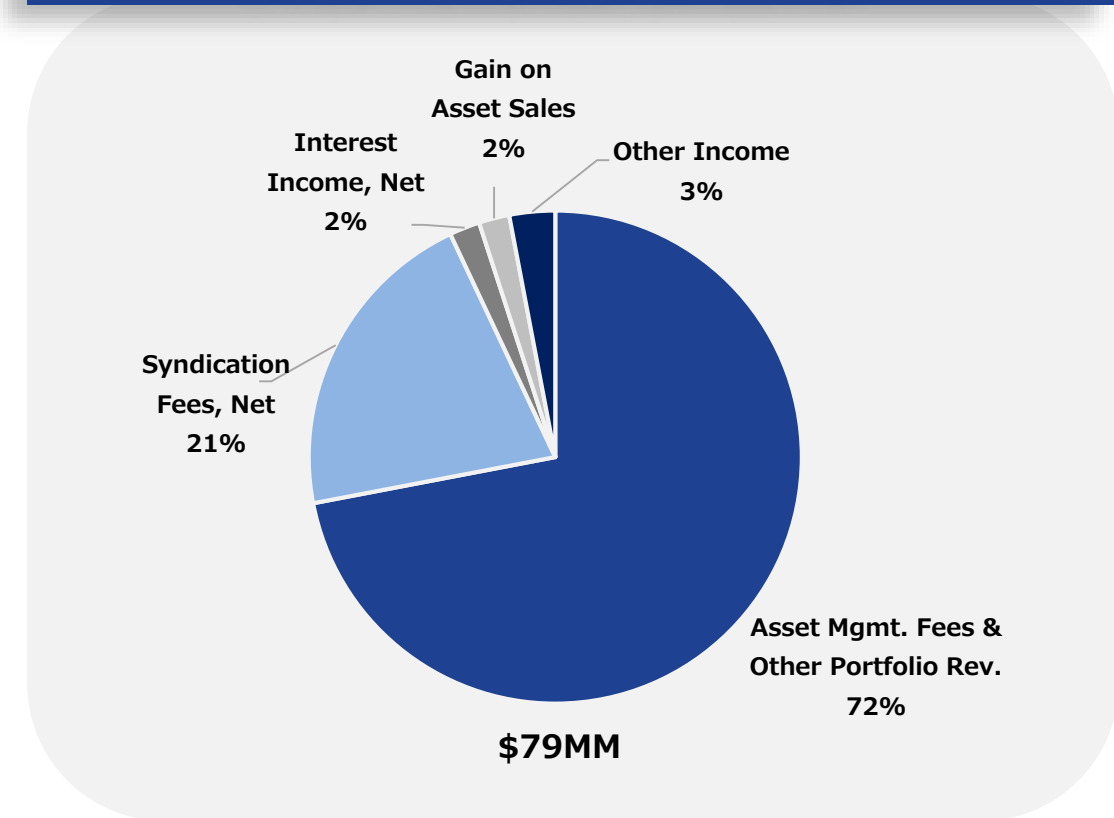
***ORIX Capital Partners***

***ORIX Independent  
Sponsor Private Equity***

***Boston Financial Investment Management (“BFIM”) currently manages a \$7.4 billion portfolio comprising over 1,165 properties and 103,000 units, making BFIM one of the largest and most experienced syndicators in the U.S.***

- BFIM is a market syndicator of low-income housing tax credits
  - \$11.4 billion equity raised since inception in 1986 (\$596 million in FY19)
  - \$7.4 billion total equity under management
  - 2,500 assets acquired since inception
  - Relationships with 400+ affordable housing developers, and 150+ tax credit institutional clients

## FY19 Revenue Streams



*ORIX Capital Partners (“OCP”) serves as the principal investment vehicle for ORIX USA’s pursuit of on balance sheet private equity assets, while also managing institutional third party capital via OCP’s fund investors*

- Founded in 2016, OCP makes direct control equity investments of \$75 - \$200 million in infrastructure-related businesses
- 30-40% of the fund is owned by 3<sup>rd</sup> party institutional investors generating management and performance incentive fees

## OCP Portfolio Companies as of FY19

*Acquired in 2016*



## *ORIX Independent Sponsor Private Equity is an industry leading equity provider to Independent Sponsors in the lower middle market*

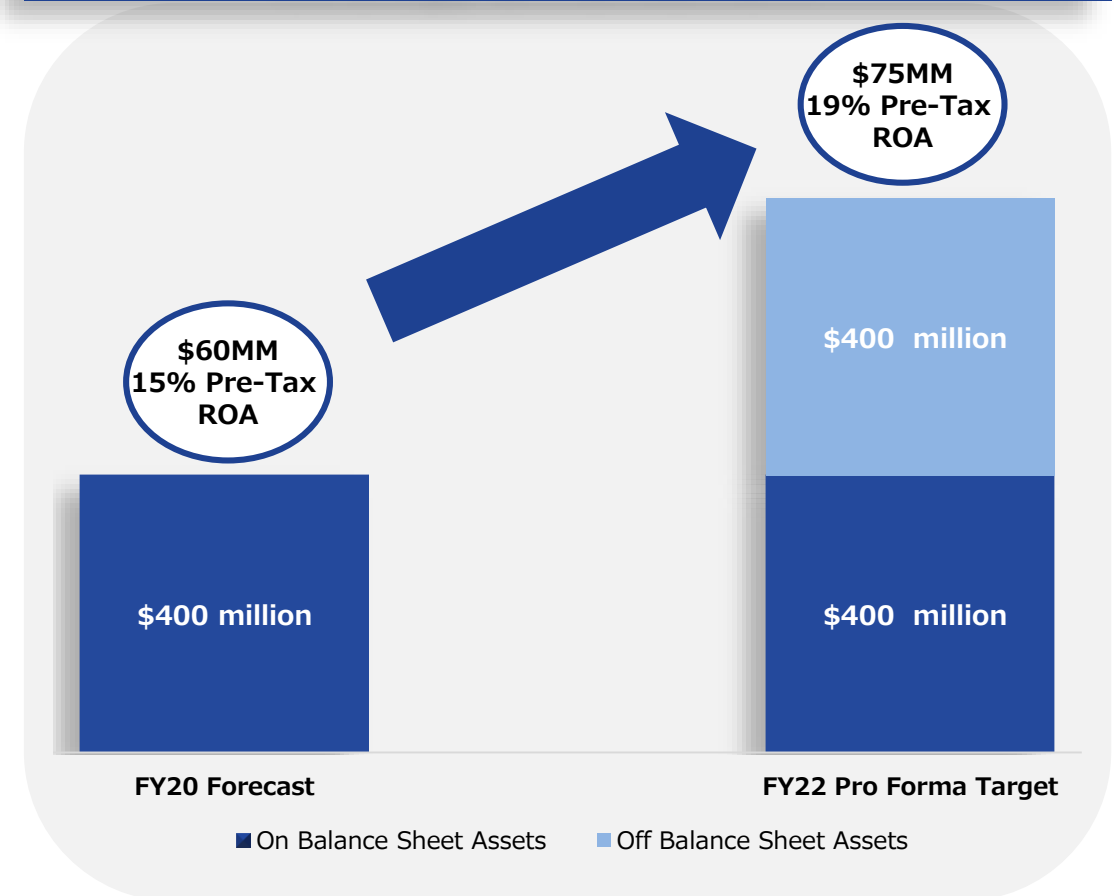
### Balance Sheet Lending

ORIX USA invests in lower-middle market North American based businesses

### Next Organic Growth Opportunity

ORIX USA is actively preparing to market this strategy with the intent of raising approximately \$100 - \$400 million of institutional capital through a fund vehicle, utilizing an ORIX-owned RIA

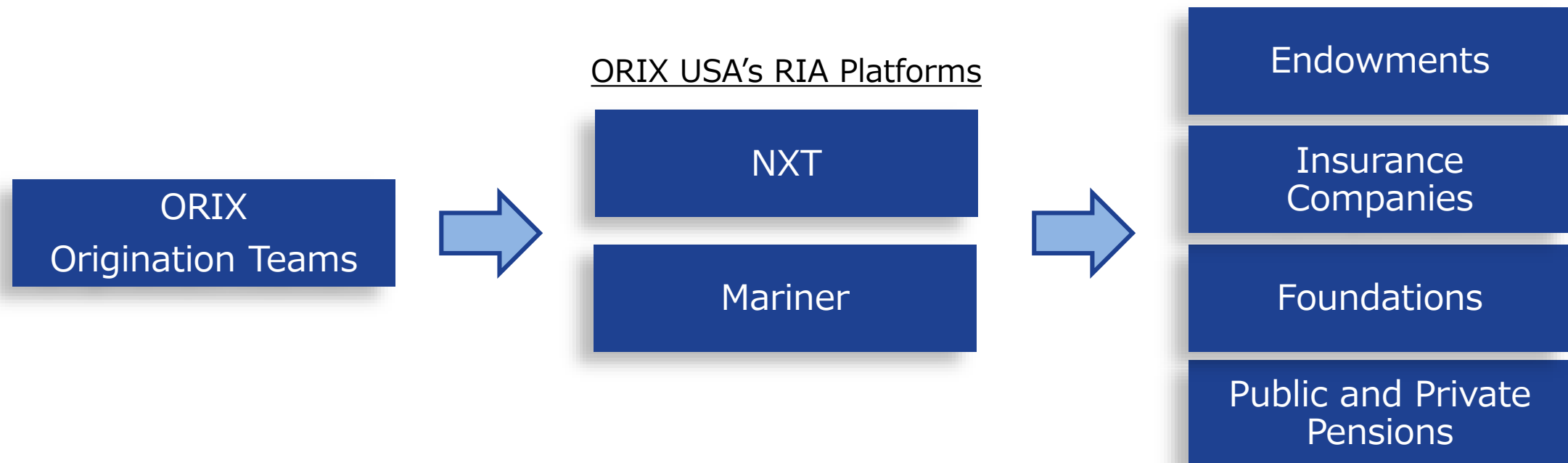
### Strategy Enhancement



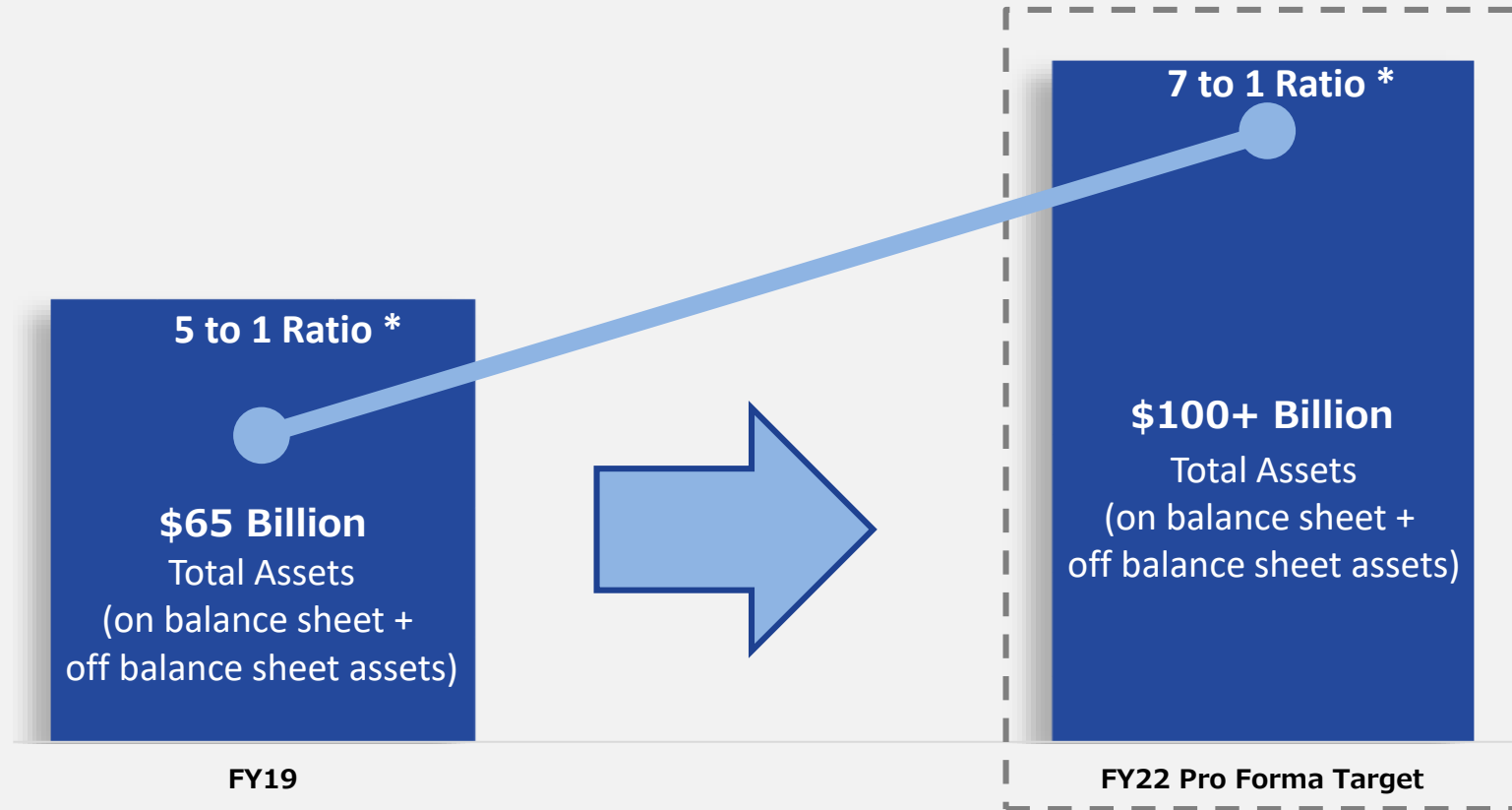
## ***ORIX USA utilizes two RIAs to distribute originated product: (1) NXT and (2) Mariner Investment Group***

- Two RIAs with institutional investor history of investing in and managing alternative assets:
  - NXT focuses on credit products, with \$5.5 billion AUM and a 5 year management history
  - Mariner Investment Group focuses on credit and hedge fund products, \$8 billion AUM and 20 years track record of managing institutional investor capital

### Target Institutional Investors Types

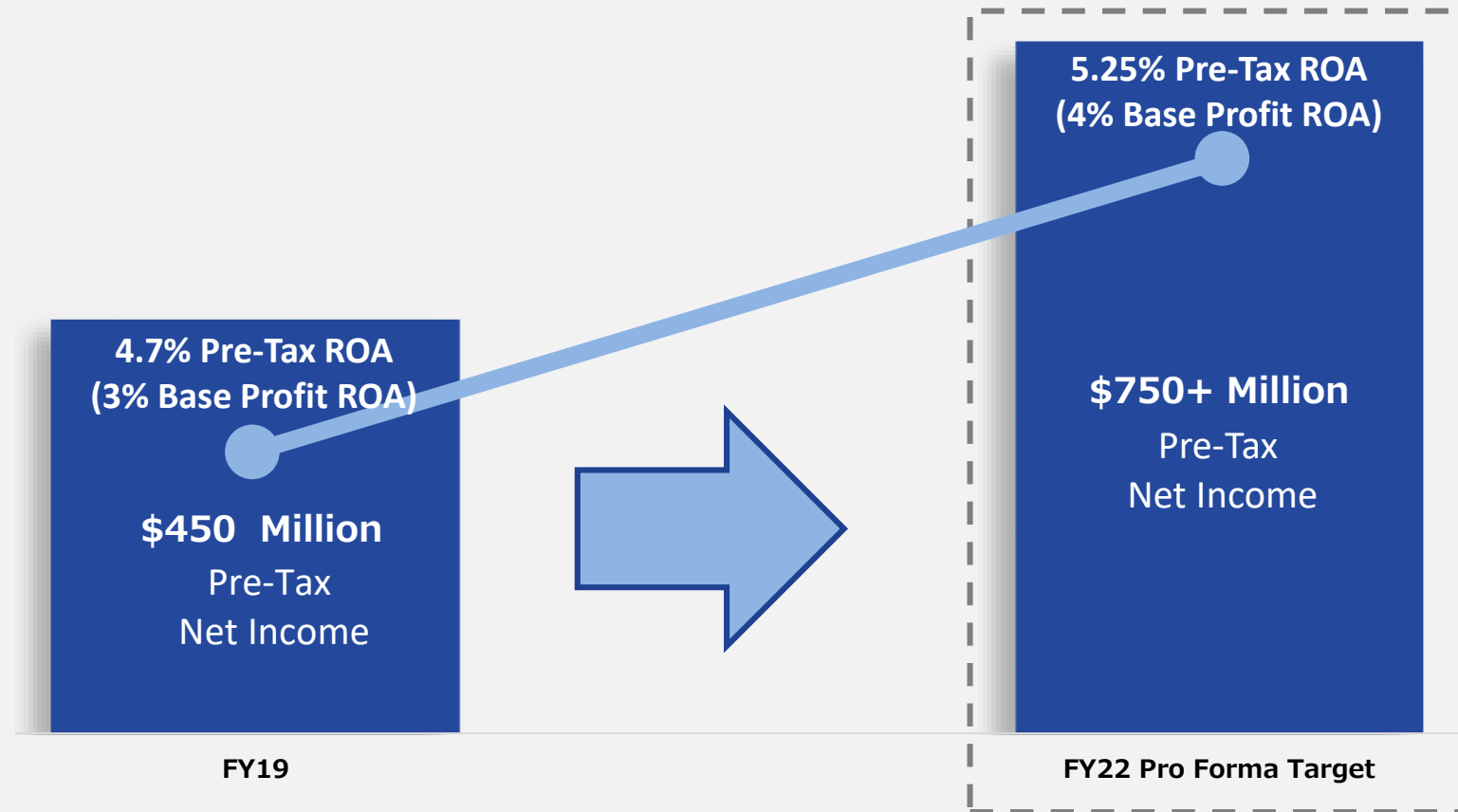


## Total Assets (off balance sheet and on balance sheet)



\* Ratio of off balance sheet to on balance sheet assets

## Earnings and ROA Percentage Target



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- Some of the financial information in these materials is unaudited.
- The Company believes that it will be considered a “passive foreign investment company” for United States Federal income tax purpose in the year to which these consolidated financial results relate and for the foreseeable future by reason of the composition of its assets and the nature of its income. A U.S. holder of the shares or ADSs of the Company is therefore subject to special rules generally intended to eliminate any benefits from the deferral of U.S. Federal income tax that a holder could derive from investing in a foreign corporation that does not distribute all of its earnings on a current basis. Investors should consult their tax advisors with respect to such rules, which are summarized in the Company’s annual report.
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IR Section

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ORIX Corporation  
Corporate Planning Department  
World Trade Center Building., 2-4-1,  
Hamamatsu-cho, Minato-ku,  
Tokyo 105-6135, Japan

Tel: +81-3-3435-3121

Fax: +81-3-3435-3154

[orix\\_corpcomm@orix.jp](mailto:orix_corpcomm@orix.jp)