Q&A Summary at Investors Meeting for FY2015 1st Quarter Business Results

Presentation Date: August 6, 2014 (Wednesday) 18:00 to 19:00
Location: Conference call
Speakers: Tadayuki Seki, Executive Vice President, CFO & CAO
Kunihiro Nakade, General Manager, General Accounting Control Division

(1) Results for 1Q FY2015 and forecast for FY2015

Q: What were the 1Q non-recurring profit and loss figures for FY2015 and FY2014?

A: In FY2015, the total was 13.0 billion yen, with 2.0 billion yen recorded as gains on sales of property (textile 1.0 billion yen and ICT, General Products & Realty 1.0 billion yen) and 11.0 billion yen recorded as gains on sales of affiliates in the CVS companies and gain on remeasurement profit from the conversion of an internet advertising company from an associated company to other investments. In FY2014, the total was 1.0 billion yen profit, with a 4.0 billion yen loss recorded as impairment loss and a 5.0 billion yen profit recorded as gain on sales of stocks. Excluding non-recurring profit and loss, net profit was about 67.0 billion yen in FY2014, and about 68.0 billion yen in FY2015. The FY 2015 result was slightly up YoY.

Q: Is 1Q non-recurring profit included in the plan for FY2015? How much of a contribution do you expect from new investments, such as CPP and BELL SYSTEM 24?

A: Yes, it is included. On the other hand, profits from new investments were not included in the plan, but these are limited because we will recognize profit from CPP in 4Q only. Profit from CPP is expected to be about 4.0 billion yen to 5.0 billion yen a year. BELL SYSTEM is also limited as well.

Q: How do you evaluate the progress ratio for net profits in 1Q, which is about 20% more if non-recurring profits are not excluded?

A: Since non-recurring profit was recorded as scheduled, we evaluate the 1Q result as a solid start.

Q: What is the reason for decreasing gross trading profit and trading income in the Textile Company compared to last year? How about the forecast?

A: This is mainly due to sluggish sales in the domestic apparel related business, which was affected by the increase in the consumption tax in Japan. Also, it is a tough situation for the OEM business due to the yen depreciation. We were able to reach the figure for the FY2015 plan thanks to profits from EDWIN and other businesses.

Q: What is the reason for the good results in the Machinery Company? Could you give us details for the automobile business?

A: Exports of Japanese automobiles increased, mainly to Europe. 91,000 cars were exported last year, compared with 116,000 cars this year. The IPP business recorded plus 1.0 billion yen impact due to cold weather in the U.S., and Tokyo Century Lease had solid results, too.

(2) Investment and Exit Policy

Q: What is the image of the investment amounts from 2Q FY2015 after new investments, such as CPP and BELL SYSTEM24? Is there any relationship between share buy-backs and the scale of new investments?

A: The investment result is 135.0 billion yen at this moment, and we will not reach the amount of 400.0 billion yen this year. We forecast that the net investment amount will not exceed 800.0 billion yen in 2 years. There is no relationship between share buy-backs and the scale of new investment.

Q: What is the reason for the gap of 60.0 billion yen, which is the difference between the 20.0 billion cash out as investment cash flow and the net investment amount of 80.0 billion?

A: It is because the investment in EDWIN, 36.0 billion yen, is included in cash flows from financial activities.

(3) Financial Strategy

Q: What is the background to improving cash flows from operating activities on a YoY basis ?

A: There was not a big rebound from the more than 400.0 billion yen in cash flows from operating activities in the previous fiscal year. We are not satisfied with the level of cash flow based on the scale of our profits. However, the amount of cash flow is in-line considering the payment of tax in 1Q FY 2014.

Q: What is your stance on share buy-backs and when do you expect to execute? Is there any change in the free cash flow forecast?

A: We signs discretionary contract with a designated broker to be ready for initiating the stock buy-back program because we disclosed internal information at today's business results announcement. We don't expect that the free cash flow will not be negative unless net profit is 300.0 billion yen as planned. Also, free cash flow is not related to share buy-backs. We set up structure of executing share buy-backs once we judge that the dilutive effect has appeared.

Q: Diluted earnings per share is described in the financial results but what is the reason for the dilution ?

A: This is because of the impact of dilution from the conversion of preferred stock to normal stock in Orient Corporation.

(4) Individual Projects

Q: What is the profit contribution from EDWIN? How will you improve the corporate value of EDWIN?

A: Since this is a 36.0 billion yen investment, and it is implemented by the Textile Company, where we have strength, we expect profits from EDWIN to be in the double digits. We plan to value up EDWIN utilizing the experience and network from upstream to downstream in the textile sector, in addition to other textile subsidiaries. We dispatched several employees, including a director, to EDWIN.

Q: What is the reason for decreasing net profit in IMEA, Brazil Japan Iron Ore Corporation, and ICA? Will IMEA fail to achieve the FY2015 plan if the current situation continues?

A: Difference of each company (YoY) is as follows. Also, we have to say it will be difficult for IMEA to accomplish the FY 2015 plan at current resource prices.

IMEA (Iron Ore) (YoY) -5.1 billion yen (19.2 billion yen →14.1 billion yen) (price decrease -7.5 billion yen, volume increase +2.5 billion yen)

IMEA (Coal) (YoY) -1.0 billion yen (-0.1 billion yen→-1.1 billion yen)(price decrease -2.5 billion yen, volume and cost +1.0 billion yen, foreign exchange and others +0.5 billion yen)

Brazil Japan Iron Ore Corporation (YoY) -0.4 billion yen (0.7 billion yen → 0.3 billion yen) (price decrease -1.0 billion yen, foreign exchange and others +0.5 billion yen)

ICA (YoY) -0.7 billion yen (0.8 billion yen → 0.1 billion yen) (price decrease -2.0 billion yen, cost and others +1.0 billion yen)

Q: What is the business relationship between Osaka Car Life Group and the automobile business?

A: ITOCHU ENEX, our subsidiary, invested in Osaka Car Life Group and we don't expect any synergies with the automobile business through this investment.

Q: What is the reason for the increasing net profit of IPC Singapore (YoY)? How about forecast in FY 2015?

A: It is because of good oil trading operation. At this point we cannot say whether or not this favorable trend will continue because this is the trading business.

Q: JDR recorded -0.5 billion loss. Is this a normal situation? Is there any non-recurring loss?

A: Profit from Samson, which is 0.8 billion yen as normal base, was -0.3 billion yen adding to hedging loss and interest payment. Also, -0.2 billion loss is included in JDR net profit.

Q: Did the consumption tax increase affect the business of the food distribution sector? What is your evaluation of progress in the food distribution business? Is there any impact from the increased shareholdings in FamilyMart?

A: Due to worsening of the margin ratio as a background of harsh competition and increases expenses for gasoline, trading income in the food segment decreased compared to last year. We'd like to reduce the amount of the decrease. Progress ratio in 1Q is low but it is too early to review our forecast because of the seasonal factors in the food distribution business, with profit rising in 2Q due to the mid-summer gift season and 3Q due to year-ending gift season. There is no impact from the increased shareholdings in FamilyMart to food distribution business.

Q: What are the reasons for increasing profits from CFI and decreasing profits from Dole?

A: The beverage segment in CFI was pretty good. Figures were a bit over the initial plan. Dole was 1.2 billion yen, down 0.7 billion yen from last year. The Asian fresh food segment was good, especially sales of bananas to China. On the other hand, the worldwide packaged food segment offset the profit from Asian fresh food segment. This was because of cost increases and pineapple supply could not meet demand In addition, -0.8 billion yen loss was recognized due to tax issues. It takes time to solve the issue of increasing the supply of pineapple and we understand that we need to introduce new products to recover the profit of the worldwide packaged food segment.