Collaborative Projects Briefing
(ITOCHU Techno-Solutions Corporation, DAIKEN CORPORATION, Hitachi Construction Machinery, ITOCHU SDGs STUDIO)
Q&A Summary

Date and time:	December 12, 2023 (Tue.) 9:00 to 11:30
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MC:	Suguru Amano, General Manager, Investor Relations Division
Term:	CTC=ITOCHU Techno-Solutions Corporation, DAIKEN=DAIKEN CORPORATION, FSC= Forest Stewardship Council, MDF= Medium Density Fiberboard, JIP= Japan Industrial Partners

1. Q&A Related to CTC

Q: I recognized that major competitors are ahead of CTC in providing upstream functions such as consulting, and the use of overseas engineer resources, and this has become a management issue for CTC. First of all, what led to CTC being outpaced by its competitors. I get the impression that if the problem lies in the business model itself, which centered on product sales, it will be very difficult to catch up to competitors. Will you be able to solve this issue by expanding ITOCHU’s involvement through privatization?

A: The points you raised are due to how CTC was established. Although many competitors’ origins lie in developing operational applications, CTC can point to its roots as a general trading company. Having started with selling advanced IT products, CTC has gradually expanded its business scope to include system development, including infrastructure construction, product maintenance and other services. IT infrastructure construction is now a major strength but application development, which is useful for utilizing overseas engineers and consulting, still constitutes a small percentage of overall revenues and it is here that the gap with the efforts of competitors arises. However, this situation is not necessarily a bad thing. It has the merit of ensuring that CTC has a stable earnings base, especially in the area of product sales. In addition to a robust earning base, we view positively that there is "room for growth" to capture further DX demand through the implementation of growth initiatives. Furthermore, it should be noted that the reason these efforts appeared insufficient when CTC was acting alone was mainly because the company had focused on achieving growth through its mainstay businesses, such as IT infrastructure construction, while drawing on limited management resources. This prompted ITOCHU to augment CTC’s inorganic growth initiatives with our group of digital business in the last few years. As for post-privatization growth initiatives, we will forcefully implement initiatives aligned with our growth trajectory to date while utilizing ITOCHU’s management resources, and we think we will be able to achieve a relatively high level of effectiveness.

Q: Regarding the three growth initiatives (1. Enrichment of upstream functions, 2. Ensuring engineer resources, 3. Expansion of business base in North America), I would like to know the time frame for the revenue contributions of each initiatives. Furthermore, what is the expected scale of operations regarding (2) ensuring engineer resources, which is an industry-wide issue?

A: As for the three growth initiatives, we have already held discussions with specific partner candidates on such topics as capital alliances. Although its depends of the discussions with other parties, we aim to undertake investment in the next six months or so. Regarding the time frame for the contributions from investments, we expect (2)ensuring engineer resources to be have an immediate effect. Currently, due to a lack of engineer resources, CTC has had to turn down around 200 projects a year, the equivalent of ¥10.0 to ¥20.0 billion in net sales. To fulfill all of these projects, we would need to ensure around 700 to 800 engineers. The capital alliances in the Asian region we are currently considering would ensure several hundred engineers over the next two to three years, and we are holding discussions to expand the number to 1,000 over the medium term. Regarding (1) enrichment of upstream functions including consulting and data analysis, our collaboration with SIGMAXYZ has already led to specific achievements, such as receiving orders each year for dozens of highly profitable projects that we would not otherwise have captured. We intend to further accelerate similar initiatives. However, we expect the time frame for enhancing operating profit margins to be a medium-term one it requires the steady building up of a track record of receiving orders for high value-added projects. Regarding (3) expansion of business base in North America, we aim to further enhance revenues by rolling out solutions, including processes for introducing use cases, in Japan after building up expertise related to advanced cases for North America. We will undertake this over time.

Q: Is there room for growth in product sales, the existing principal earnings base? If you implement the three growth initiatives, how will that change the current sales composition and profit margins?

A: CTC’s product sales have grown at a pace exceeding the growth rate of the Japanese IT industry as a whole over the past several decades. Even if CTC maintains its existing business model, we think it would be possible to achieve expansion outstripping the market growth rate. The growth initiative of “enrichment of upstream functions” is an additional initiative predicated on not hindering existing businesses. We do not mean to change the overall revenue composition but expect to expand the three areas of product sales, development, and services overall.

Q: Does the TOB price of ¥4,325 (PER of 21 times) already take into account synergy from the growth initiatives? Or, if results are attained from the three growth initiatives, will it be possible achieve a return exceeding the investment amount?

A1: Regarding how much we should reflect future synergy in the TOB price, there are various arguments and positions, and I will refrain from specific comments. However, we believe that the TOB price is a fair price from the viewpoint of a third party, as it is the price that was agreed upon and recommended tender application by CTC's special committee based on fair procedures. On the other hand, regarding the appropriateness of the price from the Company’s perspective, the TOB price of ¥4,325 (total acquisition amount of ¥387.6 billion) is a huge investment, but the price aligns with internal investment criteria in terms of ensuring stable growth through our existing business model. We intend to meet market expectations by forcefully promoting various growth measures, including securing higher revenues by enrichment of upstream functions, and achieving further profit growth through synergy creation.

A2: FYE 2024 is the final year of the current medium-term management plan, and CTC plans to achieve ¥40.0 billion in consolidated net profit. Compared with consolidated net profit before the start of the current medium-term management plan (¥26.8 billion in FYE 2021), we can see that the profit level has incrementally increased. Through post-privatization growth measures, we will strive for a further jump surpassing existing growth. As a preliminary step, we are considering specific measures with CTC to first quickly achieve consolidated net profit of ¥50.0 billion.

Q: I understand that the strategy is to overlay inorganic growth initiatives on top of existing stable businesses, but turning to the implementation of the three growth initiatives, how much will the scale of investment expand going forward?

A: Regarding the initiatives we are currently deliberating, while there is some variation in the amount of investment, the amount is expected to be anywhere from hundreds of millions to billions of yen. Although the Company always carefully selects investments, each investment in the IT industry, which has high multiples, requires analysis that is even more extreme in its meticulousness. However, speed is also crucial when addressing changes in the business environment, and we will continue to pursue effective investments in a well-balanced manner. In today’s briefing, we mentioned projects that have been the focus of specific discussions aimed at partnership, but it should be noted that we are searching for ways of accelerating CTC's growth and are looking beyond the initiatives currently under consideration. Regarding these growth initiatives, we held multiple intimate discussions with the top management of CTC, building empathy and raising motivation for growth. Going forward, we will continue working swiftly in unison to implement various growth measures.

Q: I am aware this is a fiercely competitive industry and it is not easy to find good investment projects. When implementing growth strategies through privatization, what is the strength that enables ITOCHU to capture suitable investment opportunities?

A: The Company's digital value chain strategy promotes secondary profit in the overall value chain. When considering the effectiveness of investments, we can take into account not only returns from investments themselves but also synergy in the overall value chain. To this end, after shifting to expand the digital value chain strategy, it was critical that we unify with CTC, which will be the primary entity for this business. In the IT industry, which has high multiples, and it is as you said, not easy to select investment projects that can be expected to generate synergies with CTC and align with the Company's strict internal investment criteria. However, before privatization, when undertaking investments under the presumption of mutually independent listed companies, careful deliberations were needed. From the stance of ITOCHU alone, some of the benefits of the measures that contribute to CTC's growth flowed out from the group Company, becoming a hinderance to expanding investment. The Company has promoted initiatives for our group of digital businesses for the last few years, but we also missed out on many investment opportunities. Going forward, by unifying with CTC, our structure has enabled us to work together without hesitation if there are good investment opportunities. I feel that from a frontline perspective this was a major change attributable to privatization.

2. <u>Q&A Related to DAIKEN</u>

Q: What is the status with DAIKEN's responses to forestry certification programs, such as FSC?

A: DAIKEN has been diligently responding to the FSC and other forestry certification programs, as they have done in the past, and they are aware that they will need to connect such activities to enhancing corporate value going forward. ITOCHU's policy is to continue responding together with DAIKEN after aligning these efforts with the other SDG-related initiatives promoted by the Company.

Q: I get the impression that the wood board business, which you are considering expanding in North America, has high price volatility risk. About your forecast of demand from major home improvement retailers, if there is competition among the major players, will there be no problem in terms of price competitiveness? I understand there are few elements that differentiate the products themselves, so how will you expand business?

A: We aim to meet need to replace lauan plywood (products made from South Sea timber), which is especially high grade. The price of lauan plywood is soaring as production is seeing significant declines amid supply insecurity of South Sea timber due to tropical rainforest conservation, and this has made its stable procurement difficult. DAIKEN is developing wood boards to replace lauan plywood using its proprietary technology and is currently considering commercialization. This business supplies products that replace lauan plywood, which is difficult to stably procure, and we think that the business opportunity is significant and the perspective of social contributions is positive.

Q: Will you launch higher value added products rather than such mainstay products as MDF? Will high-priced plywood be widely accepted in the market?

A: Although we will also consider expanding the MDF business, we will first promote initiatives for high value-added products. We have already conducted multifaceted marketing for these wood boards, and there is already unique demand in North America for such applications as recreational vehicles, etc. We expect that even with slightly higher prices, it will be tolerated as higher value-added products.

Q: Could you give us an overview of businesses in overseas business, which account for 28% of sales, especially the current state of the North American business?

A: MDF is a product that accounts for a high percentage of sales in overseas markets, and there are many products that we export to Japan. Going forward, in addition to MDF, we aim to expand the high value-added wood board business. As for the North American business, through joint investment with ITOCHU, we operate CIPA Lumber, which runs veneer production business, and Pacific Woodtech, which runs a business that manufactures and markets engineered wood products.

Q: Could you tell me about the risk factors for DAIKEN going forward that you identified when conducting the TOB of around ¥50.0 billion and your policy to respond to said risk factors?

A: DAIKEN and ITOCHU sufficiently analyzed both companies' strengths and challenges from the past and have promoted specific discussions related to various alliances. The biggest risk is of the falling number of housing construction projects in Japan. From the perspective of survival in the shrinking market, we have held multiple discussions with DAIKEN, considering various angles. We reached the conclusion that there is sufficiently possibility for further profit expansion in the domestic housing market by utilizing DAIKEN's technological development capability and the Group's resources, and we have moved forward to conduct the TOB at this time. As for other risks, in the domestic non-housing, rather than offering integrated material and construction solutions that offer complete construction sets, DAIKEN is able to supply only construction materials. As for our responses to these risks, we aim to expand sales channels by fully utilizing the Company's robust network, which encompasses developers and general contractors. At the same time, by expanding our framework to enable the provision of integrated material and construction solutions, we will continue working to strengthen businesses that have identified market needs.

Q: Regarding the falling number of housing construction projects in Japan, what kind of impact do you think this will have on profit levels in the domestic housing near future? In addition, if you expect profit to decline in domestic housing, with the expansion of which businesses do you plan to cover this decline in profit?

A: Regarding domestic housing, the most important matter is increasing the profit margin by taking various measures. Even though we do not expect the market itself to expand, we aim to expand profit and secure continual residual profits by working hard to make business more efficient. Furthermore, we aim to build up profit in the domestic non-residential property and overseas business.

Q: Regarding domestic housing, DAIKEN is currently collaborating with TOTO and YKKAP. Going forward, is there a possibility that the ITOCHU Group will support business reorganization and aim to surpass LIXIL?

A: DAIKEN is collaborating with TOTO and YKKAP in the TDY Alliance for product planning, development, and sales support systems. Currently we are not considering such reorganizations as mergers or capital alliances.

Q: From Nishimatsu Construction's perspective, it would be more profitable not to prioritize the collaboration with DAIKEN, opting instead to pit suppliers against each other in order to procure materials and equipment cheaply. How will Nishimatsu Construction benefit from promoting collaboration and partnership with DAIKEN?

A: Although DAIKEN already promotes many collaborative projects with Nishimatsu Construction, they are working on joint development with great interest in development that leads to better energy efficiency, such as net zero energy buildings (ZEBs) and net zero energy houses (ZEHs). We understand that Nishimatsu Construction is promoting collaboration with the aim of creating new value and contributing to society through new initiatives not merely for the sake of cheaply procuring materials and equipment.

3. <u>Q&A Related to Hitachi Construction Machinery</u>

Q: Although we can expect the construction machinery finance business in North America to contribute to future revenues, I assume Hitachi Construction Machinery has not taken action to date and has not accumulated sufficient credit data. Going forward, what is your timeline for accumulating assets?

A1: One characteristic of construction machinery finance businesses is that they generally place a lien on the machineries, and, if they can secure a repayment of around one year for the total loan amount, the residual value of the construction machinery (used equipment sales price) will surpass the remaining amount. In North America, because it is possible to access the credit scores of not just individuals but also companies, we can easily assess the credit ratings of borrowers. In addition, data related to the market prices of used equipment is accumulated and usable when setting residual values. The hurdles for expanding the construction machinery finance business in a market where there is insufficient data related to the credit ratings of companies and the market prices of used equipment and also laws and regulations are not yet established are much different. In North America, because there is a law requiring the public registration of security interests, the hurdles to asset seizures are relatively low, and the environment for engaging in the construction machinery finance business is sufficiently established. Going forward, if we can steadily expand Hitachi Construction Machinery's market share in North America, we think we will be able to accumulate hundreds of billions of yen in assets in a relatively short amount of time.

A2: The construction machinery finance business in North America can utilize the know-how and expertise of the finance business we have engaged in previously in the Automobile, Construction Machinery, and Industrial Machinery Division. For example, in Indonesia, Hitachi Construction Machinery, Tokyo Century, and ITOCHU are all working together in the construction machinery finance business. In addition, for more than 10 years, ITOCHU has been working in the domestic finance business with Isuzu Motors. We are currently increasing our equity ratio in a domestic finance business undertaken with Isuzu Motors and are strengthening downstream businesses. In addition, we weathered the global financial crisis in 2008 and have been working with Isuzu Motors for more than 15 years in the North American finance business and are currently steadily expanding our earnings base. Furthermore, ITOCHU has dispatched presidents to construction machinery finance companies in Indonesia and North America to handle management using know-how and expertise cultivated in each financing business.

Q: If you are trying to strengthen the earnings base of Multiquip, please share the initiatives.

A: In addition to its sales function as a distributor of Japanese made light construction equipment, Multiquip also has a manufacturing function, which gives it strength in maintenance. Multiquip has a robust customer base among rental companies in North America, and, if it can continue to expand the current North American construction machinery and construction machinery rental markets, we expect organic growth going forward. However, because construction machinery sales are easily influenced by economic trends, Multiquip (like Hitachi Construction Machinery) is also focusing on measures to enhance its resilience to economic volatility. Specifically, the company is not focused on sales of light construction equipment alone, is also engaging in ownership businesses, such as rentals and leases, and downstream businesses, such as the provision of parts and services. Multiquip is not blindly increasing its product lineup. Based on its current product lineup, it is building an earnings base highly resilient to economic volatility by further enhancing its downstream businesses.

Q: To increase the proportion of its sales accounted for by the value chain business, such as parts and services, will Hitachi Construction Machinery need to engage in capital investment by, for example, opening new bases in North America? Can you also share the timeline for the capital expenditures?

A: The value chain business, which is set to be enhanced in North America, comprises the three aspects of 1) sales of used equipment, 2) rentals, and 3) parts and services. 1) Sales of used equipment can be expanded even without capital investment, such as opening new bases, because used construction machinery returned following the end of lease contracts can be sold by North American construction machinery finance companies. 2) Rental operations need to own a certain number of construction equipment units as assets in order to meet customer needs. If we work with Hitachi Construction Machinery in the rental business, we will keep an eye on asset efficiency, such as establishing joint ventures. 3) Parts and services operations require capital investment, such as opening new bases. Dealers for Hitachi Construction Machinery may be able to offer general repair functions, such as maintenance and parts exchanges for general construction machinery but are not currently capable of repairing critical failures or conducting mining machinery maintenance. Going forward, Hitachi Construction Machinery is considering establishing maintenance bases and establishing local assembly plants for construction machinery to come on line in the 2026 to 2027 period, which is when we forecast sales reaching ¥300.0 billion in North America. ITOCHU intends to continue supporting further business expansion in North America. The current North American business is performing better than originally expected, and ITOCHU and Hitachi Construction Machinery are considering accelerating efforts to establish and set up bases while carefully watching economic trends in North America.

Q: Hitachi Construction Machinery and ITOCHU have engaged in trade and business in multiple regions, such as Indonesia. Seizing the chance presented by the current capital alliance, will you expand business in not just North America but into markets dominated by other general trading companies?

A: ITOCHU, a general trading company, deals with multiple manufacturers, as other general trading companies do, and maintains trade with construction machinery manufacturers in addition to Hitachi Construction Machinery. Having ITOCHU back all of Hitachi Construction Machinery's global efforts is not realistic from a resource perspective. But the truth is that its expansion in the North American market, where we have strengths, is the highest priority for Hitachi Construction Machinery, and that is one of the reasons we decided on this current capital alliance. Although

Hitachi Construction Machinery is collaborating with other general trading companies, as a result of these collaborations, their corporate value has improved and ITOCHU has received returns as a shareholder, but the Company is not forcing its way into the markets of other general trading companies. After forming the capital alliance, we introduced dealer candidates to Hitachi Construction Machinery and did not stop at the conventional business model of mediating that trade. We directly engaged in consultations related to various issues from Hitachi Construction Machinery and will continue expanding the scope of our collaboration as a business partner to solve those issues. Utilizing all of the Company's resources, ITOCHU will create synergy and help enhance the corporate value of Hitachi Construction Machinery by working to help solve its issues.

Q: You explained that by solving issues for Hitachi Construction Machinery, ITOCHU will help enhance its corporate value, but if ITOCHU's role is praised by Hitachi Construction Machinery, will ITOCHU be able to increase your equity ratio in the future, including the option of acquiring JIP's stake, which is a joint investment partner.

A: JIP and ITOCHU concluded a capital alliance agreement that requires the continuous holding of shares in Hitachi Construction Machinery for five years, but this does not necessarily mean that the holding policy will change after five years. JIP, which is a fund, will not dismiss the possibility of selling shares of Hitachi Construction Machinery in the future, but since jointly investing with JIP, our alliance has deepened. As JIP supported the overall management of Hitachi Construction Machinery, ITOCHU has been able to focus on creating synergy with Hitachi Construction Machinery, such as establishing a North American construction machinery finance company. Based on this long-term holding of shares, our policy is to support the expansion of the value chain business and achieve the profitability of the North American construction machinery finance company. We have not set an exact timeline, but we will continue strengthening our relationship with Hitachi Construction Machinery as a business partner going forward and will eventually consider making that company our own affiliate.

4. Q&A Related to ITOCHU SDGs STUDIO

Q: How are you measuring the results of the initiatives undertaken by ITOCHU SDGs STUDIO to enhance corporate value? For example, the initiative for the morning-focused working system was visualized by lower business costs and higher birthrate. From the perspective of enhancing corporate value, if there are points you emphasize or some kind of check points, please tell me about them.

A: We use external evaluations as KPIs because we think this initiative contributes to such evaluations in a multifaceted way, such as company rankings among jobseekers, ESG evaluations and awards, and corporate image surveys. In addition, ITOCHU's efforts have garnered recognition widely within society, and the acquisition of social trust has helped enhance corporate value. Therefore, we emphasize media exposure and consumer recognition, and use the advertisement value equivalents (converting media exposure into value) as a KPI.

Q: Regarding the ITOCHU SDGs STUDIO and the SDGs initiatives overall, are you disseminating information overseas? If there are specific examples, please tell me.

A: Since it was first opened, we set a target for the studio regarding enhanced global information dissemination. As shown in the slide, for example, we connected three elementary schools online, one in Aoyama, Shiga, and London each. They mutually presented SDG-related efforts and deepened global exchanges. In addition, nine overseas media companies visited the facility the other day for their coverage, through these responses, we connect to global dissemination. Going forward, we will focus on further enhancing information dissemination overseas.

Q: What kind of influence have SDG-related initiatives had on ITOCHU's employees? I think it would be interesting to see indicators measuring their connection to higher motivation and engagement scores.

A: I think the ITOCHU SDGs Studio is an initiative that helps enhance employee engagement. The KIDS PARK is used freely by the general public, but we established a Group Employee and Family Day and provide opportunities for Group employees to exclusively use the facility. In addition, for students looking for work, we regularly disseminate information about ITOCHU SDGs STUDIO for students looking for work and provide the Hoshi No Kitchen as a place for opportunities for alumni visits. We aim to raise greater awareness among potential future employees while providing opportunities for current employees to effectively utilize the facility. I feel we have also earned the acclaim of employees due to our broad contributions to society as a company that is closely intertwined with people's lives due to our operating the integrated facility of the ITOCHU SDGs STUDIO as an initiative that goes beyond social contributions while helping enhance corporate value. Going forward, we will consider whether we can measure the effects of these kinds of efforts as one engagement indicator.

Q: A characteristic of the ITOCHU SDGs STUDIO is that it is an initiative that is conducted in very close proximity to consumers. Among the multitude of reactions, including those on social media, could you share with us a few of the constructive opinions you have received from consumers.

A: We operate social media accounts with the aim of strengthening customer contact points and are steadily increasing our follower count and collecting many opinions. In particular, there are many reactions to the fact that the facility can be used for free. Within Tokyo, the number of facilities where children can play safely for free is limited, and there were a very large number of positive reactions related to ITOCHU providing the KIDS PARK for free. Hoshi No Kitchen also garnered praise for being an expansive area that can be used easily with children, providing free baby food, and offering healthy meals at reasonable prices. We also think of this initiative as being a countermeasure to the declining birth rate by supporting childcare support. In addition, because ITOCHU directly operates these facilities with customer contact points, the Company is able to approach many people who had never heard of the Company before, such as families with small children. Leveraging these new customer contact points, we intend to gain new fans of the Company while conducting educational and awareness-raising activities for the next generation and connecting this to enhancing corporate value in the future.