

## IR Day 2024: Questions and Answers

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[Part 1 Presenters]	Shingo Ueno	Representative Director, President, and CEO
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	Takao Kusaka	Executive Officer, Group CEO of Transportation & Construction Systems Group
	Ichiro Tatara	Corporate Officer, General Manager of Commercial Aviation SBU
	Kotaro Tameda	Managing Executive Officer, Group CEO of Lifestyle Business Group
	Hideyuki Tokuhira	Corporate Officer, General Manager of Healthcare SBU
	Hiroshi Hasegawa	Corporate Officer, Deputy General Manager of Healthcare SBU
	Yukihito Honda	Managing Executive Officer, Group CEO of Diverse Urban Development Group
	Hiroaki Murata	Executive Officer, Deputy Group CEO of Diverse Urban Development Group
	Takashi Yanai	Corporate Officer, General Manager of Industrial Park and Sustainable City SBU
	Yoshinori Takayama	Corporate Officer, Head of Investor Relations Dept.

<Questioner 1>

Please provide an overview of the current aircraft leasing industry, including market size, growth rate, your company's market share, and future expansion strategies.

<Tatara>

Approximately half of the 20,000 plus aircraft flying worldwide are now leased, indicating a significant presence of leasing in the industry. SMBC Aviation Capital is the second-largest player globally, managing and owning a fleet of 700 aircraft. While AerCap, the largest player, has a fleet of 1,800 aircraft, we maintain a strong position as a top-tier company in the world. To maintain our presence in the aircraft leasing industry, it is crucial to remain within the top three globally. We aim to hold this position firmly while exploring further expansion opportunities, including inorganic growth if viable. The market is expected to grow by approximately 5% annually, and we plan to capture this demand to maintain our top position.

<Questioner 1>

Does the 5% growth rate refer to an annual increase in the total number of aircraft or in the number of leased aircraft?

<Tatara>

The demand for air travel is growing at an annual increase of about 5%. The market outlook suggests that the proportion of leased aircraft will remain steady at around 50%.

<Questioner 1>

Is it correct to understand that airlines have a need to own their aircraft, and thus the leasing ratio will continue to be around 50%?

<Tatara>

Indeed, while some airlines prefer to purchase their own aircraft, low-cost carriers often opt for leasing to maintain operational flexibility. Depending on the strategies of these airlines, the industry structure could change significantly.

<Questioner 1>

Could you provide more details on the profitability of our healthcare business? Specifically, where are you currently generating profits, where do you plan to invest, and how will you achieve future profitability?

<Tokuhiko>

I served as the president of Tomod's up until two years ago. Since 1993, we have built our drugstore, pharmacy, and healthcare businesses from scratch, and these have become the core profit drivers of our healthcare SBU, currently generating approximately 3 billion yen in profits. Last year, we added Yakuju, a Kanagawa-based pharmacy chain, to our portfolio, making up about 80% of SBU profits from domestic operations. While the domestic market is expected to grow due to increasing healthcare expenditures driven by an aging population and declining birthrates, we are also focusing on expanding our business in Southeast Asia, particularly in Malaysia and Vietnam. In Malaysia, we have established a value-added business model combining managed care and clinic operations. Just as we have developed our domestic business by being hands-on, we intend to replicate this approach overseas. In the U.S., despite the market's size, we have only recently made our first investment, targeting diabetes care. Our strategy includes leveraging healthcare data from Southeast Asia and the U.S. to create new business models and integrating diabetes care insights from the U.S. into our operations in Southeast Asia and Japan. We plan to allocate significant capital to Southeast Asia and the U.S., aiming for a profit target of 30 billion yen by 2030, with a reversal in the domestic and overseas revenue ratio.

<Questioner 2>

Could you clarify your strategy for enhancing the profitability of our aircraft leasing business, given the stable but modest returns perceived in this sector? The image on page 12 of the presentation suggests a slight improvement in profitability. How do you improve the return on invested capital? Furthermore, integrating ancillary businesses does not seem to significantly boost profitability. Please share any strategies your company has to improve asset efficiency.

<Tatara>

The leasing business generates revenue by holding large assets. By leveraging the asset holding capability of SMFL, a 50:50 JV with the SMBC Group, we efficiently deploy capital while expanding our business. Similarly, in SMBC AC's aircraft leasing and engine leasing, we adopt an asset turnover business model to enhance profitability. Specifically, we increase fee income by managing assets owned by third parties in addition to holding assets ourselves. The SMBC-SMFL group's access to Japanese investors has facilitated the expansion of our investor-focused business. At the beginning of this year, we formed a JV with Canada's pension fund CDPQ for aircraft leasing. By accelerating these strategies, we aim to improve profitability. Of the 700 aircraft we manage, SMBC AC owns approximately 500, while about 200 are held by investors. Additionally, we aim to increase SBU profitability by enhancing earnings from asset-light businesses, including part-out operations in the aftermarket sector.

<Questioner 2>

Regarding the acquired entities in the aftermarket sector, could you sell aging aircraft from SMBC AC?

<Tatara>

While SMBC AC generally maintains a relatively young fleet, it is possible that some older aircraft may be sold. Our entry into the aftermarket sector is driven by our commitment to addressing social issues and contributing to areas such as the circular economy.

<Questioner 2>

Could you clarify your risk management strategy regarding the planned expansion of the real estate business overseas? What measures are you taking to mitigate long-term development risks in these new markets? Additionally, considering risk management, which specific regions or sectors are you focusing on for future expansion?

<Honda>

In developing our growth strategy, we recognize the need to increase our overseas ratio while maintaining a solid domestic presence, given Japan's declining population and low economic growth. Our primary target markets will be areas with economic development and a demographic dividend.

Managing country risks is crucial. Because our infrastructure team excels in project development in emerging markets, real estate and infrastructure businesses will expand their business areas in tandem. Infrastructure team has expertise in responding local government regulations understanding local legal frameworks, and selecting compatible countries and partners. These expertise will guide our entry into growth markets.

In addition to Vietnam, we are developing real estate and industrial parks in the Philippines and India, where we have been focused on infrastructure projects. Although not an emerging market, we are also undertaking significant real estate and land development projects in the southern United States, known as the "Smile States." These efforts aim to comprehensively achieve higher profitability.

While there are other countries under consideration, our primary focus will be on the markets mentioned above.

<Questioner 3>

Since the introduction of the new mid-term management plan and the appointment of the new President and CEO, I believe there have been changes in your internal structure. From a qualitative perspective, could you please share any changes in internal awareness or other aspects from the viewpoint of the SBU and the group?

<Kusaka>

The internal processes have been streamlined, resulting in faster decision-making. This restructuring is intended to align with that goal, and we are managing the group accordingly.

<Tameda>

We have observed a clear and daily shift in the company's mode towards speed, decisiveness, and a positive attitude.

<Honda>

Further autonomy of each group is required. Accordingly, we have initiated our current mid-term management plan with a strategic shift towards growth based on our strengths.

<Questioner 3>

I understand the mid-to-long-term direction and strategy of each business unit. However, regarding the divergence between your profit plan and market expectations, it is challenging to predict from the outside the profit targets and capital investment plans for each of the three businesses for FY2026, which are expected to contribute to the ¥650 billion target. Could you provide a quantitative breakdown, particularly the figures for the final year of the mid-term management plan, as well as the growth drivers for the next three years?

<Tatara>

In addition to the points mentioned in the materials, the presentation explained that this year's outlook is approximately ¥16.2 billion. We aim to steadily increase profits in this manner.

<Tokuhiko>

As stated in the materials, we aim to achieve a profit of approximately ¥30 billion by FY2030. Specifically, we plan to enhance our ROIC and drive growth by expanding into Southeast Asia and the United States, and by adding new services to our business foundations such as drugstores in response to rising medical costs in Japan.

<Honda>

We will primarily increase our capital investments to drive growth and achieve profitability. However, synergy of infrastructure and real estate investments does not yield immediate profits, as each sector offers significantly different opportunities for profit realization. Therefore, our strategy is to grow profits by utilizing both our backlog and pipeline.

<Questioner 3>

Regarding your urban development projects, while we anticipate record-high profits from real estate in FY2024, can we consider the backlog and upcoming property sales over the next two years as primary drivers for profit growth during the mid-term management plan period?

<Honda>

Overall, your understanding is correct. Our group has revised this fiscal year's profit forecast upward by approximately ¥10 billion. This is not due to one-off factors. We would like to recognize profit at the peak of our asset value. Additionally, we have added accelerated asset replacement during our global business expansion as a strategic pillar.

<Questioner 4>

Regarding your real estate business, the focus is on expanding overseas. However, the details are still unclear. While the North Hanoi project has been highlighted as a specific case, could you provide information on what has been done since 2017, the future plans, and the expected profit contributions?

<Yanai>

To proceed with obtaining the necessary permits and land acquisitions, it is essential first to secure government approval for the master plan development. Although the procedures have been time-consuming until now, we have finally received the land use rights approval this year. We are partially advancing the design work, aiming to commence construction next year. Regarding the profit contribution timeline post-construction, we plan to generate profit from single-family homes in FY2026, followed by condominium developments at a later stage. We will also explore creative measures, such as partial share-outs, to enhance profitability.

<Questioner 4>

If these initiatives succeed, do you have plans for further developments following the North Hanoi project?

<Yanai>

We plan to expand beyond North Hanoi and leverage further development opportunities. Within North Hanoi, we aim to develop not only single-family homes and condominiums but also commercial facilities and offices.

<Questioner 5>

The ROA for Diverse Urban Development Group may be lower compared to other SBUs. How will the group's overall profitability change with a greater focus on international expansion?

<Honda>

We are implementing strategies for a global portfolio, including both domestic and international expansion. By collaborating real estate and infrastructure, and utilizing various methods and structures, we aim to accelerate revenue recognition and profit realization. As mentioned earlier, inviting partners and share-outs, or selling interests at a certain stage of development are part of this approach. We do not wait until full completion to realize profits. We also plan to replace prime domestic assets with new ones as a strategic tool to enhance our portfolio.

<Questioner 5>

Is the target ROIC for both domestic and international operations managed as part of an overall portfolio strategy?

<Honda>

Our current portfolio predominantly consists of high-quality domestic assets. However, as we expand globally, we plan to increase our capital investment internationally. With a long-term vision extending to 2030, we have strengthened our backlog and pipeline. Consequently, we intend to accelerate the turnover of assets to enhance our portfolio.

<Questioner 6>

Please provide an overview of your healthcare business, highlighting the differences from other domestic drugstores, your company's strengths, and future growth strategies. Additionally, as you consider roll-ups and potential acquisitions of competitors, could you discuss any challenges or difficulties you foresee?

<Tokuhiko>

First of all, there are pharmacies and drugstores as industries, and recently there are some drugstores that also offer prescription dispensing services. Our company established the dispensing pharmacy-integrated drugstore Tomod's in 1993, pioneering this business model in the industry. While suburban drugstores have moved towards selling groceries and engaging in mergers, we have differentiated ourselves by focusing on providing healthcare services with a dispensing pharmacy integration model, primarily in urban areas. Moving forward, we plan to expand in regions with growing elderly populations such as the Tokyo metropolitan area, Tokai, Kansai, Kyushu, Hiroshima, and Sendai, leveraging our real estate expertise. We aim to become a top-tier player in the still-fragmented dispensing pharmacy sector and will continue to capitalize on our strength in both drugstores and dispensing pharmacies. Since dispensing pharmacies are close to medical care, they focus on the aging population and home medical care, while drugstores cater to pre-symptomatic and preventive services, and play a role up to home medical care. This is the business model aimed at increasing the so-called lifetime value of customers through their entire lives in Japan.

<Questioner 6>

Are there significant opportunities for acquiring dispensing pharmacies?

<Tokuhiko>

The dispensing pharmacy sector remains a hot target for acquisitions, with significant opportunities available as the market is not yet consolidated. While top-tier companies like Ain Group and Nihon Chouzai boast revenues in the billions, our strategy is not to recklessly expand our store network indefinitely. Instead, we aim to maintain a certain scale and leverage our expertise to offer services that can eventually serve as hubs for home medical care.

<Questioner 7>

Could you provide details on your efforts in the SAF segment of the commercial aviation related business, including the expected timeline for commercialization?

<Tatara>

Regarding SAF, we are collaborating with the EII SBU, the unit responsible for new energy businesses. In the commercial aviation related sector, we plan to leverage our strengths by supplying SAF to airlines downstream. Although we cannot disclose more details than what is already public, we are committed to tackling the challenges of SAF manufacturing, supply, and sales by leveraging our comprehensive capabilities as a trading company.

<Questioner 4>

Could you clarify whether the projected high growth rate in the healthcare business through 2030 is truly achievable?

<Tokuhiko>

The pharmacy sector in Japan is experiencing significant consolidation opportunities, and we are leveraging our established network to pursue large-scale projects. We see potential for domestic expansion and plan to enhance profitability by offering value-added services, such as medical staffing, and providing platform as a service to other pharmacies. Internationally, while our managed care business is still in its infancy, we have already executed M&A transactions in Malaysia, and projects are in the pipeline. Our clinic business has grown from 18 to 150 locations, indicating a robust pipeline. We also envision expanding our successful Malaysian business model to neighboring countries with favorable demographics. While the U.S. market poses challenges, we are progressing toward our second project following the success of our first initiative this spring, and we are committed to establishing a solid foundation. In the medium to long term, we plan to capture global healthcare challenges and demands by increasing our workforce and executing projects one by one, leveraging our experience over the next five to ten years.

<Tameda>

We are confident in achieving our profit targets for 2030. Although our overseas business, which began in 2019, is still in its initial investment phase and not fully reflected in the P&L statements, we have seen significant progress. Our overseas clinic business has expanded from 18 to 150 locations since the start of the previous mid-term management plan, and we anticipate economies of scale to emerge moving forward.

Currently, we are increasing the number of clinics despite the upfront costs of staffing and medication procurement. As efficiency within the group improves, so will profitability. Initial investments in increasing the number of doctors and rebranding clinics are expected to yield positive results. We aim to double the number of clinics to 300 and are actively seeking new targets.

While the P&L may not fully capture our current profitability, our underlying earnings power is strong and growing. In the overseas, while the Malaysian market we have entered has depth, we must also penetrate larger markets with populations in the hundreds of millions.

Domestically, our business is closely tied to national policies, which could impact us if they change. However, our focus on home medical care aligns well with current governmental priorities. Recognizing the national issue of hospital capacity, our pharmacy business is well ahead of competitors in home and community-based care, positioning us strongly for future growth.

<Questioner 8>

Could you elaborate on the initiatives and discussions regarding cross-segment collaboration? While we've grasped the expansion within each segment, we need insights on efforts to integrate across segments. For example, in urban development, developing facilities needed for healthcare-related businesses (e.g., hospitals and nursing homes), or using helicopters to transport wealthy individuals from high-rise buildings and office buildings developed by the real estate sector to airports. If there are any considerations on cross-segment collaboration to expand from points to lines, lines to surfaces, and then expand those surfaces, please let me know.

<Yanai>

Given the North Hanoi project's potential, the local government has expressed strong interest in introducing Japanese healthcare services. We have initiated preliminary discussions with our healthcare team.

Simultaneously, we are exploring the integration of a city operating system to enhance urban living convenience, and have begun detailed discussions with our digital team regarding app development.

<Tokuhiko>

In Japan, for example, our real estate team has purchased land from scratch at Shimura Sancho Station and constructed a building. We have invited our healthcare team to establish medical facilities within this building, placing pharmacies on the first floor and creating clinic malls. We have long integrated supermarkets and drugstores into commercial facilities developed by our real estate team. Moving forward, we aim to implement this combination of medical facilities and real estate development in urban projects overseas.

<Questioner 8>

Please leverage your comprehensive capabilities to showcase successful examples of vertical and horizontal expansion, including the Hakozaki site, formerly Kyushu University.

<Murata>

Our Real Estate SBU is developing and expanding the Terrace Mall, incorporating Summit and Tomod's as tenants in collaboration with our Retail SBU to maximize profitability through our comprehensive capabilities. At the former Kyushu University Hakozaki site, we plan to integrate healthcare by attracting hospitals and implementing digital features for telemedicine, with a goal to introduce 5G. Furthermore, we aim to lead in mobility and energy management initiatives.

<Questioner 9>

Regarding the expansion of your domestic healthcare business, recent reports indicate an increase in bankruptcies of pharmacies and drugstores, marking a decade high. This intensified competition appears to be polarizing the market. Could this scenario present any opportunities for your domestic healthcare operations? For instance, while Tomod's primarily operates in the metropolitan area, could this serve as a foothold for expansion into other urban regions?

<Tokuhiko>

We see significant opportunities in the pharmacy sector. As previously mentioned, Japan's pharmacy market is not yet consolidated, with nearly 60,000 family-run pharmacies facing challenges in integrating home healthcare services. The government's regional comprehensive care system mandates collaboration among doctors, pharmacists, nurses, and caregivers, which presents a heightened role for pharmacies.

National policies set every six years increasingly emphasize the importance of pharmacies in managing medication-related social issues, such as leftover medications. This highlights the need for pharmacists to take on roles traditionally held by doctors and nurses. Additionally, the Ministry of Health, Labour and Welfare is implementing a rating system for pharmacies, promoting the advancement of services through automation and digitalization.

A critical aspect of our strategy is the development of a robust human resources model to enhance the quality of pharmacists, essential for advancing home healthcare. By combining analog and digital education methods, we aim to optimize tasks performed by machines and pharmacists, leveraging our group's expertise. Sharing this know-how with family-run pharmacies can foster mutual growth.

While we anticipate a reduction in the number of pharmacies due to bankruptcies, we are committed to contributing to society by investing capital and establishing a strong foundation for both pharmacy operations and home healthcare services.

[Part 2 Presenters]	Shingo Ueno	Representative Director, President, and CEO
	Takayuki Sumita	Managing Executive Officer, CSO
	Takashi Mitachi	Outside Director
	Yoshinori Takayama	Corporate Officer, Head of Investor Relations Dept.

<Questioner 1>

I would like to ask Mr. Mitachi for his perspective. Given your extensive experience as an outside director at companies such as Rakuten and Tokio Marine Holdings, how do you view Sumitomo Corporation's management execution capabilities? Considering the losses incurred in the previous fiscal year and the lingering impact of Ambatovy, I would appreciate your candid opinion on the current management situation and the future direction of the company.

<Mitachi>

While challenges remain, the current atmosphere is reminiscent of when other companies embarked on significant overseas acquisitions. Through discussions on the medium-term management plan, an offensive stance has become evident. I believe Sumitomo Corporation has the potential to ascend to higher positions. There is an ongoing discourse about aggressive portfolio management, ensuring proper balance while taking bold steps. Demonstrating a strong track record is essential to gaining trust.

<Questioner2>

Competitors are also focusing on complex projects, and simple acquisitions that yield direct returns are becoming less common. In cross-cutting themes such as energy and AI, sharing ideas and discussions across organizational boundaries are crucial. While some companies make decisions top-down, I would like to understand how your organization maximizes synergies and advances decision-making on complex projects through its organizational approach.

<Sumita>

The Global Innovation & Portfolio Committee (GIPC) evaluates projects from various groups, providing cross-functional advice based on their respective strategies. After further discussions, these projects are elevated to the Management Council, forming complex projects. Our company is characterized by a cross-functional mentality, leveraging leasing functions, SCSK's DX capabilities, and the Energy Innovation Initiative (EII)'s efforts in renewable energy and green transformation. This approach facilitates the formation of complex projects.

<Ueno>

Our company is more advanced in its approach to DX (Digital Transformation) and GX (Green Transformation) compared to other integrated trading companies. In 2021, we established the Energy Innovation Initiative (EII), which has significantly integrated GX across our organization. The societal demand for addressing GX challenges has become a business opportunity, and our on-the-ground awareness, influenced by EII, is high. We also established the DX Center in 2018, which has been instrumental in driving digital transformation across the organization. The current medium-term management plan's catchphrase is "fully leveraging DX," which means transforming our business models digitally. The Global Innovation & Portfolio Committee (GIPC) focuses on discussing value creation through DX and GX, and Management Council make decisions. While GX's monetization

timeline is longer, our portfolio, viewed horizontally, emphasizes DX and GX, requiring long-term efforts towards 2050.

<Mitachi>

From the perspective of an outside director, both the Global Innovation & Portfolio Committee (GIPC) and the Management Council have proven effective in addressing DX and GX initiatives. Cross-functional efforts at the Business Group and SBU levels are crucial. In the current medium-term management plan, nine Groups aim to improve ROIC/WACC, clearly defining their competitive advantages. This ongoing discussion focuses on identifying winning strategies and achieving excess profits. Additionally, rotating group CEOs into different fields brings new winning patterns to other business areas, a practice recognized by members of the board and the Nomination and Remuneration Advisory Committees. The three mechanisms of GIPC and Management Council discussions, changes in Group and SBU structures, and personnel shuffling are well-established and progressing effectively.

<Questioner 3>

Regarding investments, while considering new investments based on business sectors, timelines, and regions, it is also crucial to think about divestitures and exits when evaluating the overall company portfolio. I would like to ask Mr. Mitachi how he evaluates Sumitomo Corporation's portfolio replacement compared to other trading companies, particularly from the perspective of the business lifecycle axis.

<Mitachi>

Although not a direct comparison with other trading companies, there has been considerable discussion regarding portfolio replacement. Due to our past track record, the market tends to calculate our capital costs slightly higher, which we need to correct. Generally, it took time for Japanese companies to divest. However, at Sumitomo Corporation, discussions on replacing the portfolio using ROIC and WACC when good opportunities arise have progressed significantly.

<Sumita>

Under the theme of "No.1 in Each Field," there has been a significant increase in discussions about new large-scale investments within the company. To advance new investments, it is necessary to divest from other projects in terms of financial and human resources. Recently, the term "replacement" has been frequently used in Management Council, raising awareness within the company. While the pace of replacement was slow in the past, there is now a growing atmosphere of tackling new initiatives, and we aim to accelerate exiting from certain projects.

<Ueno>

The primary area that requires consideration for replacement is the businesses included in the "Restructuring" in the four-quadrant classification under the Medium-term management plan 2026. We carefully assess which projects require immediate replacement and which, despite current challenges, have future profitability potential. When action is needed, we proceed swiftly. For example, although T-Gaia is currently profitable, we evaluated whether our company could support its future growth and decided to entrust it to other owners. The focus is not on whether a business is

currently profitable but on its future potential. Even for businesses expected to grow, if their growth curve remains stagnant, it is meaningless. Therefore, we set timelines and assess progress accordingly. In the current medium-term management plan, we have an 800-billion-yen replacement plan and are actively pursuing it with a robust pipeline. While there may have been a negative spiral equating divestitures with losses, we are shifting our mindset to achieve exit gains, as seen with T-Gaia, and are actively advancing this approach.

<Questioner 4>

Since I am in charge of sustainability and governance, I believe the role expected for outside directors is defensive governance. In an environment where there is a willingness to take risks for growth, it is crucial to minimize the risks associated with unprofitable projects. I would like to hear the role of the five outside directors in the board of directors.

<Mitachi>

In the outside officers' meeting, we discuss the necessity of both offensive and defensive strategies. In order to take risks, we have been given explanations and are discussing risk management mechanisms such as the risk appetite framework. We also place significant emphasis on compliance and reputational risks, engaging in information exchange and discussions with not only outside directors but also auditors. By leveraging the strengths of each outside director, we ensure thorough discussions to balance both offensive and defensive strategies.

<Questioner 4>

Could you provide an example where risk-taking was encouraged within the aggressive strategies?

<Mitachi>

As an integrated trading company, it is not feasible for us to intervene in every individual investment. In most cases, our role is more about oversight. Rather than focusing on specific cases, we provide opinions on whether appropriate risk-taking is being conducted overall, including replacement, within the medium-term management plan. We engage in extensive discussions with the management to understand the positioning of these actions in relation to the medium-term management plan, fulfilling our role as outside directors.

[END]