

**Condensed Transcript of Q&A Session from Briefing Regard Capital and Business Tie-Up with Royal Holdings and Third-Party Allotment Acquisition of Royal In-flight Catering**

Presenters

Koichi Yamaguchi, Managing Executive Officer, COO, Aerospace & Transportation Project Division

Hiroto Murai, Executive Officer, COO, Retail & Lifestyle Business Division

**First Questioner**

Q. I understand that Sojitz's investment in Royal Holdings Co., Ltd., will entail the acquisition of common stock as well as the issuance of stock acquisition rights. What is the exact schedule for the transference? Also, what is your outlook for earnings contributions from the in-flight catering business?

A. Murai,COO:

As stated in the previously issued news release, the stock acquisition rights can be exercised at any time, and we will therefore be looking to acquire a 20% stake in Royal Holdings as soon as possible.

A. Yamaguchi,COO:

International flights are currently experiencing a significant slump by global COVID-19 pandemic, making for a difficult operating environment. Sojitz will thus focus on developing non-flight-related sales channels with the aim of quickly improving performance over the next one-to-two years. We anticipate that domestic flights will pick up in FY2022, and that international flights will begin gradually recovering in FY2023. We will probably have to wait until the year in FY2024, before flight numbers recover to the level seen before COVID-19 pandemic. Earnings from the in-flight catering business will begin to increase in conjunction with the recovery of flight numbers. For this reason, earnings contributions from this business will likely been seen in FY2022, and beyond. Also, as previously mentioned, plans to construct second runways at Fukuoka Airport and Naha Airport were impacted by the global COVID-19 pandemic. However, we anticipate that earnings will be generated through organic growth after international flights have recovered following the conclusion of the pandemic.

Q. I do not currently associate Sojitz with restaurants, and I suspect that Sojitz doesn't have enough experiences of this business. Given that a joint restaurant business with the Royal Holdings Group will be no easy task, what type of timetable are you envisioning for the production of results in this business?

A. Murai,COO:

Sojitz has previously been engaged in a range of business-to-business initiatives, including the provision of various distribution and procurement functions for Japanese restaurant operators and retail companies with Sojitz's global networks as well as functions for overseas operating companies. Sojitz is very close to unveiling a new -MTP. Our goal at the moment is to generate tangible results in the restaurant

business during the period of this plan. We are currently discussing concrete themes with the Royal Holdings Group, based on which we will shape our efforts to generate returns that match the scale of our investment.

### **Second Questioner**

Q. Operating cash flow in FY2019 was ¥9.8 billion, whereas operating cash flow of loss of ¥7.2 billion is projected in FY2020. What is Sojitz's view of future cash flows at Royal Holdings?

A. Murai,COO

After a state of emergency has been issued in the second quarter ended September 30, 2020, the customers are falling off and Royal Holdings has been facing difficult conditions.

By October to November when Japan's Go To Travel and Eat Campaign was carried out, even though some vary according to the specific business, their sales are recovering and increase about 80% year-in-year with cost reduction and so on.

I would like you to ask Investor Relations of Royal Holdings about their cash flows forecasts in each segment. Considering that financial results from October to December 2020, conditions at hand and their resilience, we forecast their cash flow will be positive after FY2021. We and Royal Holdings formulated the forecast based on sufficient discussion. It is therefore entirely possible for them to achieve this forecast.

Q. If the current level of international flights were to persist for another year, would there be any issue with business continuity in the in-flight catering business? Also, does Sojitz have any plans to achieve a position of profitability in this business in FY2021, by developing global procurement or distribution channels, for example?

A. Yamaguchi,COO:

Sojitz currently projects that international flights will be recovering in FY2022 at the earliest. Based on this business plan, we do not feel that this business will face issues with regard to business continuity, even if international flights do not show any improvement over the next year.

However, we believe that swift improvements in performance cannot be achieved purely through in-flight catering. Key to success in the in-flight catering business will be improving the operating ratios of factories, a task that will require us to find customers including non-flight related ones as soon as possible to which to supply the products manufactured at these factories. Our first step with this regard will be supplying the food products manufactured at in-flight catering product factories for use in the Royal Holdings Group's hotel and contract food service businesses. Alongside these efforts to improve factory operating ratios, we will also seek to heighten bottom-line profits by cutting costs through Group procurement and streamlining activities.

### **Third Questioner**

Q. You mentioned that demand in the in-flight catering business is not expected to recover anytime soon. When taking a long-term perspective, what type of upside do you expect see after operations in non-flight-related areas are up and running and

international flights have recovered?

A. Yamaguchi,COO:

We expect that the in-flight catering business will benefit from our efforts targeting non-flight-related fields as well as from the recovery of international flight demand and the commencement of operation of second runways at Fukuoka Airport and Naha Airport going forward. If these benefits are indeed realized, we anticipate profit improvement to be achieved over the long term.

Q. Could you please offer details regarding the background and steps leading up to the tie-up with Royal Holdings, why Sojitz was chosen for this tie-up, and how Sojitz views this development?

A. Murai,COO:

The reason for Sojitz's selection for this tie-up can be seen in how Sojitz has been investigating the possibility of engaging in various collaborative ventures centered on Asia with the Royal Holdings Group over the past several years. Unfortunately, none of these potential ventures came to fruition. However, the discussion process fostered a trusting relationship between Sojitz and Royal Holdings Chairman Tadao Kikuchi, President Yasuhiro Kurosu, and other members of Royal Holdings' management along with a mutual understanding of the strengths and shortcomings of each other's business. This trust and understanding formed the foundation for the tie-up. For example, Sojitz's lack of points of contact with consumers in Japan is well known by the market. We therefore see the tie-up with the Royal Holdings Group as an invaluable opportunity and we will make an effort with collaboration and other joint business ventures for Royal Holdings Group to grow their revenue. Meanwhile, the Royal Holdings Group has high expectations for the Sojitz Group's efforts directed toward this tie-up, and we are fully committed to living up to these expectations.

#### **Fourth Questioner**

Q. What is your outlook for returns from the investments and stock acquisition rights associated with this tie-up?

A. Murai,COO:

Sojitz aims to heighten the Royal Holdings Group's earnings through its investments. Royal's performance has been down in FY2020, due to the COVID-19 pandemic. Regardless, Sojitz believes that the Royal Holdings Group has sufficient competitiveness and soundness in comparison to its rivals. We have incredible confidence in this assessment, which is based on analyses from various perspectives. By augmenting the Royal Holdings Group's competitiveness with Sojitz's various networks, we expect to generate a satisfactory amount of returns from Royal's restaurant, catering, hotel, in-flight catering, and other businesses.

Furthermore, Sojitz looks forward to gaining access to earnings opportunities through the transactions conducted in the Royal Holdings Group's various businesses. In addition, the Sojitz Group stands to compensate for the Royal Holdings Group's lack of

experience in business-to-business operations with its exceptional track record and numerous business partners in the area of food-related business-to-business operations in Japan.

In this manner, Sojitz anticipates upside gains from the growth of the Royal Holdings Group as well as earnings gained through its involvement in Royal's business. These two types of earnings should amount to returns that justify our investment.

Q. How long do you expect it to take for the Royal Holdings Group's various businesses to begin contributing to earnings?

A. Murai,COO:

The timing of earnings contributions will vary by business, but anticipate satisfactory growth in all of the Royal Holdings Group's businesses. In the hotel business, for example, the majority of earnings comes from sources other than inbound demand. It will likely take several years for inbound demand to recover, but we expect the movement of people, and consequently the generation of earnings, to recover relatively swiftly in Japan. The current environment is characterized by massive restrictions in business and overseas travel. Given this situation, a rise in domestic tourism could spell significant benefits for Royal's hotel business, which provides premium customer experiences for the masses. As for our overall time table, we are committed to creating tangible results during the period of the next -MTP.

#### **Fifth Questioner**

Q. Does Sojitz have any intention to acquire a catering company from an air travel-related conglomerate in the future?

A. Yamaguchi,COO:

We cannot deny the possibility that Sojitz may acquire a catering company in the future. However, should we choose to make such an acquisition, we will flexibly examine catering companies from both Japan and overseas and will not limit ourselves to those from air travel-related conglomerates. Catering companies from air travel-related conglomerates tend to be significant sources of costs, and we have a high affinity with independent catering companies.

#### **Sixth Questioner**

Q. It was stated that Sojitz's overseas operations are gaining speed. Could you please provide more details with this regard?

A. Murai,COO:

We aim to grow the restaurant business in Asia, particularly in Vietnam and Indonesia, areas where Sojitz boasts strength. For example, Tendon Tenya, which has already been introduced into overseas markets, has been incredibly well received in Hong Kong and Singapore. For this reason, one of our first moves will be to grow the Tendon Tenya formats. We will also work to expand overseas operations for other formats The Royal Holdings Group boasts incredibly refined distribution and supply systems, such as those involving its catering services and central kitchens. We will thus be going beyond

simply opening store locations to swiftly develop operations by capitalizing on the superior functions of the Royal Holdings Group without waiting for the COVID-19 pandemic to conclude before acting.

A. Yamaguchi,COO:

We see Southeast Asia as one promising market for the expansion of the in-flight catering business. Prior to the COVID-19 pandemic, the Sojitz was engaged in discussion with the Royal Holdings Group, and the overseas expansion of the in-flight catering business was one topic examined. Royal In-flight Catering Co., Ltd., provides technical guidance and education to Vietnamese in-flight catering companies, and it has considered Vietnamese employees at its factory. The related insight will be utilized to develop operations in Vietnam and Indonesia. The timetable we are envisioning for these operations looks toward the recovery of international flights following the conclusion of the COVID-19 pandemic.