Investor Briefing on FYE 2024 Business Results Summary & FYE 2025 Management Plan：
Q&A Summary

Date: May 10, 2024 (Fri.) 10:00 to 11:30
Respondents: Masahiro Okafuji, Chairman & Chief Executive Officer
Keita Ishii, President & Chief Operating Officer
Tsuyoshi Hachimura, Chief Financial Officer
Hiroyuki Naka, Chief Transformation Officer
Kenji Seto, Chief Strategy Officer
Shuichiro Yamaura, General Manager, General Accounting Control Division

Q: Could you tell us the breakdown of the core profit increase of ¥71.0 billion in the FYE 2025 plan and how much you expect for the organic growth and turnarounds in existing businesses as well as profit contributions from new investments?

A: The FYE 2025 consolidated net profit plan of ¥880.0 billion adds a ¥71.0 billion accumulation of core profit and a reasonably certain ¥60.0 billion in extraordinary gains to the ¥789.0 billion in core profit in FYE 2024 and includes a loss buffer of ¥40.0 billion. The breakdown of the increase in core profit in the FYE 2025 plan is expected to come about equally from 1. organic growth in existing businesses, including turnarounds, and 2. profit contributions from new investments. Organic growth includes profit contributions from projects invested until FYE 2024, including the Metals & Minerals Company. We forecast profit growth in existing businesses of around 5%, or ¥40.0 billion. Currently, the operating results of Group companies have been exceedingly strong. In addition to a high ratio of Group companies reporting profits, 61 Group companies achieved record high profits in FYE 2024, and we can fully expect organic growth in FYE 2025 as well. Furthermore, in addition to profit contributions from the iron ore and coking coal projects in North America and the coking coal project in Australia we have already invested in, we expect growth in core profit from turnarounds in Dole, the pork business, and the pulp business. Dole moved its headquarters functions from Singapore to Manilla, is conducting hands-on management close to the frontlines, and is promoting further cost improvements. There are signs of recovery in the pork and pulp businesses, which are significantly affected by market conditions. Pulp market conditions are on a recovery track due in part to a decrease in inventory in China attributable to tightening supply amid strikes in Europe. Pork market conditions are currently improving in Vietnam. In China, the government was concerned about prolonged unprofitability for pork farming operations due to a deterioration in market conditions amid oversupplies. The Chinese government is taking measures to control the volume of pork produced, and balance is expected to be restored in supply and demand going forward. Amid expectations of a recovery in the market from the summer onward, we forecast a going forward recovery in the pork businesses of HYLIFE and CPP. We forecast around ¥40.0 billion in the growth of existing businesses due to these factors. The remaining ¥30.0 billion is expected to come from profit contributions from highly achievable new investments in the General Products & Realty Company, Machinery Company, The 8th Company, Metals & Minerals Company, and Energy & Chemicals Company. However, we set a loss buffer of ¥40.0 billion in consideration of possible delays in profit contributions due to a need for more time to set up new investment projects in addition to volatility in exchange rates, resource prices, and other factors. Regarding the growth investments with an upper limit of ¥1 trillion, we will not just blithely invest in anything. While there is no change in our attitude that investments will be made only after we fully assess investments to ensure they are tailed to generate steady profits, this announcement was made in consideration of encouraging studies of sizeable projects. As for new investments going forward, although there are two types of investments, those that we expect to quickly contribute to profits and those that will require time to achieve future growth, we expect there will be a higher proportion of future-oriented investments, such as those to expand business fields and to strengthen Group companies. The most important points to consider are whether they can generate synergy and whether they can expand business fields. Through investments aimed at growth moving forward, we intend to establish a base targeting the next stage of profit.

Q: How do you currently evaluate the quality of the projects included in the investment pipeline? Compared with previous investment projects, is there a lineup of high-quality projects that can contribute to the growth of ITOCHU going forward?

A: In the current investment environment, competition is heating up domestically, including from overseas companies, due to heightened attention on the Japanese market while overseas markets are becoming expensive due to yen depreciation, so how we discover good prospects is important. Growth investments with an upper limit of ¥1 trillion outlined in the FYE 2025 Management Plan prove to internal and external parties that we are serious about achieving growth centered on investment. We expect growth in existing businesses to be around 5%, and we will need to build up profit from new investments to maintain profit growth of 10% moving forward. However, the Company is seriously evaluating lessons from investment failures. Of the projects that are now actually under consideration, we have indicated around half of them will need to revise the way the investments are set up. In consideration of past failures, we are paying attention to projects sold by investment funds. However, in some cases, the information owned by investment funds is also very useful to ITOCHU, for example there are cases that Company conducted joint investments like Hitachi Construction Machinery and WECARS with investment funds. The growth investments with an upper limit of ¥1 trillion include projects we will continue further consideration going forward. There are already some highly achievable projects that we fully foresee profit contributions from. Regarding investment scale, the Company's policy has not been changed and we will not pursue large-scale investments in the range of hundreds of billions of yen but mainly conduct investments in the range of tens of billions of yen. The FYE 2025 plans of other general trading companies include a large amount of extraordinary gains, and they may think of offsetting the decline in profit due to the falling resource prices with extraordinary gains and, using the time that buys, creating new sources of profit through large-scale investments. The effects of falling resource prices have been limited for ITOCHU, however, due to its focus on the non-resource sector. We do not need to conduct large-scale investments to cover losses or actively sell off assets to create large amounts of extraordinary gains, so we aim to achieve profit growth by continuing to steadfastly build up investments suited to us. You can look forward to our profit growth moving ahead.

Q: I would like more granular detail about the ¥71.0 billion increase in core profit. Could you tell me the details about the portion of existing businesses that you mentioned would be around ¥40.0 billion, including contributions of new investments in the resource sector that have been conducted in the past few years?

A: In the Metals & Minerals Company, we expect full-year profit contributions from coking coal projects in North America and Australia and from iron ore projects in Canada. However, we set relatively conservative assumptions for resource prices and have not thoroughly incorporated the profit contributions from these projects. In addition, although the sensitivity is low, we have set our assumptions for crude oil (brent) more conservatively than other general trading companies at US$80/BBL. The resource business, including LNG-related, has room in the plan to overperform if resource prices rise. If the strong performances of Group companies in Japan, the U.S. and other countries maintain their momentum in addition to the forecasted turnarounds enabled by recovery in the pulp and pork market conditions, although there are some events we will need to keep an eye on, such as the U.S. presidential election, we believe this plan is fully achievable.

Q: Amid these strong operating results, are there any signs of changes or risks? What points are you paying attention to in your management?

A: For example, in the area of human resources, it is delightful that ITOCHU places high in company ranking among jobseekers and many excellent human resources join the Company, but one trend seen among junior employees is they avoid going beyond the boundaries of what they have learned or feel they are capable of. However, addressing various unprecedented issues is the original mission of general trading companies. Building up experience in thinking for yourself and overcoming challenges leads to enhancement of frontline capabilities used in hands-on management. We dispatch junior employees to the frontlines overseas and at Group companies as quickly as possible to foster a sense of joy derived from actively engaging in real business through onsite interactions and the fulfillment of roles in teams. People often talk about how aloof Gen-Z seems, but they can grow significantly and work passionately when they are motivated by helping people around them or contributing to the world, rather than by salary level or other values. We will continue developing human resources with an emphasis on nurturing employee growth through successful experiences.

Q: I have a question about cash allocation. Other general trading companies consider allocating surplus capital during the period of the medium-term management plan towards shareholder returns. Since ITOCHU changed to a long-term Management Policy with no medium-term period specified, how will you allocate cash when there is a surplus that cannot be invested?

A: The background behind suspending medium-term management plans and announcing a long-term Management Policy is based on the basic idea that we could provide more accurate information by building up and disclosing the figures that we can forecast for every single fiscal year to the market. At the same time, regarding shareholder returns in our Management Policy, we set a total payout ratio of 40% or higher. As for growing earnings, our policy is to continue realizing profit growth of 10% or more in line with our past track record. As we strengthen our policy to focus more aggressively on investment than in the past, in FYE 2025, we plan to first allocate half of core operating cash flows to shareholder returns and the other half to investments, considering the balance between investment and shareholder returns. In addition, the cumulative total of approximately ¥700.0 billion in core free cash flow after deducting shareholder returns in the previous medium-term plan will also be used for investment to create a cash allocation framework of ¥1.0 trillion for growth investment. Under the medium-term management plans in the past, in line with our policy of improving our credit rating by enhancing shareholders' equity, we have executed financial strategies that firmly continue to balance three factors (growth investments, shareholder returns, and control of interest-bearing debt), without bias toward investments or shareholder returns. Although the Company assumes it would achieve positive core free cash flows after deducting shareholder returns in a single fiscal year, amid significant variations in investment amounts each fiscal year, later we addressed the issue with positive core free cash flows after deducting shareholders returns over the cumulative medium-term management plan period, resulting in three balances had been maintained. Even if we allocate the surplus capital in the previous medium-term management plan, we will need to procure interest-bearing debt when actually conducting the investments. We set the maximum in light of the policy to focus on investing by allocating the surplus of the previous medium-term management plan in addition to the cash flows of FYE 2025. However, under the Management Policy, there is no change in the financial policy of balancing three factors, and I think that it is not difficult to understand of our cash allocation policy that going forward by continuing to disclose single fiscal year figures based on a balance of three factors.

Q: What are your focus fields and growth strategies to achieve your aim of 10% profit growth going forward? Until now, the bulk of growth has been FamilyMart and Chinese-related businesses, including CITIC, but I get the impression that growth opportunities are now expanding in a broader range of fields, such as CTC, WECARS, Hitachi Construction Machinery, FamilyMart, and the North American construction materials business. At present, what fields do you have high expectations for in the next two to three years?

A: The stance on growth in the Company's management is a policy of lifting the entire business without focusing too much on any specific field, in what we call consistent management. In the past, we specified focus fields in line with the A&P Strategy and heavily invested resources there, but as a result, this did not work amid falling motivation among employees outside of focus fields as they came to be viewed as non-focus fields from the industry they are facing with. Especially weak businesses need to be improved through diligent efforts, and improvements can significantly help grow earnings. In addition, the business of general trading companies is often said to comprise investments and trading, but we should not think of these separately. To stabilize and expand trading and enhance profit margins, we intend to invest in upstream and downstream fields, which are connected by trade as the midstream field. For example, through investment in the downstream business such as FamilyMart, we foresee an expansion in relevant trade, and through investment in the upstream business such as Hitachi Construction Machinery, we foresee further business expansion, such as an expansion in the regions in which we conduct trade. I always instruct to Division Companies to think in terms of connecting investment with trade, rather than just investing.

In addition, we believe there are three methods to achieve our aim of enhancing market capitalization. The first is an M&A strategy to complement the weaknesses. In this case, there is a company which expanded market capitalization by steadily elevating its profit stage, such as with acquisitions of other companies in similar industries in regions where they were weak or mergers with the purpose of enhancing the functions of specific divisions. The second method is selection and concentration, but this strategy is not suited to a general trading company which has wide range of client industries. If we stop a certain business, it will be difficult to receive information from that industry, and it would be difficult to restart transactions later. A general trading company by nature undertakes business in all directions with a certain level of contrast. The third method is a shareholder returns measure that impacts the market. While there are cases in which share prices are significantly affected by large increases in dividends and large-scale share buybacks, they are still expected by the market to further increase shareholder returns, and there are major concerns if they decrease dividends. This is what we consider to be "the trap of increasing dividends." It is important to continue steadily enhancing shareholder returns. At the internal top management meeting the other day, we shared these three cases. We need to raise our earnings to enhance the share price. To grow our earnings, we asked each Division Company and industry to study the strategies and cases of our consistent management as well as upstream and downstream investments conscious of strengthening trade.

Q: It seems that the new announcement of an investment scope with an upper limit of ¥1 trillion is evidence of the Company's ambition to achieve a new growth stage, but what is your approach to committing to returns from growth investments going forward, such as the scale and the timeline for profit contributions?

A: As we state "No investment, No growth" in the Management Policy, we will not be persuasive to the market if we do not announce the scale of our investments, so we announced the scope of ¥1 trillion. But this is just a scope, and consuming it all is not the intention. Under the Management Policy, we promise to continue sustainably enhancing corporate value through growth, and our policy is to achieve growth through various means, including new investments and organic growth. Regarding the returns of individual projects, we have set hurdle rates conscious of capital costs. We have diligently implemented "the Four Lessons for Investments" (to prevent, 1. Overpaying for investments; 2. Investments aimed at seizing profit from investees; 3. Overdependence on and overconfidence in partners; and 4. Field with limited insight), and there is no change in our initiatives even while steering towards growth investments.. We have no intention of loosening our investment discipline to build up returns. We will continue conducting growth investments at a level where we can sustainably maintain an ROE of 15% or higher. Although the timeline for profit contributions from growth investments is different for each project, we are undertaking projects with a high certainty of providing returns, even if the timeline is over the medium to long term. From the shareholder returns policy outlined in the Management Policy (total payout ratio of 40% or more, the higher of 30% dividend payout ratio or ¥200 dividend per share), we can calculate consolidated net profit of ¥960.0 billion as profit level going forward. We are conscious of how to conduct new investments aiming for this profit level and strive to achieve the profit level in the not too distant future aiming for 10% growth in line with past track records. We are currently building up our investment pipeline in each field, and there a range of multiple investments, such as those that contribute to midstream trade and those that enhance downstream businesses. We will continue to consider the investment scope in the next fiscal year onward while carefully monitoring progress in FYE 2025.

Q: It was explained that ITOCHU established a profit stage of ¥800.0 billion under the previous medium-term management plan. From a different point of view, however, the three years under the previous medium-term management plan could be considered a plateau where there was no significant growth in profit. Considering that, what was the thought process behind announcing a new investment scope of ¥1 trillion and announcing 10% growth?

A: We believe we were able to establish a profit stage of ¥800.0 billion under the previous medium-term management plan by steadily building up steadfast initiatives, such as accumulating trade and refining our businesses. Unlike other general trading companies, profit contributions from soaring resource prices were limited, but the Company was able to establish its current profit stage by steadily building up profit while encouraging Group companies centered on the non-resource sector. However, as we strive to achieve even greater heights, there is a limit to the growth of conventional product-siloed businesses, and we need to change how we view things and our approach to projects. Under the new Management Policy, we again promoted a "market-oriented perspective" and "profit opportunities are shifting downstream." We think that continuing to expand businesses from the downstream, to midstream and upstream going forward will lead to growth. For example, in addition to delivering food products and packages, FamilyMart will introduce renewable energy and analyze data using the functions of the ICT & Financial Business Company. In this way, our policy is to continue working hard to enhance corporate value across the entire Group. Similarly, the previously announced WECARS can be considered a Group-wide project, not just one of the General Products & Realty Company, and we will consolidate the functions, services, and projects of each division company to continue enhancing corporate value by leveraging the Group's comprehensive capabilities.

Q: At the Management Policy and FYE 2025 Management Plan Briefing in April, you mentioned the ambition of aiming to achieve 10% growth for EPS in addition to consolidated net profit. If new investments are delayed and the growth rate of consolidated net profit does not reach 10%, are you considering the option of share buybacks to ensure the EPS growth rate?

A: First, we expect EPS to grow around 11% in FYE 2025 from FYE 2024 (EPS: ¥553 in FYE 2024, ¥615 planned in FYE 2025). We announced our aim to sustainably grow corporate value in the Management Policy, so to continue to receive high evaluation from the market, in April 3rd I explained our focus on the ROE level organized in a matrix of shareholder returns and growth rate. As clearly shown in the growth strategy under the Management Policy, we do not currently anticipate a case in which we cannot achieve profit growth. Through dialogue with the market, I personally fully aware of the fact that an ROE under 15% does not pass the screening of institutional investors. As seen with the 16% ROE we outlined in the FYE 2025 Management Plan, I think we presented the message that we aim to achieve a sustainably high ROE going forward. If the consolidated net profit falls below expectations while striving to increase EPS, BPS, and keep the high level of ROE, we will discuss the reconsideration of capital structure. We committed to a long-term total payout ratio of "40% or more," and we will steadily pursue shareholder returns within this range.

Q: The CAGR of The 8th Company achieved significant growth totaling 18% from FYE 2011 to FYE 2024, but I get the impression that the pace of growth in FYE 2025 will be somewhat lacking. Could you tell me about the room for growth and the assumptions when formulating the FYE 2025 plan for The 8th Company?

A: FamilyMart accounts for most of the consolidated net profit in The 8th Company. Profit increased in FYE 2024 mainly due to extraordinary gains and such tailwinds as inbound demand and a recovery in the flow of people. In FYE 2025, we forecast the stabilization of the benefits of inbound demand as well as an increase in costs, such as a decrease in public subsidies for electric power and gas and an increase in interest rates, so we expect profit to remain mostly level. However, in The 8th Company as a whole, profit is steadily building up in new businesses, such as new efforts using AI and other technologies, and the advertisement and media business, and we think that expanding these businesses will lead to the creation of new profit pillars. In the near future, we are working to roll out the expertise cultivated in FamilyMart's advertisement and media business to other retail businesses and industries. Going forward, we will continue to consider conducting sizeable investments.

Q: Could you tell me about the growth potential of the Textile Company, which is expected to have a challenging business environment?

A: We think there is much room for growth in the Textile Company by further refining existing retail-related assets and not just chasing M&A. In the apparel industry, there are cases where companies temporarily concerned about their outlook replaced top management and operating results expanded, so apparel-related Group companies, which currently have ¥1.0 billion level in profit, are thought to have room to grow up to ¥3.0 billion level in the future. The key to that will be the cost ratio and the strength of the product lineup. Some of the products that we handles have a high cost ratio compared with competitors, and there is room to extract profit by reducing the cost ratio. To achieve this, we are not limited to allocating the Company's employees who are proficient in managing statistics to the top positions of apparel-related Group companies. We have the option of hiring appropriate external human resources. Regarding strengthening the product lineup, we need to take swift action, such as rapidly changing designers if products are not selling well. We need to manage business while seizing trends, such as considering, for example, whether there is actually a need to continue selling heavy down apparel, while that has a high profit margin, amid recent warm winters. In addition, we have expanded many powerful brands in the key footwear field, and there should be room for growth. Shoes have a good profit margin, and we will work hard in this field while hiring experienced external human resources. FILA, UNDER ARMOUR and other powerful brands are already conducting business, but there is room to grow by strengthening their product lineups. When I visited South Korea recently, I saw products of the strong DESCENTE brand in its local stores, and they were of very high quality. I think it is possible to achieve a level of ¥50.0 billion as Division Company's consolidated net profit by improving the cost ratio and enhancing the strength of the product lineup. In addition, in terms of human resources, because the Company has a textile segment, we have been able to secure excellent human resources who are interested in fashion. In particular, the Company's textile business is in headquarter, and, compared to other companies who have textile business in group companies, the quality of information obtained, and the human resources related are strikingly different. Having a textile segment within a general trading company serves many various roles, including affecting the impressions of business partners.

Q: What is the current situation of the Power & Environmental Solution Division, and what is the growth strategy moving ahead?

A: We have been promoting an energy storage system (ESS) business for some time now, but it feels like the value of ESS is finally being recognized by broad society. Japan is dependent on overseas sources of fuel for fire-powered plants so effectively utilizing electric power is an important issue, and ESS, which can balance electric power supply with demand, are highly needed. Going forward, we expect an increase in the use of renewable energy, which has unstable power generation, and the need for medium- and large-size ESS is growing. We expect this trend to further accelerate amid expectations of an increase in electric power demand due in part to the reshoring of semiconductor manufacturing and the increasing size of data centers to meet demand for AI. Systems are needed to procure energy from the power grid to supplement any shortage while working to balance supply and demand with energy storage plants using large-scale ESS with electric power derived from renewable energy sources, such as solar and geothermal, along with wind (including offshore wind.) There is actually a very high need to construct energy storage plants using large-scale ESS due in part to restrictions on operating nuclear power plants. Regarding decentralized microgrids that use household ESS, which the Company has promoted, if it is possible to connect with other microgrids, it will be possible to more smoothly balance supply and demand in combination with P2P power transactions and other systems. This will, in turn, lead to the more effective utilization of electric power. The Company is comprehensively promoting these efforts and conducting pilot tests aimed at constructing decentralized energy management systems in various places in Japan. In the future, we aim to accumulate data gained from the pilot tests, create systems, and commission operations and sales combining ESS with other systems.