

Outside Director Roundtable Discussion



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Future Prospects for the *Second Founding*

On June 19, 2023, three Hitachi Construction Machinery Co., Ltd. Outside Directors gathered for a roundtable discussion. The directors candidly discussed their assessments of group initiatives, challenges, and their expectations for the sustainable improvement of corporate value.



Outside Director

Maoko Kikuchi

Outside Director

Kazushige Okuhara

Outside Director

Toshiko Oka

Outside Director

Maoko Kikuchi

Profile

In 1992, Ms. Kikuchi was appointed as a prosecutor in the Public Prosecutor's Office of the Ministry of Justice. She later joined the Los Angeles office of Paul Hastings LLP and, later, the law offices of Nagashima Ohno & Tsunematsu. Other posts have included the General Secretariat of the Fair Trade Commission, Chief Compliance Officer of Softbank Corp., Executive Officer in Charge of Legal and Public Affairs at Microsoft Japan Co., Ltd., full-time member of the Audit and Supervisory Board at Mitsui-Soko Holdings Co., Ltd. and outside member of the Audit and Supervisory Board of KADOKAWA Corporation. Currently, she serves as Outside Director for Mitsui-Soko Holdings and became Outside Director of Hitachi Construction Machinery Co., Ltd. in July 2020.

Outside Director

Kazushige Okuhara

Profile

In 1970, Mr. Okuhara joined Fuji Heavy Industries Ltd. (now Subaru Corporation), and has served as the Director, Corporate Executive Vice President and General Manager of the Human Resources department. Other posts have included President and Chair of the Business Reforms Promotion Committee at Subaru System Service Co., Ltd., Representative Director and Deputy President of Fuji Heavy Industries Ltd. and Representative Director and President of Subaru Kohsan Co., Ltd. He joined Hitachi Construction Machinery Co., Ltd. as Outside Director in June 2016.

Outside Director

Toshiko Oka

Profile

In 1986, Ms. Oka joined Tohmatsu Touche Ross Consulting Ltd. After working at Asahi Arthur Andersen Ltd., Ms. Oka served as President and Representative Director of ABeam M&A Consulting Ltd. She also served as Partner at PwC Advisory LLC. Currently, she is Outside Director at Sony Group Corporation, Outside Director at Happinet Corporation, Outside Director at ENEOS Holdings, Inc. and full-time Professor at Meiji University Graduate School of Global Business. She was named Outside Director of Hitachi Construction Machinery Co., Ltd. in June 2021.

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Please describe the Board of Directors' discussion about independent expansion and the change in principal shareholder

Okuhara : I am positive on the company's independent expansion into the Americas and change in principal shareholder. These represented major decisions for Hitachi Construction Machinery, likened to a *second founding* of the company.

While the American market is very important, I felt that the company's product offerings and pricing, in relation to its partnership with Deere & Company, were not aligning well with Hitachi Construction Machinery's vision for business expansion. When the topic of dissolving the business partnership arose, I believed it would be a challenge to achieve. However, with unwavering leadership and persistent negotiations, we were able to move forward and I feel that these efforts have yielded excellent results.

I also believe that management was very meticulous and thoughtful in its preparations concerning the capital relationship as a matter of priority.

Kikuchi : I have deep respect for Hitachi Construction Machinery's executives for their truly tenacious negotiations and successful termination of the partnership agreement.

For example, Deere & Company's president changed more than once during negotiations, and Hitachi Construction Machinery was forced to adjust its negotiation strategies and styles to accommodate each personnel change. The difficult decision was also made to sell its American plant.

The fact that the business relationship with Deere & Company remains on good terms even after the agreement was terminated is, I believe, the result of their well-thought-out strategy considering situations after the termination of the agreement, as well as their sincere negotiations that did not endanger the trust between the two parties.

Although there were some initial reservations regarding the change in capital composition, particularly the drawbacks of distancing from the Hitachi Group, the executive side remained optimistic and viewed it as a new growth opportunity for Hitachi Construction Machinery. A search began for a sponsor that could adequately support the company's development in place of Hitachi Ltd, and, once successful, the idea of departing from the Hitachi Group seemed less challenging, and I believe our employees felt reassured and were able to accept the position and move forward. Hitachi Construction Machinery has a culture of optimism, a spirit of challenge and resilience and I believe this played a positive role during this time.

Oka : At the graduate school, my teachings often cover M&A topics. From my standpoint, Hitachi Construction Machinery's change in principal shareholder has provided significant insights to companies, not just listed subsidiaries, but also companies that are subsidiaries.

From the perspective of Hitachi Ltd., this event represents a sale of a portion of their stake in Hitachi Construction Machinery. Historically, sales of shareholdings typically refer to divesting unprofitable businesses, i.e., seeking a company to take them over. However, this particular transaction comes as a result of a change in strategic direction within Hitachi Ltd.'s governance—construction machinery is not seen as an unprofitable business.

Such M&A transactions are called carve-out M&As. From the subsidiary's viewpoint, it indicates that their parent company is willing to part ways due to a change in strategy, even if the subsidiary is profitable.

The implication for the subsidiary is that they are not aware of when the parent company might decide to divest its shares. Accordingly, the subsidiary needs to be ready for such a transaction by considering daily who their best partner might be and who should own them with what kind of capital structure.

In reality, we had such discussions at meetings of the Board of Directors and arrived at the current formation while considering the proposal from Japan Industrial Partners, Inc.

With the termination of Hitachi Construction Machinery's partnership with Deere & Company, light was shed on some previously unseen business aspects after the relationship changed, reinforcing the notion that ending the alliance was a wise decision. The focus now shifts to how Hitachi Construction Machinery will expand further into the North, Central, and South American markets.

How would you evaluate Chairman Hirano's leadership?

Oka : Chairman Hirano's leadership is outstanding. Above all, he has an aura that makes everyone want to follow him. Through each of his experiences, the Chairman has gained profound insights into this business. He has transformed each challenging decision into a source of strength, and I believe this has shaped him into the leader he is today.



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Okuhara : I have many years of business experience, and during this time have not come across many individuals like Chairman Hirano who possess such strategic thinking and the ability to execute these ideas. I have great respect for him in this regard.

As the top executive, he has led negotiations with Deere & Company for years, persisting even when discussions escalated difficult and challenging levels. It is reassuring to witness a leader who does not waver, taking the lead and personally addressing the critical challenges.

His monthly messages to employees, which he has written himself since becoming president, play a significant role in aligning their thoughts and ensuring they understand the company's vision.

Kikuchi : In the past two years, I have learnt a lot from Chairman Hirano about the qualities a leader should possess to guide a company. For example, the ability to make decisions based on fairness, the capability to embrace others, and his cheerful and positive demeanor are all qualities I admire. From my point of view as Outside Director, if a company has an indifferent attitude toward accepting outside directors, they cannot adequately fulfill their roles. However, influenced by Chairman Hirano's

attitude, I feel that Hitachi Construction Machinery has extended a warm welcome to us.

Meanwhile, President Senzaki has followed a career that is distinct from that of the Chairman. He is a professional on the technical side and has extensive overseas work experience. While he appears gentle and calm, I have heard that he meticulously examines issues before making decisions. With the increasing importance of electrification and automation and the growing emphasis on overseas expansion, I believe he is the ideal leader to take on these challenges and grow Hitachi Construction Machinery. With the groundwork set and with the leadership of Chairman Hirano and President Senzaki, I feel that the company's *second founding* has started out on the right track.

Okuhara : While Chairman Hirano determines the strategic direction and leads from the front, President Senzaki possesses a unique strength in meticulously planning and executing new initiatives.

The challenges to achieving the objectives laid out in the medium-term management plan are numerous, and I have confidence in President Senzaki's ability to identify and overcome each challenge.

With the introduction of the business unit system, it is crucial to produce tangible results in operations. Based on my experience, in order to achieve something, something else must be set aside. Simplifying the organization and improving operational efficiency are essential to get the business units on the right track, in my opinion.

Oka : As I see it, Chairman Hirano is a man of action. Be it in the Americas or in capital relations, he has taken action. After making significant changes, it becomes essential to maintain stability and focus on foundational efforts. In this sense, if the Chairman represents action, then President Senzaki might symbolize stillness. I think President Senzaki is the right person for this challenging role. There are high expectations for him from both employees inside and people outside the company.

When it comes to foundational efforts, it would be beneficial if their roles were delineated, like the Chairman will handle this, and the President will do this. As their roles evolve over time through discussions

between the two leaders, I believe the best mixture will appear early on and we will see outcomes in quick succession.

During a recent online meeting of the Board of Directors, after I made a rather blunt comment, President Senzaki responded that I was absolutely right in every respect. Hearing this made me reflect, thinking I might have been too blunt. However, such interactions show that President Senzaki truly listens to others' opinions.

What discussions have taken place in the Board of Directors about the formulation of the medium-term management plan?

Kikuchi : The medium-term management plan sets high quantitative targets, such as for the earnings before interest, taxes, depreciation and amortization (EBITDA) margin and ROIC, while laying out medium- to long-term strategies.

In discussions by the Board of Directors, I expressed a desire to focus more on creating new value with "people as assets," and it was noted as "strengthening human and corporate capabilities." I had talked about the importance of the *Kenkijin Spirit* in past meetings, and the company created the *Kenkijin Spirit Handbook* in support of goals in BUILDING THE FUTURE 2025, the current medium-term management plan. This clarified the mission and values for each business division. By providing the handbook not only in Japan but also overseas, I believe it will help convey to the entire Group the company's medium-term policy for developing human resources.

Okuhara : The medium-term management plan can be somewhat exaggeratedly described as a "full employee participation medium-term management plan." It was formulated through discussions in the workplace, refining ideas, and then finalizing them. Especially during times when the company is undergoing change, I believe this formulation process was an



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excellent one to follow. Achieving the medium-term objectives will largely depend on human resources, in my view.

Particularly as Hitachi Construction Machinery expands globally, the utilization and evaluation of local human resources and groupwide initiatives is becoming critical.

Under President Senzaki's new leadership, I hope that the company will swiftly undertake human resource measures that signal a departure from previous approaches.

Oka : This was my first time observing the process of formulating the medium-term management plan. One policy was to share information about the medium-term plan's formulation prior to meetings of the Board of Directors. We received interim progress reports several times. However, perhaps because each business division was creating their parts of the plan from a bottom-up perspective, there were moments at the interim report stage that the management plan seemed more like a collection of parts stapled together. Each part seemed to be narrowly focused on its immediate surroundings, so when the parts were stacked together, it was hard to get a bird's-eye view of the entire industry and see the whole picture. Therefore, in the meetings of the Board of Directors, I recall having discussions suggesting that the management plan might be better if presented in a more story-driven manner or that some charts be redrawn to provide a bird's-eye view.

Even if some things are obvious to industry insiders, investors and others outside the industry might find them hard to understand. Based on my experience of such discussions, I believe the Board of Directors was deeply involved in the formulation of the medium-term management plan and contributed significantly to it.

Okuhara : Regarding the "parts stapled together" moment, Ms. Oka, you addressed it very directly yet in a gentle tone, which took everyone by surprise. However, soon after, content in the plan came out with a clear narrative focus. It might not have been said in as many words, but I believe that this awareness was already present within the organization.



For the Hitachi Construction Machinery Group to achieve further growth, what matters need to be addressed?

Oka : Speaking from an ESG perspective, first, on the environmental side (E), we should consider what machinery that impacts the planet should be like. The question for Hitachi Construction Machinery is what kind of construction machinery it can create that is kinder to the planet and to people.

In the social aspect (S), people are the most important. Generally speaking, the ranks of Japanese companies are predominantly filled with Japanese men. It is said that innovation occurs where there is diversity and most where companies actively promote diversity. However, the reality is that the majority, i.e., Japanese men, have arbitrarily chosen to favor

a few well-behaved and obedient minorities in order to achieve what is a merely superficial realization of diversity. Since the obedient minority aligns with the majority, innovation does not spark.

Therefore, the next step is to increase the number of minorities and remove the pressure on them to conform to the majority opinion. When this happens, minorities can express their opinions, and diversity is achieved in the true meaning of the word.

There is a different sense of speed in Japan compared with overseas. I believe one of President Senzaki's roles should be energizing diversity and creating an environment conducive to innovation.

Lastly, in governance (G), which management has been working on since 2014, the corporate governance system is now in place. While striving to further upgrade the governance structure, management will have to be more sensitive to the company's share price. There are many ways to appeal to the market, so it is essential that management communicates each one carefully to the market.

Okuhara : The *Kenkijin Spirit* is alive and well in employees and top management. Hitachi Construction Machinery is in an excellent position with both the structure and human resources it needs. With so many growth opportunities, I hope that management will be even more aware of the share price when decisions are made.

Kikuchi : Corporate growth means expanding and meeting the expectations of various stakeholders, such as employees, customers, investors, business partners and society. I would like President Senzaki and the executives to continue to proactively deliver a narrative that inspires hope in people. Also, it is essential to create an environment where all employees can think of new and better ways on their own and take the initiative.

I have high hopes for the *second founding* of Hitachi Construction Machinery. I am excited to see how the company will change the world with its ambitious goals. It would also be great if Hitachi Construction Machinery could take the lead in the automation and autonomous operation of hydraulic excavators.