Sojitz Corporation
Results Briefing for FY2023 Q3
(February 2, 2024)

Condensed Transcript of Q&A Session Regarding Results Briefing for Third Quarter Ended December 31, 2023 (February 2, 2024)

Presenter
Makoto Shibuya, Managing Executive Officer, CFO
Mizue Nakazawa, General Manager, Corporate Accounting Department

First Questioner

Q. Regarding the full-year forecast revision, what are the factors behind the downward revision in Automotive Division and the outlook for the coal business production volume in FY2023 Q1-3 and the production volume in this fiscal year and the next fiscal year among the upward revision in Metals, Resources and Recycling Division?

A. Shibuya, CFO:

The distributor business of Hyundai Motor in Puerto Rico showed strong performance due to an increase in sales volumes. However, profit declined because of the company's withdrawal from the distributor business in Thailand. In addition, Geely's distributor business in the Philippines significantly impacted its overall business performance. Geely cars, which are purchased from China in US dollars and sold locally in pesos, suffered a decline in price competitiveness amid a weak yen environment in a market dominated by Japanese automakers. There was also pricing competition with other Chinese automakers. Our current strategy involves selling at a certain loss to quickly clear the high inventory in this fiscal year. Another factor contributing to the downward revision is delays in the execution and monetization of M&A projects.

The production volume of the coal business in Metals, Resources and Recycling Division was assumed to be 1.8 million tons, produced from the open cut mining at the Gregory Coal Mine for the current fiscal year, with no inclusion in the plan from underground mining due to the ramp-up period. In the current situation, the start of production of underground mining was brought forward in July 2023, and it is expected to produce about 0.2 million tons in this fiscal year, but its contribution to earnings is expected to be limited due to the ramp-up period.

Regarding open cut mining, because of expanding production due to the strong market conditions until last year, we have been digging areas with a high stripping ratio, resulting in higher costs. Based on the steady production start status of underground mining, we are reviewing its plan to shift open cut mining sites from areas with a high stripping ratio to areas with a low stripping ratio. As a result, production from open cut mining is expected to be around 1.5 million to 1.6 million tons in this fiscal year, down from the initial forecast of 1.8 million tons.

Next fiscal year, production from full-capacity underground mining is expected to be 1 million tons, and 0.8 million tons for open cut mining in low stripping ratio areas, which will be total of around 1.8 million tons.

Q. This time, the investment plan will be revised downward by 50.0 billion yen, and this amount will be delayed to the next fiscal year and beyond. Is it correct to say that the investment plan of over 500.0 billion yen in the next medium-term management plan will be increased to over 550.0 billion yen.

A. Shibuya, CFO:

With regard to the investment plan for the next fiscal year and beyond, we are currently examining the plan together with the overall cash flow management in the next medium-term management plan that is currently being formulated. As we have previously reported, our company intends to firmly implement growth investment in the future, and we believe that one of our ideas is to use the revised 50 billion yen plan as a source of investment for the next fiscal year.

Q. With regard to the production cost of the coal business, is the production cost of underground mining lower than that of open cut mining, and will the production cost be lower next fiscal year than this fiscal year?

A. Shibuya, CFO:

We assume that production costs will decrease from this year through next year.

Q. The initial profit plan for Automotive Division was 7.0 billion yen, but it has been revised down to 3.0 billion yen. What is the outlook for the next fiscal year?

A. Geely's distributor business in the Philippines is currently focusing on early sales of existing inventory and is aiming to eliminate the deficit in the next fiscal year. Moreover, M&A deals that are currently delayed can be expected to contribute to earnings from the next fiscal year. Within our internal discussions, we are targeting a profit range of approximately 7.0 billion yen to 10.0 billion yen for the next fiscal year.

Second Questioner

Q. **I would like to know if the Australian used car business at Automotive Division is currently in deficit and what improvements you anticipate for the next fiscal year.**

A. Shibuya, CFO:
We acquired an Australian used car dealership in May last year and are now implementing a plan (PMI) to make it more valuable. However, the price of used cars in Australia has been falling for a long period of time from before the acquisition to now, and there is a certain inventory holding period, which has reduced the profit margin in the price decline phase. Additionally, the purchase has not progressed as planned due to the prolonged price decline and the lack of products available in the used car market. As a result, business performance has been weaker than initially expected. Since market prices cannot be controlled, we are currently working to increase its top-selling inventory and, if necessary, procure from sources other than Australia. Furthermore, we are working on making the inventory turnover faster, improving our sales, and optimizing costs. Although there are variations from store to store, some stores are seeing the effects of these efforts, and are beginning to feel the effects of improving their business performance.

Q. **The economic sentiment in Vietnam is slowing down. In this condition, what is the impact on Sojitz's business?**

A. Shibuya, CFO:
As you mentioned, domestic consumption in Vietnam has been sluggish since April last year. There have been reports that the Vietnamese government has reduced VAT, and there has been some improvement, but the situation has not yet been completely resolved. In the case of our company, the country has been focusing on the retail business area in particular, and the convenience store business has seen a gradual increase in the number of daily sales and customers. DaiTanViet Joint Stock Company (“NEW VIET DAIRY”), a commercial food wholesaler that we acquired in November last year, is currently undergoing plan (PMI), but even in this environment, we are generating more revenue than we expected at the time of the acquisition, and there has been no negative impact. In the overall retail business in Vietnam, the revenue for this fiscal year is slightly behind the initial projection. However, we expect to generate a steady income next fiscal year, including contributions from NEW VIET DAIRY. As you pointed out, we will carefully

monitor the economic trends in Vietnam and continue operations accordingly.

Q. **Is there a risk of future impairment loss of the used car business in Australia?**

A. Shibuya, CFO:

We acquired the company this fiscal year and will not record impairment loss at this time. However, it is true that the current situation is worse than expected, and there are concerns about deficit.

Third Questioner

Q. **In areas beyond the impact of market conditions or other factors, could you share which business areas you are feeling a positive momentum with recurring revenue accumulating?**

A. Shibuya, CFO:

In the Infrastructure & Healthcare Division and Retail & Consumer Service Division, which have been the focus areas of investment execution, as well as Chemicals Division, we have been able to achieve strong earnings growth in the face of adverse external conditions.

Infrastructure & Healthcare Division, the U.S. energy conservation services business has been generating higher earnings than expected, and the company has been steadily contributing to earnings regardless of market conditions.

Retail & Consumer Service Division, the businesses in Vietnam is finally turning a profit. The total profit of these companies is expected to be about 2.0 billion yen for the next fiscal year.

Chemicals Division believes that, despite the impact of the methanol market, its earnings are growing as it steadily improves the return on individual transactions.

Considering these factors, we believe that profit for the year of about 100.0 billion yen can be the starting point for the next fiscal year.

Q. **In light of the strategy to achieve a PBR of over 1 times, I would like to ask you to reiterate your current management philosophy, including the priority of cash allocation.**

A. Shibuya, CFO:

Our company is still in a growth stage, actively pursuing new investments to expand our corporate scale, business and increase its revenue. We aspire to reach a capital and market capitalization of 1 trillion yen as soon as possible. On the other hand, since our core cash flow is expected to be around 150.0

billion yen for the cumulative period of 6 years. We intend to make appropriate allocations based on the balance, and in this context, we naturally consider stock buybacks as one of the options.

Fourth Questioner

Q. With regard to Chemicals Division, I would like to know the factors behind the increase in profits from both non-consolidated trading businesses and overseas trade compared to Q2 and if it is possible to aim for an increase in profits for FY2024 and beyond, despite the revision of the raw material procurement contract for the overseas methanol business released in Q2.

A. Shibuya, CFO:
As for Chemicals Division, it was not that a specific transaction made a significant contribution, but that we were able to generate revenue as a result of efforts within the individual businesses to improve gross profit margins, maintain appropriate inventory levels, and reduce transportation costs. As for the negative impact of the revision of the raw material procurement contract in the overseas methanol business, we are pricing in a certain amount for FY2023, and expect to see a trend of profit increase from the current fiscal year's forecast even after factoring in that part from next fiscal year.

Q. What is the reason behind the increase in domestic retail business compared to Q2 and what is the future sustainability?

A. Shibuya, CFO:
As for domestic retail business, with the transition to Phase 5 of COVID-19 in Japan and the return of foot traffic, revenues have steadily improved in businesses such as JALUX Inc. and Royal Holdings Co.. These businesses originally generated a certain amount of revenue before the COVID-19, and we expect to see a similar level of revenue in next fiscal year and beyond.

Fifth Questioner

Q. How much is the revenue scale of the Vietnam food wholesale company (NEW VIET DAIRY) and how do you see synergies with existing businesses?

A. Shibuya, CFO:
I believe that we will be able to increase its revenue by 2.0 billion yen from FY2024 to FY2025. In our business, synergies can be achieved, for example, by leveraging the distribution network of Huong Thuy, a wholesaler of food

and consumer goods. By utilizing this network, we could be expanded to mid- and high-end hotels and restaurants that constitute NEW VIET DAIRY's customer base. We can expect synergies by realizing the development of wholesale and retail businesses. Regular meetings are held between employees seconded to each operating company and management, and various discussions are held.

Sixth Questioner

Q. **Regarding the background of the transition to company with audit and supervisory committee, what kind of awareness of the issues was behind the decision?**

A. Shibuya, CFO:
At present, the majority of the Board of Directors is outside directors, and the board has continued to strengthen its governance. This is also the timing of the start of the new medium-term management plan, and we wanted to further increase the speed of decision making by management as we strive for even greater growth. This decision was made against the background that the Board of Directors want to focus more on supervision and the executive side would focus more on execution with responsibility and speed.

Q. **Is it anticipated that the speed of investment decision-making will increase in the future?**

A. Shibuya, CFO:
Decisions on investments of a certain size or larger will still be presented to the Board of Directors, but executive side will have a broader scope to make decisions. The speed at which decisions are made on the ground will increase.

Q. **I'd like to know about the division between directors and executives in decision-making on shareholder returns.**

A. Shibuya, CFO:
Policy on shareholder returns is formulated in the medium-term management plan, which is to be discussed and judged by the Board of Directors. Dividends and the share repurchase are not to be decided by the executive side, but by thorough discussion within the Board of Directors.