

CEO Message



Our 25,000 employees are firmly united in their commitment to working with all stakeholders to ensure a prosperous land and society for the future.

Hitachi Construction Machinery Co., Ltd.
Representative Executive Officer
Chairman and Executive Officer, Director, CEO

Kotaro Hirano

Two Major Accomplishments Marking the End of My Tenure as President

In the six years since assuming the role of president in 2017, I would say that our most significant achievements have undoubtedly been our independent business expansion in the Americas and the change in our capital structure. Independent business expansion in the Americas was a challenge I had been eager to tackle from the very beginning of my tenure as president. I had also considered the change in our capital structure, although a completely separate initiative, a move in the same strategic direction. That both opportunities to advance our business presented themselves within the same year was extremely fortuitous timing.

Our previous business setup in the Americas involved us handling product development and manufacturing while our partner, the American agricultural machinery major Deere & Company, handled sales and services. The partnership was long-standing, dating all the way back to 1983, but we had become keenly aware of the need to re-examine our relationship in light of changing market conditions and customer needs. We could see that it would be a challenge to advance business any further without a change in the status quo and felt a sense of crisis.

The needs of customers have changed considerably over the years and today manufacturers are increasingly being required to provide solutions that improve safety and productivity at construction sites, lower costs through better fuel efficiency and improve environmental performance. Finding optimal solutions that address these issues requires that we dig into the operational data of the machinery itself to then find ways to provide optimal proposals to the customer. In other words, we found that possessing and utilizing operational data is vital to discovering solutions to the issues our customers face. But in order to obtain this data, we needed to establish direct connections with dealers and customers, which we could not do while depending on Deere & Company for sales

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and services in the Americas, the world's largest market. We therefore concluded that it would be best for us both to separate so that we could each target growth in line with our unique business strategies. Even so, determining the best way to dissolve our business partnership entailed considerable effort. From the start of negotiations, a handful of staff have been working practically every day, devoting their time to deliberations and negotiations.

Our relationship with Deere & Company began as an OEM supply relationship and it has lasted for over 30 years. It therefore took time for Deere & Company to realize that we were serious about ending our partnership and not merely using the threat of pulling out as a bargaining chip. The negotiations were indeed tough at times. If we could not reach an agreement, there was the risk the partnership would have to continue with lingering resentment on both sides. Through repeated discussions, we came to a mutual understanding that to grow globally, both of us needed to terminate this relationship.

Once we agreed that we would not cause any inconvenience to the dealers and customers who have been using products developed by Hitachi Construction Machinery and sold and serviced by Deere & Company after our partnership ended, discussions progressed at a more rapid pace. Of course, negotiations are bound to have sticking points. When these arose, it was helpful to return to this basic point and make compromises. Ultimately, we were able to reach a final agreement in August 2021 and the joint venture was dissolved as of February 28, 2022. Now that these difficult negotiations have finished, we are free to pursue our long-standing ambitions in the world's largest market for construction and mining machinery.

On the other hand, the change in our capital structure entailed Hitachi Ltd. transferring 26% of its 51% stake in our company to HCJI Holdings G.K.^{*1}, a joint venture set up by ITOCHU Corporation and Japan Industrial Partners, Inc., making it a principal shareholder. As Hitachi Ltd. proceeded with group restructuring, we had numerous discussions with its representatives about the growth strategy of our construction and mining

machinery businesses. A major challenge for Hitachi Construction Machinery has been to build an independent framework in the Americas capable of directly providing products, technologies, and services to customers in a timely manner, as well as utilizing the operational data of machinery. Hitachi Ltd. also supported this endeavor, recognizing it as part of our growth strategy.

From the perspective of the Hitachi Group, although sales and profits in the construction and mining machinery businesses had been exceeding the Group's overall targets for some time, these businesses also heavily impacted the balance sheet. This is attributable to the high unit prices of machinery and advances in our value-chain businesses (services, parts, rentals, used vehicles, remanufacturing, etc.), which require us to hold assets that inevitably weigh down the balance sheet.

To undertake independent business expansion in the Americas, the world's largest market, Hitachi Construction Machinery needs a considerable number of service bases to cover the vast continent, sufficient inventories of products and parts and its own sales financing arm. All of this requires funds for growth. Considering Hitachi Ltd.'s desire to lighten its balance sheet and our desire for more freedom and flexibility to invest in growth, an agreement was reached to change the shareholding ratios. Meanwhile, our ConSite remote monitoring solution for construction and mining machinery—which is based on Hitachi Ltd.'s Lumada platform and uses digital technology to create value from data—is a perfect example of a service solution that contributes to problem-solving and business growth. Due to this and other strong technological relationships, as an equity-method affiliate of Hitachi Ltd., Hitachi Construction Machinery will continue to rely on the Hitachi Brand.

We commenced our independent business expansion in the Americas in March 2022, and, at an exceptionally opportune moment, were able to announce the change in capital structure in August of the same year.

^{*1}: HCJI Holdings G.K. is now HCJI Holdings Ltd.

^{*2} Lumada is Hitachi Ltd.'s platform for providing solutions, services and technologies that employ advanced digital technology.

Embarking on a *Second Founding* with a New Structure

Whenever the opportunity arises, we say that Hitachi Construction Machinery has embarked on a *second founding*. The mountain we have to climb is clearly in sight and the real challenge begins now.

Reaching the summit will not be easy, but President Senzaki and I have decided to take the lead on this journey. With Hitachi Construction Machinery having just launched its new medium-term management plan, President Senzaki is committed to diligently fulfilling his responsibility for earnings by reviewing the plan on a monthly and annual basis over



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the next three years. I will tackle issues concerning the allocation of resources like human capital and funds, as well as what to prioritize in terms of ESG, with an eye on 2030.

Through this *second founding*, Hitachi Construction Machinery will achieve true globalization. The massive market in the Americas represents approximately 40% of the global market for construction machinery and 30% for mining equipment. Now that we are positioned to do things not possible before, we are confident that our business will expand as the addition of new customers, dealers and employees in the Americas will have ripple effects on our presence and operations in other markets around the world.



Shortly after the launch of our independent business expansion in the Americas, I was on a business trip to Australia when a very encouraging event occurred. Soon after arriving, I received an email from a local employee stating that this independent expansion in the Americas is really exciting and will expand our business in Australia.

Australia is a major market for mining equipment. If our mining equipment business expands in the Americas, the production numbers for mining equipment will increase, improving overall profitability. Opportunities for exporting used equipment and remanufactured parts from Australia to the Americas will also increase. This is an example of why we think business success in the Americas will have a positive consequence on our operations in other countries and regions. Even our employees in Australia are excited about the possibility of us thriving in the Americas. This potential for true global expansion has clearly resonated with our local staff, which is heartening to see.

Towards the Realization of “Ensure a Prosperous Land and Society for the Future”

Currently, more than 300,000 of our construction and mining equipment units are in operation in over 100 countries worldwide. One might wonder whether simply producing and selling more new machinery to increase this operational number aligns with our vision of ensuring a prosperous land and society for the future. I do not believe it does.

For example, if we can extend the operational lifespan of these 300,000 units by just five more years, the work that they perform may make them effectively equivalent to 450,000 units. During those five

extra years, we wouldn’t lose out on business as we would continue to provide services to the customer. For customers, being able to use their machinery for a longer period is certainly welcome and it brings us joy to see our customers running our machinery trouble-free. In other words, what matters more is how reliably the construction and mining equipment that we have sold is operating. By understanding the operational status of the equipment and offering detailed on-site repairs and maintenance through the value chain business, one of our major priorities, we can contribute to stable customer operations. While our production numbers may not increase, this approach benefits the customer and contributes to the realization of a circular economy.

Even when producing or selling products globally, we recognize that Hitachi Construction Machinery cannot achieve everything solely by itself. We must deeply acknowledge that everything we do is done in conjunction with all of our stakeholders. With this in mind, we not only aim to grow our business, but also firmly commit to upholding safety, compliance and quality. We also feel obliged to convey the status of our initiatives on these fronts to everyone.

Within the Hitachi Construction Machinery Group, we have a code of conduct called the *Kenkijin Spirit*, which consists of Three Cs: Challenge, Customer and Communication. If we keep these words in mind as we work, I am confident that we will attain our vision of ensuring a prosperous land and society for the future. The Hitachi Construction Machinery Group’s 25,000 employees are firmly united in striving toward realizing a safe and sustainable society together with all stakeholders. I hope you have high expectations for the future development of the Hitachi Construction Machinery Group and sincerely ask for your unwavering support.