

Condensed Transcript of Q&A Session Regarding Automotive Division from Sojitz IR Day (December 10, 2021)

First Questioner

- Q. In its dealership business, how will Sojitz exercise its strengths and what vision will it pursue after it has grown earnings through M&A activities? It was stated that Sojitz will be advancing a multi-brand strategy. However, such a strategy will probably require the Company to build larger stores, given the need to increase the number of vehicles on display. Will this entail substantial upfront costs and depreciation expenses? Also, Sojitz will likely need know-how in regard to the acquisition of large plots of land. It is common for large dealerships to employ business models that go beyond sales to grow earnings through value-added services like maintenance, inspections, and insurance. How will Sojitz exercise its strengths with this regard?
- A. Our multi-brand strategy will not entail selling multiple brands in large dealerships. Rather, we will establish individual dealerships to sell each separate brand in accordance with the strategies of the respective manufacturers. Our regional concentration strategy, meanwhile, will involve supplying higher-value-added services meeting the regions and improving the management efficiency of Sojitz. We will need to develop separate dealerships for each brand, but we will be able to pursue improved management efficiency by providing services for all brands at our repair stations. In terms of digital technology initiatives, Sojitz will implement a strategy of creating one large, central dealership surrounded by smaller locations that do not require significant investments to function as points of contact with customers. This strategy will be adopted in place of strategy of developing a network of large dealerships. We see the potential for offering solutions for the creation of virtual dealerships that feel like visiting physical dealerships as part of this approach.
- Q. Are there any areas in which Sojitz has been evaluated as such that you can anticipate an increase in customers visiting dealerships to experience your virtual reality offerings?
- A. We are in the process of discussing this matter with manufacturers, but we have received strong praise for the samples Sojitz prepared. Concrete measures will be something to be formulated going forward, but the initial reception has been positive.

Second Questioner

- Q. I would like to ask about Sojitz's distributor and dealership businesses. On slide 5 of the presentation materials, you showed graphs indicating increases in the numbers of both vehicles sold and dealerships. Given that these businesses are currently focused on Thailand and Puerto Rico, I suspect that you are anticipating growth in sales volumes in Pakistan and the Philippines. What type of growth are you envisioning? Are discussions with manufacturers moving forward in a way that you expect an increase in the regional scope of your distributor business in the near future? As Sojitz is increasing its number of locations in Russia, will it also be expanding locations in other regions? If

- so, how long do you expect this expansion to take?
- A. We are in the process of discussing one concrete project with Hyundai Motor Company and two projects with Zhejiang Geely Group Holding Co., Ltd. These discussions are moving forward, but I cannot offer any details on the locations of these projects at the moment. We also look to accelerate the expansion of our dealership network during the period of the Medium-Term Management Plan 2023. Meanwhile, our operations in Russia are more or less as we had envisioned. Accordingly, we will only be increasing our number of locations in this country by two or three. Larger increases will be pursued in Thailand, the Philippines, and Puerto Rico.
- Q. Sojitz has been developing a strategy of increasing the numbers of dealership locations under the control of its existing distributor business. Was the decision to include dealership strategies in the current medium-term management plan a reflection of this prior strategy coming into a sufficiently mature phase?
- A. The situation is as you describe. We have been selling niche automobile models in Thailand for the past decade. Hyundai's lack of factories in this region meant that it was less competitive than rivals who did have local factories. However, Hyundai has built a factory in Indonesia. The ability to import vehicles produced in Indonesia into Thailand will contribute to higher cost competitiveness. Hyundai wants to grow its sales volume in the Thai market by tenfold, and we therefore anticipate that it will find its current dealership network insufficient in the future. Accordingly, Sojitz will be looking to help expand this network. This country will serve as a case study for Sojitz strategically developing dealerships directly, as opposed to utilizing franchises to grow this network.
- Q. Will the range of models offered in Thailand be expanded as part of the efforts to grow sales volumes in this country tenfold?
- A. For the time being, the plan is to sell four models.
- Q. Why did Sojitz decide to start an automotive loan business in Mexico as part of its historic automotive operations? Also, what are your future plans for the automotive loans business?
- A. Sojitz has been engaged in the automotive loan business in the past, but it withdrew from this business. Accordingly, we have merely resumed these operations. Our automotive loan business is not limited to Mexico; we also have established a joint venture auto-financing company in the Philippines with JACCS Co., Ltd. Our strategy for the moment will be to grow our businesses in Mexico and the Philippines, rather than expanding the regional scope of these businesses. In Mexico, we plan to increase the number of brands we handle while developing our operations in a comprehensive manner encompassing leasing, rental, and insurance agencies alongside automotive loans.
- Q. To customers seeking to purchase automobiles, automotive loans and insurance are tools that help them make these purchases. In Sojitz's automotive loan businesses, who will assume the risks for such loans?
- A. In principle, Sojitz will assume the risks for automotive loans. However, we have in place frameworks for mitigating risks through means such as remote

control of vehicles.

Q. I can imagine a lot of reasons, like credit risks, why Sojitz got out of the automotive loan business previously. Today, however, Internet of Things and other technologies can be used to protect assets. Has this situation lowered the risks associated with automotive loan businesses?

A. Yes, this situation has lowered the risks.

Third Questioner

Q. Sojitz's automotive businesses are achieving substantial earnings growth, but this growth seems to be feeling the impacts of foreign exchange influences and business withdrawals. Sojitz will likely have to account for country risks and partner risks in the areas where it develops its businesses going forward. What risks do you need to address in existing businesses?

A. It may feel like history is repeating itself, but we are working diligently to ensure that past failures do not reoccur. It goes without saying that manufacturers will develop vehicles and supply these to Sojitz. However, we see potential to mitigate risks by having Sojitz provide additional value through other roles. We also have expertise when it comes to limiting the volatility associated with foreign exchange and market condition fluctuations. For example, there are substantial risks associated with the long lead time between orders and sales of automobiles, but we will do everything in our power to reduce these risks.

Q. Sojitz is developing automotive businesses in a lot of regions. Could you please offer some details on the contract conditions and profitability levels of specific regions or of operations associated with specific manufacturers?

A. Contracts generally do not change much if the manufacturer is the same, but there are some differences based on the region, and profitability can vary among the models sold. Sojitz looks to propose high levels of value for manufacturers in order to receive preferential treatment when it comes to allocating stocks of vehicles and in terms of discounts.

Q. Sojitz is planning to expand the range of models it offers in Thailand by importing vehicles from Indonesia. Is it safe to assume that profitability will improve in conjunction with increases in the numbers of automobiles sold?

A. Yes, profitability will improve in conjunction with increases in the number of automobiles we sell.

Q. Is there any chance that Sojitz will see improvements to profit margins from changes in sales mix, even if sales volumes do not increase? For example, could sales of large sport utility vehicles contribute to higher margins?

A. The models to be supplied from the Indonesia factory will primarily be those for the mass market. Accordingly, the per-vehicle profit margins will be low. We will thus be looking to grow profits through higher sales volumes.

Fourth Questioner

Q. What is Sojitz's view of Geely? Is it offering Sojitz beneficial contract conditions because its presence on the global stage is weak? How reliable are its automobiles? Could you please offer some basic information on this company?

- A. Geely boasts a strong lineup of cost competitive automobiles that excel in terms of quality and design. It has also incorporated European tastes into its lineup by gaining control of the Volvo brand.

Fifth Questioner

- Q. Slide 11 shows Sojitz's targets for the period after the medium-term management plan. What are the targets of the Automotive Division under the current medium-term management plan? It was stated that, on a Companywide basis, Sojitz is targeting returns of ¥25.0 billion from new investments during the period of Medium-Term Management Plan 2023. Around how much of these returns are slated to come from the Automotive Division?
- A. The Automotive Division posts cash return on invested capital (CROIC) of around 7% or 8%, whereas this level is roughly double this for the Infrastructure & Healthcare Division. For this reason, the amount of Companywide resources allocated to the Automotive Division is low in comparison to the Infrastructure & Healthcare Division. Nevertheless, we are moving ahead with acquisitions that will generate immediate returns, and new automobile sales businesses will take one or two years to develop. Earnings contributions from this business are thus expected to begin appearing around 2023 or 2024.
- Q. It sounds as though growth leading up to the year ending March 31, 2024, the final year of Medium-Term Management Plan 2023, will be pursued by achieving positions of profitability in the operations currently being developed in Pakistan and the Philippines and by securing returns from acquisitions that will immediately begin making contributions. Is this an accurate description of how the Automotive Division will approach the final year of the medium-term management plan?
- A. Profits will not only be pursued in Pakistan and the Philippines; we will also look to grow earnings by building upon other operations developed over the long history of the Automotive Division.

Sixth Questioner

- Q. Sojitz's automotive businesses include new vehicle sales, secondhand vehicle sales, services, and financing. What is the distribution of profits among these four business areas?
- A. All of those business areas are included within our automobile sales businesses, and it is therefore difficult to provide a breakdown of the profits of specific business areas. However, I can say that, of the ¥5.5 billion forecast for profit for the year in the year ending March 31, 2022, between 80% and 90% will come from automobile sales businesses, which include sales of new and secondhand vehicles as well as insurance. The remaining 10% to 20% will come from auto-financing and service businesses.
- Q. In what areas do you see potential for growth going forward?
- A. The Automotive Division has three focus areas. Two of these, the distributor business and the dealership business, are positioned among our automobile sales businesses and will be focused on as core businesses for Sojitz. The third

area is the auto-financing business. We will be devoting additional resources to this business.