

Condensed Transcript of Q&A Session from Sojitz IR Day (November 28, 2022)
Section 2: Sojitz's Value Creation and Digital Transformation Strategies

Presenters

Tomomi Arakawa
Executive Officer
CDO

Tatsuhiko Kanetake
Executive Officer, COO
Automotive Division

First Questioner

Q. An excessively agile approach toward systems development can lead to higher costs. What types of digital transformation measures will Sojitz be investing in on a Companywide basis?

A. Arakawa, CDO:
We are implementing technologies and promoting digital transformation together with business divisions. Accordingly, part of these measures will be funded using the budgets of the respective divisions. At the same time, under Medium-Term Management Plan 2023, Sojitz has committed to conducting approximately ¥30.0 billion in non-financial investments on a Companywide basis. These non-financial investments will include the cultivation of DX-Experts.

Q. Could you elaborate on your plans for cultivating DX-Experts? I believe that frontline workers are involved in the requirements definition process of systems development, but who does the actual development? There are a number of cases of other trading companies using external specialists. Will Sojitz be cultivating its systems development specialists in-house?

A. Arakawa, CDO:
There are, largely speaking, two different goals for using digital technologies: value creation and "Run the business". As CDO, I am primarily involved in the value creation aspect of digital technologies. As seen in the co-creative initiatives with the Automotive Division we talked about earlier, creating value with digital technologies requires people who are business experts. It is when this business expertise is combined with a capacity for utilizing digital technologies that we are able to create value. Accordingly, we are focused on cultivating individuals who have both business expertise and digital technology knowledge in-house. Meanwhile, I will become involved in "Run the business" after assuming the position of CIO (chief information officer) in January 2023. With this regard, I see a need to develop platforms for integrating Companywide data in a manner that can be used for systems development. It is rare for a Japanese company, trading company or not, to have such capabilities in-house. We will therefore be looking to develop these platforms together with IT partners. However, we cannot just leave everything up to IT vendors. Rather, it is important to foster human resources who can

proficiently wield IT as a common skill for promoting co-creation. Even if they do not completely understand the technical aspects of systems or lack complex IT skills, these people will be able to contribute so long as they have a working knowledge of things like system structures and designs. I look to cultivate such human resources, and to recruit them from outside of the Company.

Second Questioner

- Q. You mentioned that investments in digital measures would be conducted using division budgets for some measures, while others will be carried out on a Companywide basis. Will the budget for Companywide measures be used to fund the digital transformation measures of business divisions aimed at value creation? What, specifically, are your plans for these investments?
- A. Arakawa, CDO:
I am engaged in numerous co-creative initiatives with business divisions. Some of these are being funded using the budget of the CDO Office. However, in principle, business divisions will fund their measures with their own budgets. This is because divisions have business commitments, and using the budgets of these divisions is the best way to ensure that these initiatives are linked to businesses.
We are coordinating with business divisions to make sure that we are not just promoting digital technologies for the sake of digital technologies. Sojitz has put forth profit targets in the current medium-term management plan based its business commitments. Our digital technology initiatives should thus contribute to the accomplishments of these targets.
- A. Kanetake, COO:
I touched on this when describing our strategies earlier, but I view digital technologies as one tool for boosting our functionality. We are devoting a lot of effort to strengthening this. Sojitz has always had employees who were well-versed in digital technologies, and we are committed to enhancing our digital capabilities going forward. For example, Sojitz has implemented a Companywide program for fostering DX-Experts. Prior to this program, the Automotive Division was using a trial-and-error approach to cultivate its own digital technology staff.
We also look to outside of our current staff to recruit programmers, web designers, web marketers, and various other digital technology professionals to heighten the overall digital capabilities of our staff. Furthermore, Sojitz is investing in technologies. One example would be our investment in Twinner GmbH of Germany. This investment has enabled us to acquire exclusive sales rights for Twinner's technology in Japan. We will also have joint ownership of the data collected using Twinner's technology. This data has the potential to be used for creating new businesses.
- Q. Could you please provide details on the digital transformation initiatives of the Automotive Division? What approach will be taken to toward

monetizing Twinner's technology?

A. Kanetake, COO:

One approach we will take will be to lease equipment to auction sites, rather than selling it.

The original reason we got involved in these initiatives was that we wanted to use this technology to help sell automobiles. The sale of automobiles is the main business of the Automotive Division. We look to sell vehicles through online venues, instead of just at traditional stores. There are currently a lot of e-commerce venues for buying cars, but they only show photographs. Even if someone wants to purchase a used vehicle online, it is tough to make the decision if all they have to work off of is photographs. However, 3D digital twin models made by scanning vehicles allow for transactions to be completed without prospective buyers needing to see the actual vehicle or sellers having to display a vehicle in a physical venue.

If we can develop the framework we envision, it could lead to automobiles being sold through e-commerce platforms. This would help sell Sojitz's vehicle inventories while also potentially producing revenues in the form of processing fees. In addition, we could sell the data gain when scanning vehicles. We therefore look to generate earnings by selling both vehicles and data through such a framework.

A. Arakawa, CDO:

The act of producing digital twin models itself can be made into a new business. By developing such a business model, we will look to collect data and create an extensive data platform that can be used to standardize vehicle appraisals. Such a platform would be indispensable and highly appealing to the market as it would allow for data to be viewed and referenced to determine the appropriate prices for vehicles. Moreover, a fundamental transformation to the entire vehicle distribution process could create a situation in which it would be impossible to provide reliable appraisals without our platform. This situation might make it possible to create a business model that could transform the structure of the industry. There are currently 7.5 million used vehicles on the market in Japan. If you think of the fees we could receive for scanning each vehicle, you will see that this model has the potential to produce a business of scale that is more than sufficient for a general trading company. We could even introduce this model into other parts of the world.

Q. I understand that Sojitz needs to refine used vehicle sales operation and improve inventory turnover. I also see the great potential for transforming the industry in the development of a platform. What is the situation regarding your competition and their possible development of such platforms?

A. Kanetake, COO:

The development of such a platform is not something that Sojitz can do alone. This is why we look to engage in co-creation with partners. Our first partner with this regard is an auctioneer. We have also begun

discussions and major used vehicle dealers. Through these discussions, we hope to secure a position that will enable us to lead the industry.

Third Questioner

Q. We are currently seeing a number of digital transformation projects. What is the focus for these projects? Does Sojitz adopt an approach of seeking ways of utilizing its competitive digital transformation offerings? Or, is your approach to deploy digital technologies through Sojitz's network?

A. Arakawa, CDO:

When planning a new undertaking, the first thing we look at is the market to determine its potential and what avenues are available. After this, we consider the businesses that Sojitz is currently engaged in. As our digital transformation initiatives are built on actual businesses, it will take time to build a business from scratch in a field where we don't already have existing operations. The Automotive Division doesn't just sell automobiles; it was quick to branch out into financing and other fields. The breadth of our operations in these fields gave rise to a vision for a business in which we address the issues faced in the used vehicle market. As for new vehicles, we look to increase the value of our existing business by utilizing virtual reality and augmented reality to offer new customer experiences and create new vehicle showrooms that don't need physical venues.

Sojitz often mentions the agricultural platform business it is developing in Southeast Asia. This business is shaping digital transformation initiatives for the agriculture field. Thai Central Chemical Public Company, a fertilizer company in Thailand, has a large share of the market, but we have no intention of limiting ourselves to fertilizer sales. Rather, we are examining the possibility of creating a new agricultural platform. In exploring this possibility, we are setting our priorities based on an integrated approach looking at the potential of the market, the strengths of Sojitz existing businesses, and where there is the possibility for growth.