

## Independent Outside Director Roundtable Discussion

On July 2, 2024, five Hitachi Construction Machinery Co., Ltd. independent outside directors gathered for a roundtable discussion.

The directors candidly discussed their assessments of group initiatives and challenges, and their expectations for the sustainable improvement of corporate value.



**Independent Outside Director**  
Joseph P. Schmelzeis, Jr.

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Mr. Schmelzeis joined Bain & Company in 1984. His career includes serving as Vice President of American Express International and Senior Advisor to the Ambassador, U.S. Embassy in Tokyo. He currently holds such positions as Executive Manager of Cedarfield Godo Kaisha, Outside Director of DENSO CORPORATION, Vice Chairman of International High-speed Rail Association and Outside Director of Central Japan Railway Company. He has held the position of Outside Director of Hitachi Construction Machinery since June 2023.

**Independent Outside Director**  
(Chairperson of the Compensation  
Committee and the Nominating Committee)  
Kazushige Okuhara

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In 1970, Mr. Okuhara joined Fuji Heavy Industries Ltd. (now Subaru Corporation), and served as the Director, Corporate Executive Vice President and General Manager of the Human Resources Department of the company, 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 has held the position of Outside Director of Hitachi Construction Machinery Co., Ltd. since June 2016.

**Independent Outside Director**  
(Newly Appointed)  
Masaaki Ito

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Mr. Ito joined Kuraray Co., Ltd. in 1980. After serving as General Manager of Methacrylate Division, Chemicals Company, Vice President of Functional Materials Company, Managing Executive Officer, and Representative Director and President, he became Chairman and Director of Kuraray (incumbent). He has held the position of Outside Director of Hitachi Construction Machinery Co., Ltd. since June 2024.

**Independent Outside Director**  
Maoko Kikuchi

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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 Nagashima Ohno & Tsunematsu. She has also worked at the General Secretariat of the Fair Trade Commission and served as 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 as well as Outside Corporate Auditor for Ryohin Keikaku Co., Ltd. She has held the position of Outside Director of Hitachi Construction Machinery Co., Ltd. since July 2020.

**Independent Outside Director**  
(Chairperson of the Audit Committee)  
Toshiko Oka

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In 1986, Ms. Oka joined Tohmatu 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 in the position of outside director at Earth Corporation, Happinet Corporation and at ENEOS Holdings, Inc. and full-time Professor at Meiji University Graduate School of Global Business. She has held the position of Outside Director of Hitachi Construction Machinery Co., Ltd. since June 2021.

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### Overview of the Results for FY2023 Achieving Take off in Line with the Sustainable Growth Story

**Okuhara:** FY2023 was an important year for the Hitachi Construction Machinery Group. Under the slogan “second founding” adopted following the change in its capital structure and the restart of its Americas business, the Group launched its medium-term management plan, which had been created in a participatory fashion. Fortunately, demand for the Group’s products is brisk in the Americas, enabling the Group to achieve takeoff in line with its sustainable growth story thanks to favorable sales and profit and the positive boost it received from the foreign exchange market.

**Kikuchi:** I was invited to a grand opening event held by Hitachi Construction Machinery Americas in February 2024. The predecessor of this company was a wheel loader manufacturer founded in 1981. Some of the company’s employees have been working there for more than 30 years. The event provided me with a wonderful opportunity to see how excited on-site employees are about the new start or “second founding.”

**Schmelzeis:** The local governor also attended the event, giving an indication of the magnitude of local expectations for the company. The event also made it clear to me that the dealers genuinely love and respect our products.

**Oka:** I also think that the Group was able to make a fresh start almost exactly as planned. Unfortunately the stock price has not reflected that success. In contrast to the passion felt by on-site workers, capital market players still seem to be taking a wait-and-see approach.

**Ito:** As I have just been appointed as outside director, I cannot express opinions about the Group based on my own experience.

However, I think the *Kenkijin* Spirit is a wonderful code of conduct. The three “Cs” are well aligned with the goals of each department and function and are widely understood by employees. I think this is due to in-house education, which has been provided steadily.

**Schmelzeis:** Hitachi Construction Machinery is conducting business across national borders. For example, the company might manufacture a product in Japan but also provide maintenance services for it in the United States, for which employees need to foster internal collaboration so that they can offer solutions to customers. To this end, it is really important that they share the Spirit.

**Kikuchi:** The *Kenkijin* Spirit is globally shared within the Group, being translated into English and some other languages. According to what I have heard from Group employees working in various countries, they have strong affection for Hitachi Construction Machinery and attribute importance to the Spirit.

**Oka:** The word *Kenkijin* means not only people who are dealing with *kenki*, or construction machinery, but also the trust they have earned and various other related things, I think.

**Ito:** During the period in which Hitachi Construction Machinery was a subsidiary of Hitachi, Ltd., *Kenkijin* was an important word that showed the company’s unique identity among the other Hitachi Group companies.

### Changes in the Business Environment How to Deal with Issues Such as a Smaller Population

**Kikuchi:** As for changes in the business environment surrounding the manufacturing industry, including Hitachi Construction

Machinery, the biggest issue is the shortage of labor, which is particularly serious in remote regions. In response, the company needs to attribute more importance to greater work efficiency, mechanization and automation, and must speed up measures for them.

**Schmelzeis:** Customers need solutions and so Hitachi Construction Machinery needs to provide them not only with products but also software, thereby delivering comprehensive value to them. To this end, the company needs to have the ability to analyze relevant data and systems for the creation of new value. And to meet this requirement, it needs personnel versed in digital technologies. This is another challenge to be met by the company.

**Oka:** Managerial resources include people, goods and money. In the past, companies, especially manufacturers, only needed to focus on product and peripheral markets. Now they are required



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to pay more attention to their capital cost and stock price in their business management and to deal with the capital market, which is taking on greater importance. Issues related to labor that need to be addressed by society as a whole, are also surfacing making the human capital market more significant. Accordingly, it is becoming even more challenging to manage a business. Amid these circumstances, I clearly see a need for the company to pay attention to a wider range of issues.

**Okuhara:** One of the important changes faced by companies is the rising geopolitical risk, including the risk that production bases and sales networks established by them might become inoperable. I feel that Hitachi Construction Machinery must become more sensitive to these risks and take prompt actions in the event that such a risk materializes.

**Ito:** Issues related to China clearly have a great impact on the

company as a Japanese construction machinery manufacturer. These issues have the following two aspects: “China as a market” and “China as a competitor.” For the former, the Chinese construction machinery market is becoming stagnant due to the stalling of the Chinese growth model, which is driven by property development. For the latter, Chinese construction machinery manufacturers are rapidly increasing their ability to offer cheaper products with stable quality. In the automobile industry, Japanese manufacturers have already faced fierce competition from Chinese manufacturers and are reportedly losing market share. Particularly in the ASEAN region, which has strong ties with China and is a large market for Hitachi Construction Machinery, the company is facing a difficult situation, I think.

### Progress with the Medium-term Management Plan and Evaluation of the Results Aiming to Be a True Solutions Provider

**Oka:** I think a medium-term management plan is made for roughly two purposes. First, to share the management policies with employees. Second, to make a commitment to the capital market. In addition to making a commitment, the company also needs to assure investors that it will fulfill the commitment with a high probability. To this end, the Nominating, Compensation and Audit Committees are fulfilling their respective roles. Last fiscal year, we spent a lot of time discussing the remuneration system with a focus on the appropriateness of the KPIs to ensure the achievement of the medium-term management plan. I think it is one of our roles as outside directors to make it even more probable that the Group will achieve the management plan.

**Okuhara:** We discussed the improvement of the remuneration

system across a range of formats. No one was against improvement, but some are not satisfied with the current improvement level. I therefore want to discuss the remuneration system further from a new viewpoint.

**Schmelzeis:** It is indeed important to check the results for each KPI. It is impossible to do everything perfectly at the same time, so I think it is essential that we monitor the KPIs and continue to talk with the management team about the results.

**Kikuchi:** As for “Strengthening human capital and corporate capabilities,” which is one of the core strategies under the medium-term management plan, I think diversity is a challenge to be addressed. For Hitachi Construction Machinery to achieve further growth, it is necessary for the company to promote female employees to the positions of director and executive officer in a planned manner. I also think it is essential to promote and make effective use of personnel on a global basis. The Board of Directors has Mr. Schmelzeis as one of its members, but the company needs to further enhance its governance system by promoting global personnel to the position of executive officer and director and incorporating their opinions into the management of the system.

**Okuhara:** Regarding the progress made with the medium-term management plan, I am concerned about the business unit system. This system was started in FY2022 but we have not yet seen any specific achievements made under it. Also, I think that the targets and results have not yet been broken down well for each job under the business unit system. I hope that sincere efforts will be continued until some specific results have been achieved.

**Ito:** Having heard the lecture given by the secretariat, it is my understanding that the medium-term management plan has been implemented steadily. However, I am still concerned about China-related issues, as I have already mentioned. For the Americas, all those related know where the focus needs to be in the region,

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and necessary measures have already been taken, which I hope will be continued. For China, however, I was not able to get a clear picture of the company's future plan.

**Kikuchi:** The value chain business is also important for Hitachi Construction Machinery. Personally, I have a question about the medium-term target set for this business, specifically the target of increasing sales in the business to at least 50% of the sales of new machines. Is it okay then if the value chain business sales increase to 50% of the amount, as a result of sales of new machines falling? I think it is necessary to set a more appropriate KPI. The value chain business is indeed important in the current shifting of focus from things to solutions. However, you cannot provide maintenance services for unsold new machines, and so I hope that more focus will be placed on synergy effects between the sales of new machines and the value chain business, improvement of operating income margin and other related issues.

**Okuhara:** Even when the sales of parts and services increase in the value chain business, it is not easy to identify the specific contributing factors.

**Oka:** Yes, indeed. It would be useful for investors if the company can show them a clear indicator that they can monitor for evaluation.

**Schmelzeis:** In the value chain business, you need to anticipate the needs of customers in the market for the next decade and conduct your analysis based on that. However, manufacturers do not always have this kind of marketing ability and so may need to form partnerships with dealers to share relevant information or create a marketing team in other ways. At any rate, you cannot successfully undertake the value chain business without obtaining necessary data.

**Ito:** Hitachi Construction Machinery has been doing business using the so-called "product out" method and has achieved growth driven by its product appeal, being supported by its outstanding engineers. However, going forward, the company aims

to become a true solutions provider, for which salespeople will take the lead, and this will fundamentally change the company's business approach and philosophy. The president is strongly determined to do this, so I am not worried. However, some friction will occur in the process that the company is now undertaking toward this change.

**Okuhara:** I have recently been concerned about the depth of communication between the head office and the frontline sales and manufacturing personnel. Such communication is necessary for the company to truly understand the stay close customers, as opposed to just saying it understands them. If the company encounters a stagnant market situation in the future in the Americas business without truly understanding the needs of local customers, it will find itself in quite a difficult situation.

**Kikuchi:** Salespeople and manufacturing workers have different cultures, and it would not be easy for either group to change their culture. In Japan, Hitachi Construction Machinery has an important sales company in Hitachi Construction Machinery Japan and could implement a range of measures to address this difficult challenge, including enhancing human exchange between the two companies.

**Schmelzeis:** The term "solution" means an answer to a question, and it is important that Hitachi Construction Machinery has a system to provide expert answers to questions, just like a medical doctor who draws on their own professional knowledge, research and training to propose a solution to a patient whose knees hurt. You cannot become like the doctor just by making products at a factory. In order to become a true solutions provider, the company needs to enhance its abilities to an even greater degree. To put it the other way round, by enhancing its abilities, the company can be the industry leader.

## Evaluation of the Effectiveness of Governance Promoting Reforms by Working Closely with Management

**Oka:** At many of the Board of Directors meetings held recently, we found ourselves running behind schedule. In contrast, three years ago, when I was first appointed as an outside director, the meetings usually ended on time. We tend to get heated and spend more than the allocated time discussing strategies and changes to the business environment.

**Ito:** I see. I attended a Board of Directors meeting of the company for the first time the other day. At the meeting, Mr. Okuhara said, "I don't want to have a series of different topics discussed at this meeting. The Board should take a broader view," which was quite



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inspiring. Each participant talked freely at the meeting, and I felt reassured by this.

**Kikuchi:** For an agenda that cannot be addressed at one Board of Directors meeting due to time constraints, the executive team was asked to make an interim report. Accordingly, they have already made and submitted this report to the Board. At a Board of Directors meeting, we do not simply receive reports and make decisions as a formality. Going forward, I will continue to make efforts to enhance governance by promoting in-depth discussion at Board meetings by measures such as making recommendations on the themes to be addressed by the Board in my capacity as outside director.

**Oka:** As chairperson of the Audit Committee, I need to lead the establishment of a new auditing system as Hitachi, Ltd. no longer audits the company as one of its Group companies. I have been talking with the person who serves as my assistant about how to build an organizational auditing system. Under the Committee,

which is mainly composed of outside directors, I would like to build a system suitable for Hitachi Construction Machinery within about a year.

**Okuhara:** As chairperson of the Nominating Committee and the Compensation Committee, I have talked a lot with members of the Committees about the changes that should be made to the organizations. I have been thinking about the significance of the Committees for the company and would like to reform them by working closely with the management team. This fiscal year, I will discuss the issues with new members of the Committees.

**Schmelzeis:** One of the differences between Japanese and American companies is that the management team, directors and investors have a greater shared interest in the United States. To put it in extreme terms, it might be better if we received all of our compensation in the form of stocks. Or it might at least be possible for the company to increase the ratio of stocks to the total remuneration so that its executives and investors have a greater shared interest.

**Kikuchi:** As one of the means to enhance governance in line with the Corporate Governance Code, we need to establish a contact point that is independent from the management team. Accordingly, measures to enhance the internal reporting system have been proposed within the company, and executive officers are attributing importance to these measures. For incidents that might affect corporate value, examinations are being made for the establishment of a system for not only the executive team but also outside directors to be informed of these incidents. Under such a system, I would also like to hear about problems and address them as an outside director when a serious incident happens with regard to a procurement partner or a subsidiary of the company.

## Measures for Human Capital To Overcome a Range of Issues and Enhance Competitiveness

**Ito:** I was surprised to hear from a person in charge of hiring at the company that the number of job applicants had been exceeding expectations. This reminded me of the power of the Hitachi brand. The brand might not be powerful enough to attract female applicants however, which I regard as another challenge to be met.

**Schmelzeis:** I think Japanese companies in general, not just Hitachi Construction Machinery, are facing gender-related issues, which need to be addressed in the upstream section, specifically at the stage of education. It takes time to develop female employees into managers. Although I support it, it might be difficult for the company to make achievements in this regard over a short time frame.

**Kikuchi:** I think it would be better to promote a female employee to a managerial position in order to provide other female employees with a role model. I want to see the company do this without hesitation.

**Schmelzeis:** Japanese companies are not quick to recruit talent from outside the company, particularly for executive positions. However, I think it would be nice to bring in new talent, thereby giving some inspiration to the existing workforce. So how about bringing in an outstanding woman from outside?

**Oka:** Based on my experience at multiple companies, an organization does not change until at least 30% of its total workforce are members of a minority group. At Japanese companies, Japanese men represent a majority, and they have been competing with each other for higher positions. In this age of diversity, however, a minority group is also beginning to participate in the

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competition. The majority side, in response, wants to remove the minority group because they see them as limiting their own scope of opportunity. But if the minority group reaches the level of 30% or higher, it is not easy for the majority group to remove them and so the majority will accept the minority and they will work hard together. This will in turn help the organization undertake reforms.

**Kikuchi:** I often hear that many women decline an offer of promotion. This is not a problem they as women should be asked to solve by themselves. Instead, the company needs to evaluate the reasons for this and provide women with a better working environment, including making remote work possible and enabling even those in managerial positions to take parental and maternity leave. To get women to work as managers, I think it is necessary to provide them with more diverse options.

**Okuhara:** It is indeed important to do so. Embracing such a challenge might cause waves, but it will help the management team identify the issues that they should address. It might therefore be necessary to take on such a challenge.

**Kikuchi:** Women experience various life events such as raising children, and can face further barriers later in their careers too. I hope that managers of female employees will understand what barriers women face and acknowledge that their ideas and behavioral styles differ from men, who are a majority at the company, and adequately support the women in their organization.

**Oka:** All companies are now promoting diversity and trying to employ more women. But how about the level of inclusion? Do all companies really have an inclusive culture? I doubt this.

**Ito:** The other day I heard on a news program about a man who had taken parental leave experiencing hardship because his supervisor gave him too high a workload when he returned to work. This was because the supervisor had failed to duly allocate the man's tasks to others while he was away. I think it is essential

for a company to educate those in managerial positions as the most important precondition to be met to improve the workplace environment.

**Okuhara:** When it comes to human resources, there are a range of issues, not limited to those related to women. The company has been promoting local hires to executive officer positions in some regions, but there are still many issues that should be solved regarding how the company should develop human resources and make effective use of them on a global scale. It would be necessary to compare its measures with those of its competitors to see where it is lacking. I think this kind of examination is necessary.

### Expectations for the Hitachi Construction Machinery Group

**Schmelzeis:** As Hitachi Construction Machinery is a great company, I simply want it to take the top spot in the industry.

**Kikuchi:** It is said that Japan is returning to an industrial structure that values manufacturing, and the company has indeed been attributing importance to the operation of its plants and development organizations in Japan. I think such efforts will be increasingly rewarded going forward. It is a global company, with its overseas sales now reaching 80% of total sales. I hope that all Group members will make a concerted effort for the further development of the Group around the world.

**Oka:** Hitachi Construction Machinery has become independent from the Hitachi Group. I expect that it will serve as an example of a successful spin-off. Having gone through the so-called lost three decades, Japan needs to restructure its industry, for which companies need to buy and sell businesses. By showing that

Hitachi Construction Machinery has been doing business successfully after going independent, I think business restructuring will be further facilitated in other industries as well.

**Ito:** I want the company to value its Japanese origins. Its main market is outside Japan, however, and so there will be a future discussion about why it continues to be headquartered here. This is a very important theme for the company and I hope to monitor developments closely.

**Okuhara:** This goes back to the *Kenkijin* Spirit that we talked about at the beginning of the meeting, but I think respect is important. For the three Cs, which are Challenge, Customer and Communication, showing respect for others is an essential component. Based on this recognition, I expect that the Hitachi Construction Machinery Group will demonstrate its unique appeal going forward.

