

**Investors Meeting for  
Operating Segments**

# **Reinvention of Business**

**June 27, 2019 (Thu.)**



ひとりの商人、無数の使命

# Today's Agenda

- 1. Background of Reinvention of Business**
- 2. CDO-CIO Structure**
- 3. Progress of Medium-Term Management Plan in FY2019**
- 4. ITOCHU's Strengths Drive Reinvention**
- 5. Policies Going Forward and Path to Profitability**

# 1 . Background of Reinvention of Business

# External Environment

**Need to respond to game changes brought about by rapid structural changes and accelerating digitization.**

**Rapid advancement  
of  
digital platforms**

**Once-in-a-century  
mobility revolution**

**Smart use and supply  
of electric power**

**Growing consumer  
awareness on  
sustainable society**

There is a need to respond to game changes brought about by rapid structural changes and the accelerating digitalization, such as the advancement of digital platforms centering on GAFA, the once-in-a-century mobility revolution, the smart use and supply of electric power, and the growing consumer awareness on sustainable societies centering on ESG/SDGs.

# Path to Business Success in the Next Generation

Real  
operations  
in diverse  
business fields

×

Utilization of  
technology  
underpinned by  
experience and  
expertise

ITOCHU's Reinvention of Business  
Evolve business model in anticipation of  
structural changes brought about  
by digitization and data utilization

Our strengths as a trading company in reinvention of business is the possession of real sites in a variety of business fields which enables us to gather data of each site, as well as a great deal of knowledge backed by experience and expertise which can be combined with the utilization of technologies

A concept of our reinvention of business is to evolve our business models in anticipation of structural changes brought about by digitization and data utilization.

## 2. CDO-CIO Structure

Newly established  
organizations under CDO-CIO



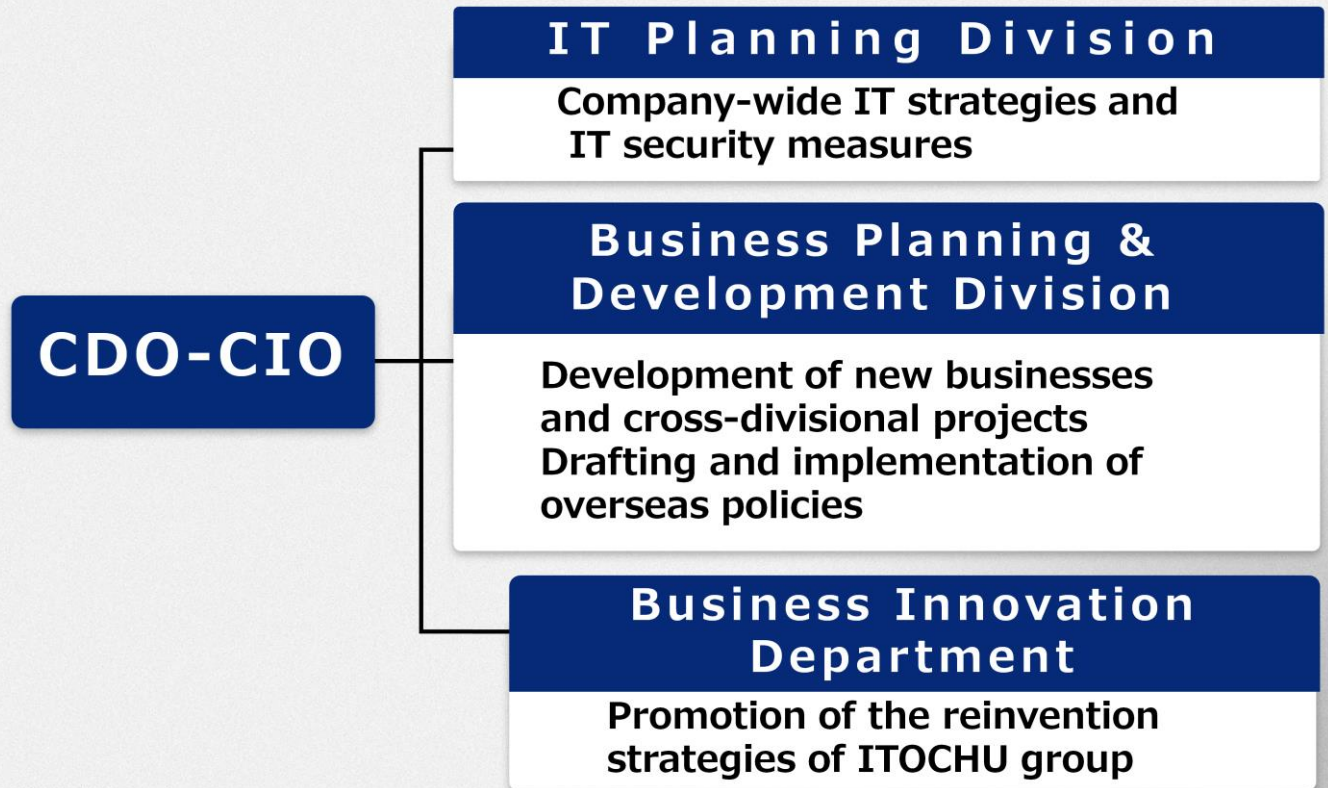
Promote ITOCHU's reinvention



Evolve business model through  
digitization and data utilization

The purpose of the establishment of CDO-CIO is reinvention of ITOCHU, which means promoting and accelerating the evolution of business model through digitization and data utilization.

# Organizations under CDO - CIO



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The CDO-CIO structure consists of three organizations.

- IT Planning Division

It promotes company-wide IT strategies, IT security measures and even more efficient operations, such as RPA and paperless operations.

- Business Planning & Development Division

It handles cross-divisional projects that do not belong to any Division Company or mid-to long-term projects.

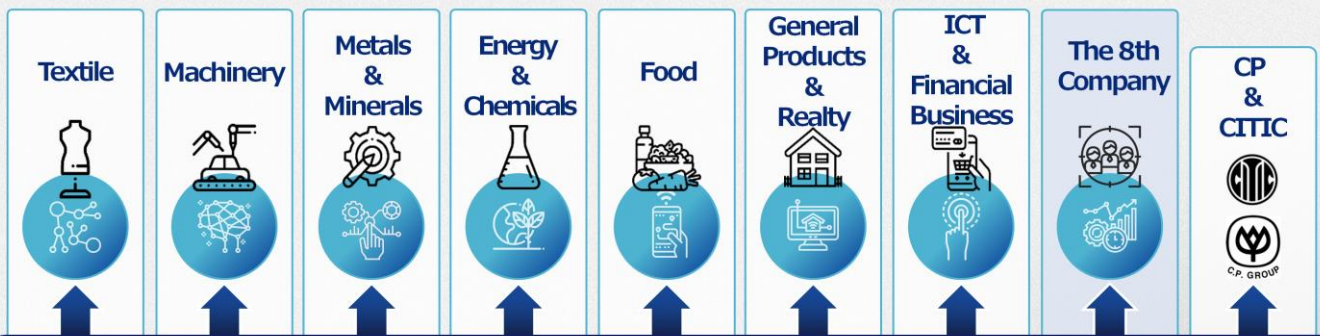
- Business Innovation Department

Each Division Company has its own team that promotes reinvention of business, and Business Innovation Department provides them with cross-divisional supports and promote Cross-divisional business development.

It promotes the reinvention strategy for the entire ITOCHU group.



# Missions of CDO-CIO Structure



1. Support **reinvention** of each division company

2. Lead reinvention of business in **cross-divisional fields** and **new fields**

3. Establish an offensive and defensive **company-wide IT framework**

We have three concrete missions.

- Support reinvention of each Division Company

Support reinvention of business of seven Division Companies, The 8<sup>th</sup> Company which was established on July 1<sup>st</sup> and CP & CITIC Business Development Department, a department which promotes collaboration with CP and CITIC Group.

Major players are Division Companies, and our organization provides logistical supports.

- Lead reinvention of business in cross-divisional fields and new fields

Cross-divisional collaboration is inevitable for profitability and creating synergies in next-generation investments.

In some cases it is difficult for each Division Company to lead cross-divisional projects or medium-to long-term projects.

In those cases we will take the initiative in dealing with such projects, and create a flow in which Division Companies will eventually work together.

- Establish an offensive and defensive company-wide IT framework

IT Planning Division have a personnel with high IT literacy and they are necessary for reinvention of business. However, it used to be an independent back-office having played rather defensive role such as IT security and management of core systems.

On the other hand, as Business Innovation Department takes an offensive stance and addresses various data management systems, there emerged needs to strengthen security and defense.

Therefore, we integrated IT Planning Division into CDO-CIO structure so as to establish an offensive and defensive company-wide IT system within the new organization as a trinity.

# Missions of CDO-CIO Structure

## 1. Support **reinvention** of each division company

- Accelerate the development of an advanced foundation through next-generation investments
- Develop businesses and realize a profit through cross-divisional cooperation
- Encourage utilization of technology

## 2. Lead reinvention of business in **cross-divisional fields** and **new fields**

- Create next-generation businesses in cross-divisional fields and new fields
- Optimize the Itochu group's value chain through data management and data coordination

## 3. Establish an **offensive & defensive** company-wide **IT framework**

- Lead the digitization of ITOCHU group
- Improve digital literacy of employees
- Prepare for a data-driven economy and the AI era

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I will explain our missions more concretely.

### <Support reinvention of each division company>

- Accelerate the development of an advanced foundation through next-generation investments  
We have created the company-wide "investment framework for next-generation ventures" so that all Division Companies can conduct venture investments, while venture investments had been made mainly by ICT & Finance Company previously.

Few decades ago, business in Japan had left behind others, so the main stream was to deploy overseas business models in Japan.

Today, the industry has matured and even niche businesses are engaged by ventures.

Although ventures are good at making from 0 to 1, we believe that there is a lot of room for cooperation in growing from 1 to 3, 5, or 10, by taking advantage of our general trading house function, through funding, providing creditworthiness, or alliances.

In FY2019, we set a budget of 10.0 billion yen for "investment framework for next-generation ventures," and resulted in investing in 15 projects, using up most of the budget.

There were significant numbers of potential projects, so we selected very carefully.

In FY2020, we maintain a budget of 10.0 billion yen for "investment framework for next-generation ventures" and set additional budget of 20.0 billion yen for investments in cross-divisional projects.

Therefore we have a total budget of 30.0 billion yen for the next-generation investments, intending to enhance a support for reinvention of business of each Division Company.

- Develop business and realize a profit through cross-divisional cooperation

We drive cross-divisional collaboration in order to realize a profit of next-generation investment. CDO-CIO will support each Division Company and play a role as a "hub" which connects Companies horizontally.

- Encourage utilization of technology

We supplement Division Companies with various knowledges which are inevitable when they utilize technologies.

**<Lead reinvention of business in cross-divisional fields and new fields>**

- Create next-generation business in cross-divisional fields and new fields

We lead projects in cross-divisional fields or new fields which can not be led by Division Companies.

- Optimize the Itochu group's value chain through data management and data coordination

As the progress of digitization varies company by company within the Group, we promote digitization of the entire Group including all operating companies.

We aim to create a framework that can coordinate data of each company slowly.

**<Establish an offensive & defensive company-wide IT framework>**

- Lead the digitization of ITOCHU group / Improve digital literacy of employees

In order to use digital technologies appropriately, all employees in the Group need a certain degree of literacy.

We intend to improve their literacy by offering education and training programs, especially for middle-aged and young employees.

- Prepare for a data-driven economy and the AI era

In order to respond to the new business flow, gathering data using IoT and analyzing Big Data using AI, we need to prepare for this innovation at each business site.

# 3 . Progress of the Medium-Term Management Plan in FY2019

# Medium-Term Management Plan Released in April 2018

Brand-new Deal 2020 — Policies for Reinventing Business



Incorporate new technologies in all fields to evolve ITOCHU's "Earn, Cut, Prevent" principles



Reinvented Business

Improvement of Value Across the  
Consumer-Related Value Chain

Evolution of Business Model with  
New Technologies



Optimization of value chain  
encompassing everything from  
production to sales



Smart distribution systems



Satisfying customer experiences  
Development of new retail proposals



Optimal energy use and supply



Next-generation mobility society  
Shift from owner ship to use



Improvement of management  
productivity through new  
technologies

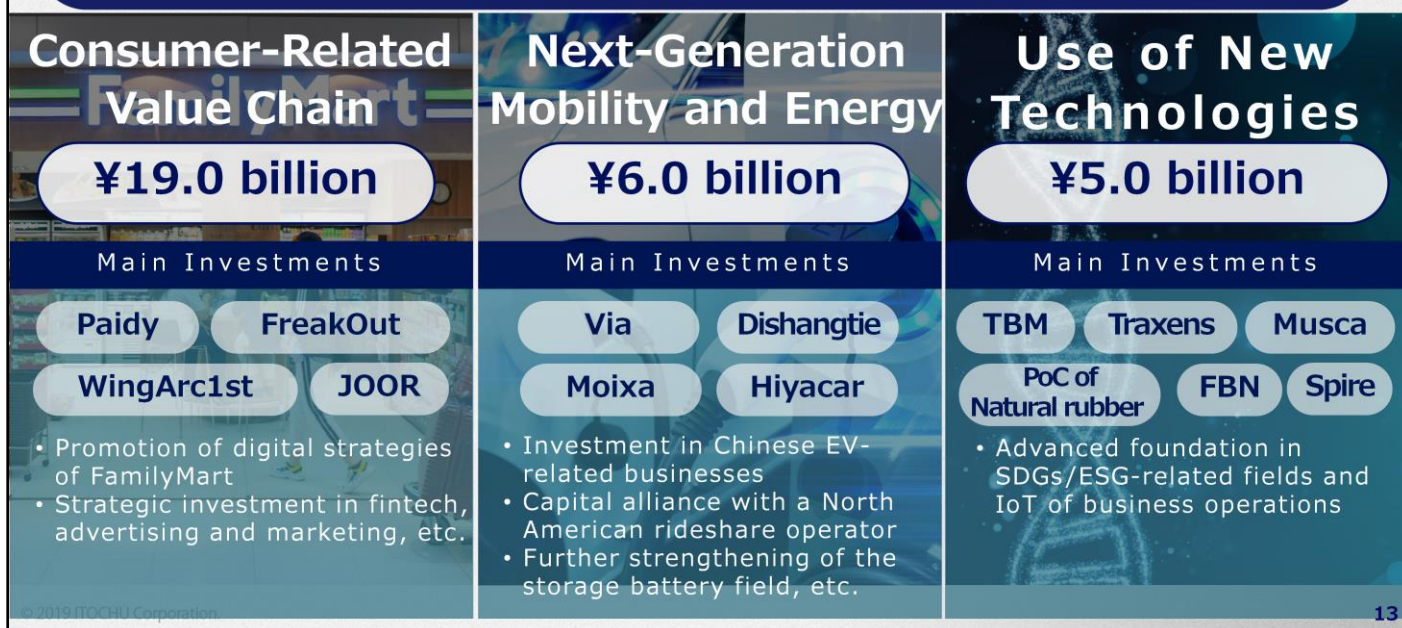
Open Collaboration with Other Industries and Venture Companies

We announced the policy of reinvention of business under the Medium-Term Management Plan in April, 2018.  
I would like to explain the progress.

# Progress of Reinvention of Business in FY2019

## Medium-Term Management Plan: Reinvention of Business

FY2019 Total Investment **¥30.0 billion**



In FY2019, we made an investment of 19.0 billion yen in consumer related value chain, 6.0 billion yen in next-generation mobility and energy and 5.0 billion yen in use of new technologies; total next-generation investments amounted 30.0 billion yen.

We used three frameworks: fintech- and digital marketing-related investments made by ICT & Financial Company, investment in cross-divisional field lead by head office and “investment framework for next-generation ventures.”

### • Consumer-Related Value Chain

Promoting digital strategies of Familymart and investing in peripheral business such as fintech And digital marketing.

### • Next-Generation Mobility and Energy

In addition to the investment in Chinese EV-related businesses and capital alliance with a North American rideshare operator, we have invested in the storage battery field with which we had previously handled in order to further strengthen the business.

### • Use of New Technologies

While there are various businesses, our main theme is to set an advanced foundation in ESG/SDGs relating business such as new materials and regenerative medicine as well as IoT of business operations.

### <Explanations on each investment>

I would like to explain some examples of the investments we made in FY2019 one by one.

- Via – Rideshare system founded in the U.S.
- Dishangtie – EV rental and operation management business in China
- Storage battery : Moixa – Energy storage systems for households applying AI technologies  
Sunnova – Residential solar power generation and storage service provider  
in the U.S.  
24M - Next-generation lithium-ion battery
- Next-generation retail : FreakOut – Internet advertisement delivery service  
Paidy – Online post-pay settlement service
- Hiyacar – Peer to peer car sharing service in UK
- JOOR – B to B market place for fashion brands
- Traxens – IoT tracking device and logistic information platform
- FBN – EC platform for farmers in North America
- Spire Global – Operation and data analysis of small-size artificial satellite
- PoC of Natural rubber traceability – PoC of traceability of natural rubber using block chain
- MUSCA – 100% biomass recycling system using insects
- TBM – New limestone-based materials substitute papers and plastics

# 4 . ITOCHU's Strengths for Reinvention

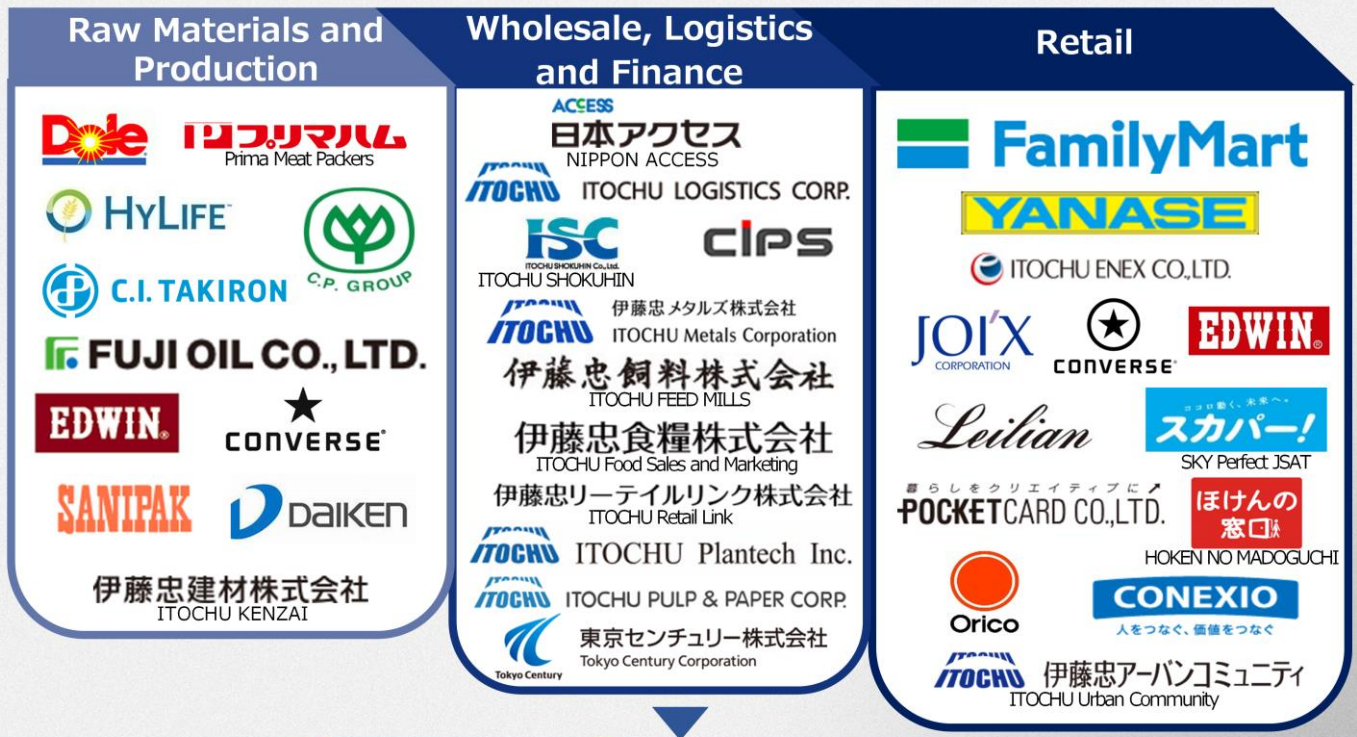


**ITOCHU's Strengths Drive Reinvention**

# **Utilization of Technology and Foundation of Venture Investment**

We have two strengths in reinvention of business; the first is that we have fulfilling value chain for consumer related businesses, and the second is that we have experiences, knowledges and networks in areas of technologies, IT and venture investment, accumulated through our long history in these areas.

# ITOCHU's Consumer-Related Value Chain



**Huge growth opportunities through digitization and data utilization**

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This picture refers to ITOCHU's consumer value chain, from downstream to upstream.

In particular, our strength is that we have a vast number of brick-and-mortar stores such as FamilyMart, Yanase, Itochu ENEX, which operates gasoline stations, Hokenno Madoguchi, CONEXIO, which operates mobile shops such as DoCoMo shops, textile-related various apparel brands, fiber-related industry, etc.

Furthermore, in the value chain which is connected to the downstream, there is a variety of group companies starting from manufacturers, distribution and logistics to financial services. Transactions among the group value chain amount several trillion yen per year.

There is a possibility to further generate profits by utilizing technologies, promoting digitization and maintaining and utilizing data group-wide.

# Company-wide Sharing of Venture Network

## Domestic and International Venture Capital



Around 30 funds

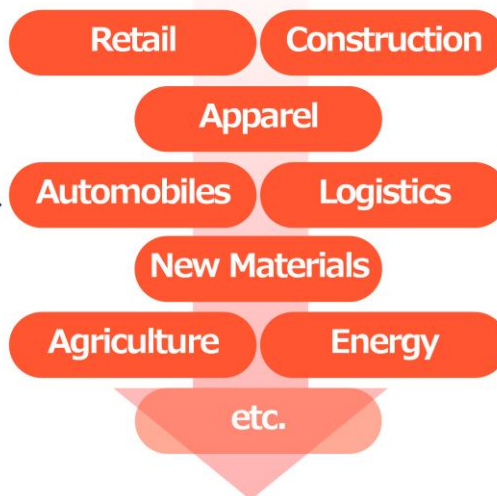
Portfolio  
Around 3,000 companies

Screening  
Around 300 companies

Investments and alliances  
10 to 20 companies

Company-wide  
Sharing

Company-wide sharing  
of the venture network  
used to date by ICT &  
Financial Business Company  
and Head Office



Since about 25 years ago, ITOCHU, mainly ICT division, has been engaged in a variety of businesses based in Silicon Valley. Thanks to the long history with the community of ventures, we have rich connections and networks.

If we look back at the past, Itochu Techno-Science, today's CTC, obtained a sales representation and became the world's largest agency of Sun Micro, a leading Silicon Valley company at that time that sold servers that dominated the world. Since then, we have made a contribution to American IT companies such as Cisco and Oracle by bringing these companies to Japan. Through these businesses, we established relationships with people and companies in the U.S.; therefore, we were able to invest in top-class venture capital firms (VC) in the U.S., while it is considered to be quite difficult to join in.

We will expand and utilize this VC networks group-wide.

In terms of how we selected venture investments, based on about 30 funds, there are about 3,000 companies in portfolio; through screening we choose about 300 companies, and then through discussion and consideration, we decide to invest in or tie the alliance with about 10 companies.

We hope to expand this system throughout the Group.

# Group Companies and Partners Underpinning Reinvention

## Group companies



## Partner investees

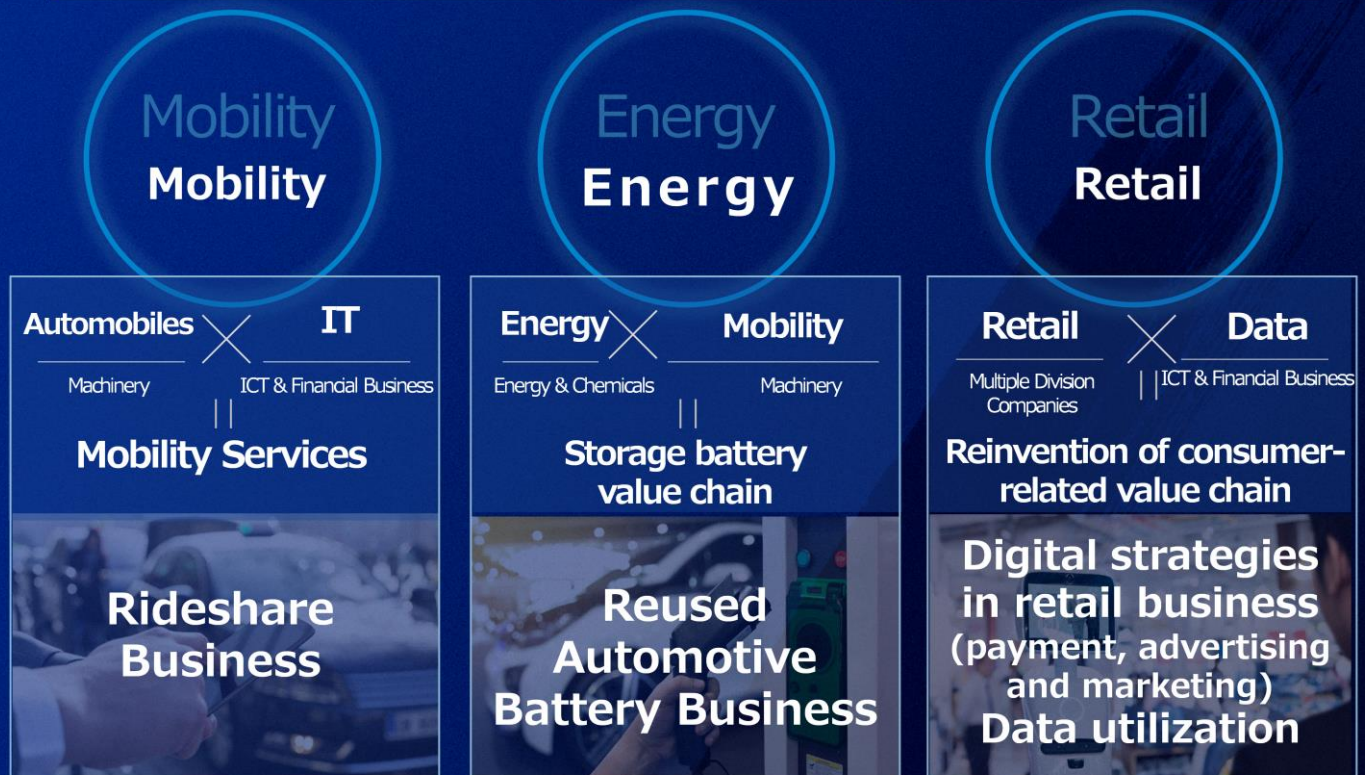


Group companies such as CTC, Bell System, a contact center, Tokyo Century and ITOCHU Technology Ventures are strategically important companies for addressing the next generation business and pursuing group synergies. Having these companies in a group is also our strength, and all Division Companies will make use of these companies in a cross-divisional manner.

In addition to the group companies, we are investing in a variety of AI-related and data-related ventures, and we will introduce them to various Division Companies for their use.

# 5 . Policies Going Forward and Path to Profitability

# Cross-Industry Integration and Cross-Divisional Cooperation



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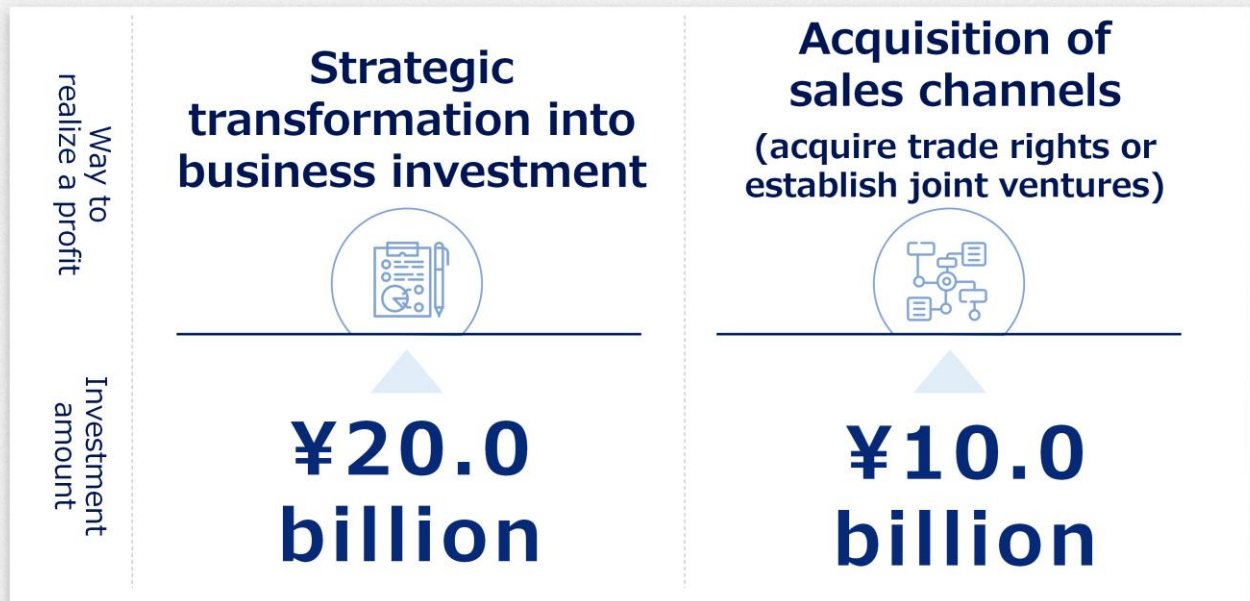
Cross-industry and cross-organizational collaboration are extremely important for the next-generation businesses. By breaking out of sectionalism of the Division Companies we can create new values.

As a result, we are conducting ride-share business in a collaboration of automobiles and IT, reuse of automotive batteries business in a collaboration of power and mobility, and digitization and data utilization in retail business including advertising and settlement, etc., in a collaboration of retail and data.

In terms of the future vision of mobility × electricity, we will provide a next-generation infrastructure using new transportation, as well as next-generation power platforms such as virtual power plants. In addition, these fields will inevitably merge with the retail sector, providing unmanned mobile convenience stores and unmanned home delivery services.

In terms of retail × data, we see digital marketing and a variety of convergences that leads revenue expansion of the value chain as a future vision.

# Realizing a Profit from Next-Generation Investments



**Steadily realize a profit of each investment**

As for measures to realize profit, we have two directions: Strategic transformation into business investment and Acquisition of sales channels.

Among the investments of 30.0 billion yen we made in FY2019, investments of about 20.0 billion yen will be strategically turned into business investment. For remaining investments of about 10.0 billion yen, although we do not intend to make them into business investment, we will acquire sales channels through obtaining new commercial rights, securing distribution channels or establishing joint ventures.

We will steadily advance investments one by one toward these goals to achieve profitability.

# Path to Profitability of Next-Generation Businesses

Clarify our direction during the current medium-term management plan

Develop foundations for sustainable growth based on consolidated net profit attributable to ITOCHU of **¥500.0 billion**

**Continue next-generation investments and realize a profit**

Accelerate next-generation investments, pursue strategic transformation into business investments and acquisition of sales channels

**Expand profit by evolving existing businesses**

Improve productivity, efficiency and profitability through digitization and data utilization

We intend to clarify the direction of our efforts toward business profitability to a certain extent during the period of the medium-term management plan (by FY2021).

The company itself is committed to firming up the level of 500.0 billion yen in net profit and building a foundation for sustainable growth toward the further growth. As for the next generation business, we will realize a profit of next-generation investments, build even more advanced foundations by making new investments proactively, and expand group synergies through integrating and collaborating with existing businesses.



# ITOCHU Rising to the Challenge of Reinvention

## Further Accelerate our Evolution



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Lastly, it shows some pictures of future possibilities in terms of our challenge to the reinvention of business.

Although there is a variety of potential projects, we will take a step ahead of us carefully by looking at our direction and select investments strictly.

By building advanced foundations while considering a path to profitability, we will take the initiative in promoting and accelerate the reinvention.