

(Summary) Session 2

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Shifting to a Low-Cost Back Office Function

Corporate Solutions Unit P.1

- Since taking office, I have emphasized having a strong awareness of our long-term vision and the need to change our approach to achieve that vision. We will change the approach of having the Corporate Solutions Unit looking down to manage the front lines from above. Instead, the Corporate Solutions Unit will provide its best efforts to support our business units.

Vectors to Innovation P.2

- Even so, we have been working to improve profitability, including structural reform to secure combined business operating income margins of 3%. Our long-term vision, however, calls for operating income margin of 5% or more. To achieve this, the Corporate Solutions Unit is working to reduce back office costs across the company.

Initiatives Toward a Low-Cost Back Office Function P.3

- Our goal to reduce back office costs is for ¥4.5 billion in organizational consolidation and management organization streamlining. Our goal for administrative process reform is to save ¥5.0 billion. At present, we are reassigning employees while promoting pursuing RPA, SSC, and other initiatives. The idea behind organizational consolidation is not to reduce workforce across the company. Although we will not be reducing personnel expense directly, employees reassigned to sales will contribute to expanded revenues, resulting in a certain effect after some time.
- It is important that we continue to engage in administrative process reform. We plan to delve deeper with RPA and SSC, adopt paperless processes, and implement other new measures across all group companies.
- The reassignment of head office employees stems from learning about the large amount of wasted work uncovered as we implemented telework due to COVID-19. We decided to eliminate 100 positions at the head office and accelerate reviews of our work processes. This will be one step in our efforts to reduce back office costs within this fiscal year.
- In terms of progress management, we will leave employee reassignments as they are to reduce back office personnel expense. Under administrative process reform, we can identify how many hours we save on each job, but these savings are not reflected directly in our financial performance. Therefore, our results will be in combination with other initiatives. Ultimately, we

will be able to track these reforms under overtime and personnel dispatch costs.

- Administrative process reform could simply mean that tasks become easier to perform. However, by tracking overtime and personnel dispatch costs across the entire company, workplace managers will become more conscious of how efficiencies tie to better financial performance.

Pursuing RPA P.4

- The first step in RPA is to find a business processes suited to RPA. This first step is very important to implement RPA effectively. Therefore, we plan to select employees who are familiar with on-site operations to train as RPA masters. These employees will be in charge of identifying, analyzing, and standardizing targeted processes. We will pursue RPA by installing the robots developed at the branches in question. Next, we will verify the effectiveness gained and, once usefulness is confirmed, we will deploy the equipment across Japan.
- We are confirming the time spent on processes in this first step. This time will represent the theoretical time savings. We set a goal in our management plan to reduce 1 million labor hours over three years. We achieved savings of 400,000 hours through last year, and we aim to add another 300,000 hours of savings this year.
- We currently have 159 RPA masters. We plan to train these individuals further and add more RPA masters, as we consider setting an additional five-year goal.

Pursuing SSC (Accounting) P.5

- The key points for pursuing SSC are the consolidation of operations and the introduction of a new system. Our aim to consolidate routine administrative tasks, such as payment and settlement processes, under SSC for efficiency. We expect to achieve labor-savings by incorporating up-front payment, purchasing, and other accounting systems under SSC.
- Prior to adopting SSC, we analyzed our processes to determine the amount of time spent. Using 2016 as a base year, we calculate that we saved nearly 400,000 hours through the end of last year.
- We intend to expand these RPA and SSC initiatives to payroll and other operations, eventually rolling these systems out to our affiliates and overseas companies.

FY19 Progress in Reducing Back Office Costs P.6

- Our goal for cost reductions in FY2023, the final year of our management plan, is a total ¥9.5 billion. In comparison, last year we reassigned 124 employees and saved ¥1.1 billion, while reducing overtime by another ¥1.1 billion. At the same time, personnel dispatching costs rose ¥150 million. On a total basis, we reduced costs by ¥2.05 billion.
- The reassignment of employees served to reduce the number of personnel in back office

departments. As these personnel remain within the group, the impact of these reassignments on our PL will come from their performance in new assignments.

FY2020 Back Office Cost Reductions P.7

- We have formulated a basic plan to reassign 200 employees; however, some time will be required to make the necessary personnel adjustments. We expect to complete this plan by fiscal year-end.
- Our goal for overtime reductions is ¥1.0 billion. In Q1, we reduced overtime by ¥440 million.
- Personnel dispatching costs increased ¥150 million last fiscal year, but decreased in Q1. We are aiming to reduce personnel dispatching costs by ¥300 million yen this fiscal year. We used dispatched personnel on a temporary basis to avoid confusion in accomplishing various initiatives, which may have delayed our progress in cost savings. However, we believe we can achieve the target this year.
- Between ¥2.0 billion last year and ¥3.1 billion this year, we project that we will achieve more than 50% of the ¥9.5 billion five-year cost reduction goal in the first two years. However, we cannot maintain this pace only leveraging the current RPA and SSC policies. It is important that we embark on new measures before we encounter limits, continuing to reduce costs on an ongoing basis.

Employment System Reform P.8

- We initially announced an approximate ¥20 billion increase in cost impact related to employee system reform. We recorded a ¥4.8 billion increase last fiscal year and expect a ¥1.1 billion increase this fiscal year.
- The adoption of equal pay for equal labor next fiscal year among our subsidiaries will have an impact on progress, as will the extended retirement age over the following next two years. Numerous uncertainties, including system design, union negotiations, the scope of employees affected, and length of service, make it difficult to forecast with accuracy. However, we believe we will be able to keep the figure to ¥6.0 billion over three years and a cumulative ¥12.0 billion over five years.
- Next year, we will support equal pay for equal labor among our operating companies under branches and many other subsidiaries. About 150 companies and 14,000 employees will be covered by this program. We initially estimated an impact of about ¥3.5 billion, including the impact of extended retirement ages the parent company. However, given the trends of the last two years, we believe we can limit the impact to ¥3.0 billion yen.

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