03

The essence of "Profit Opportunities are Shifting Downstream“

(1) Practice of Market-in

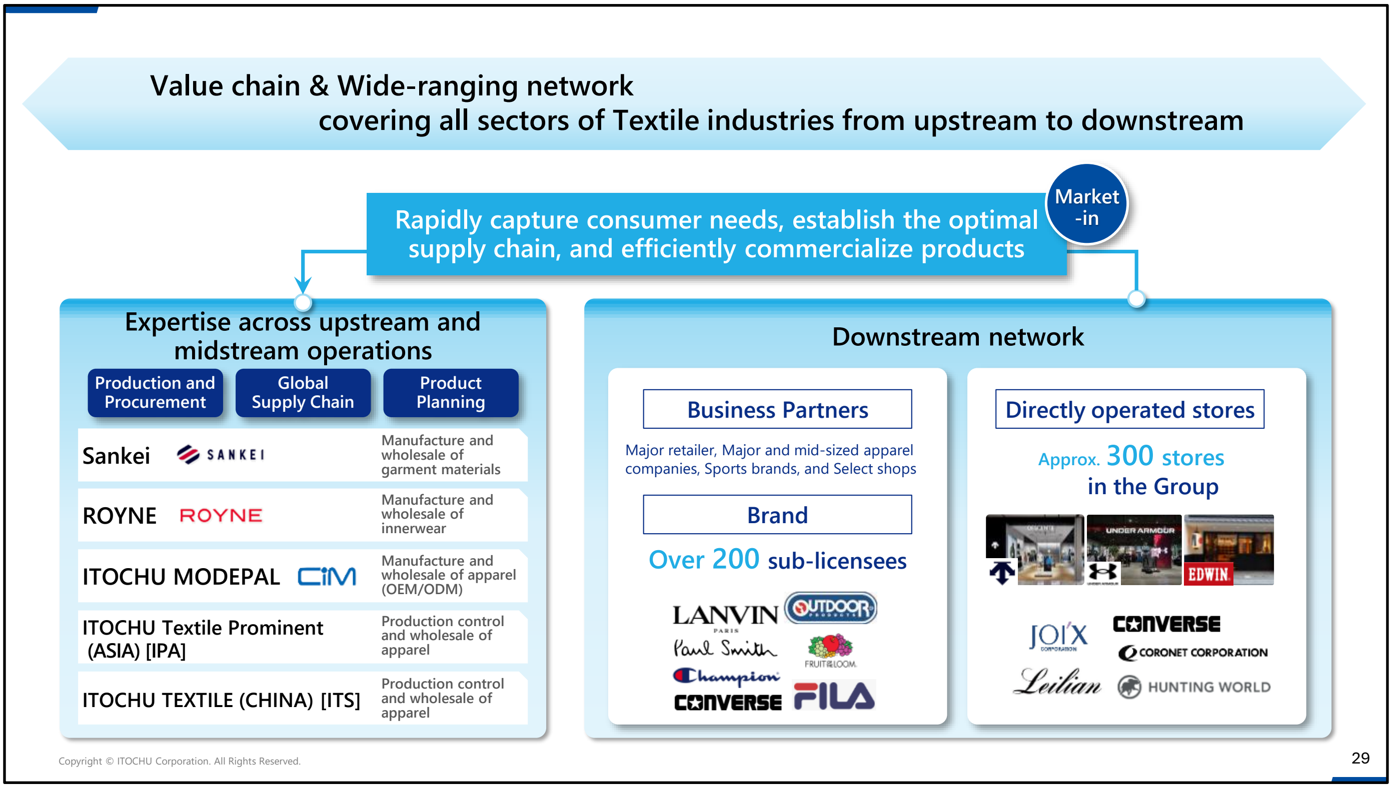
Textile Company

Hideto Takeuchi

Senior Executive Officer
President, Textile Company (Since 2023)

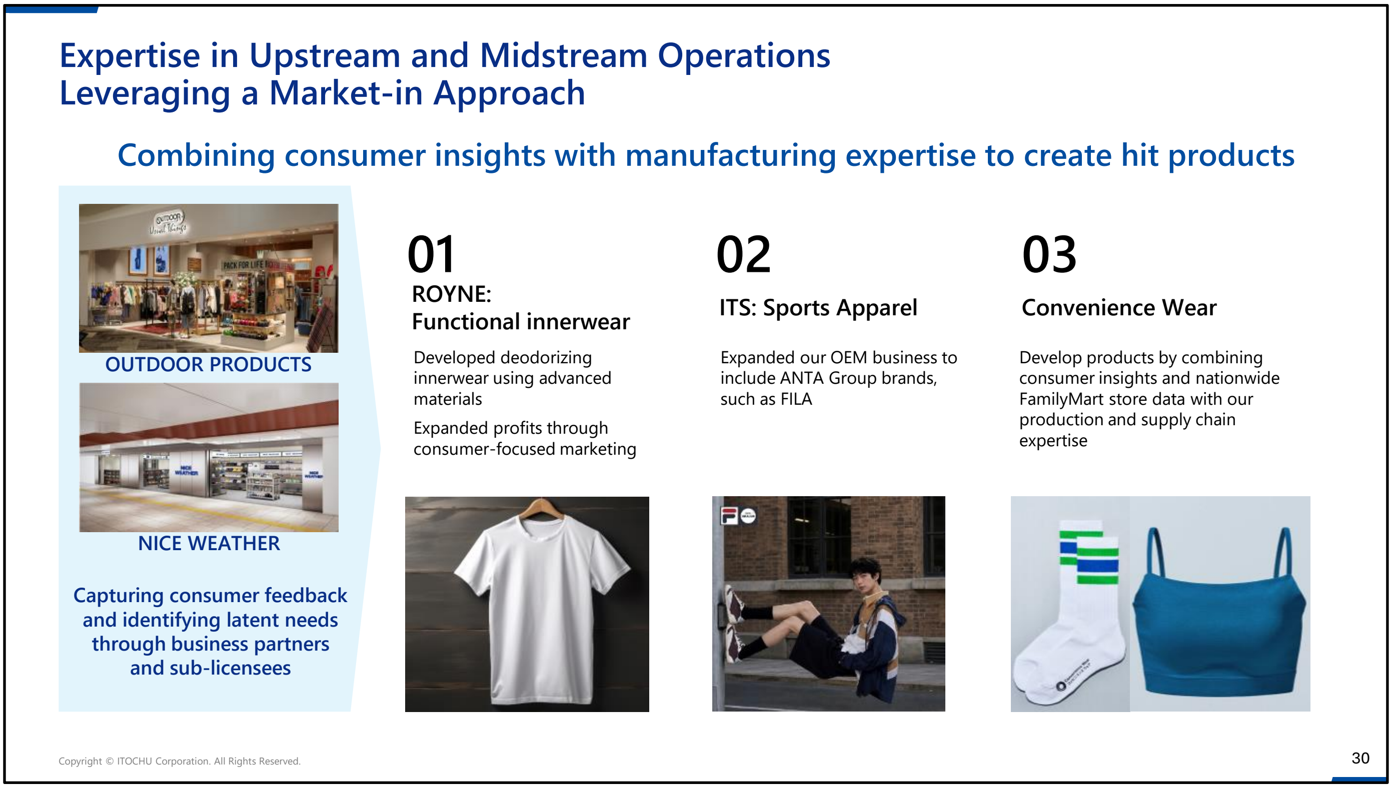
- Joined ITOCHU in 1988; consistently involved in the brand marketing business
- Extensive experience in leadership roles at apparel retail companies
- Served as president of JOI'X Corporation which handles brands such as Paul Smith
- A hands-on business leader, regularly visiting stores and exhibitions

Today, I would like to explain, from a Market-in perspective, why ITOCHU’s Textile Company has continued to maintain a strong position in the textile industry.



The source of our strength lies in a value chain that spans every stage of the textile industry, from upstream to downstream, and in our capability to apply a Market-in perspective to product development. In addition to our manufacturing capabilities, including raw material procurement and networks with factories, we have also established a framework that allows us to directly capture the voices of consumers through major business partners, more than 150 brands, over 200 sublicensees that do business with those brands, and a network of more than 300 directly operated stores.

Our true strength lies in our ability to quickly identify consumer needs through a Market-in approach, build the optimal supply chain, and translate those needs into products.

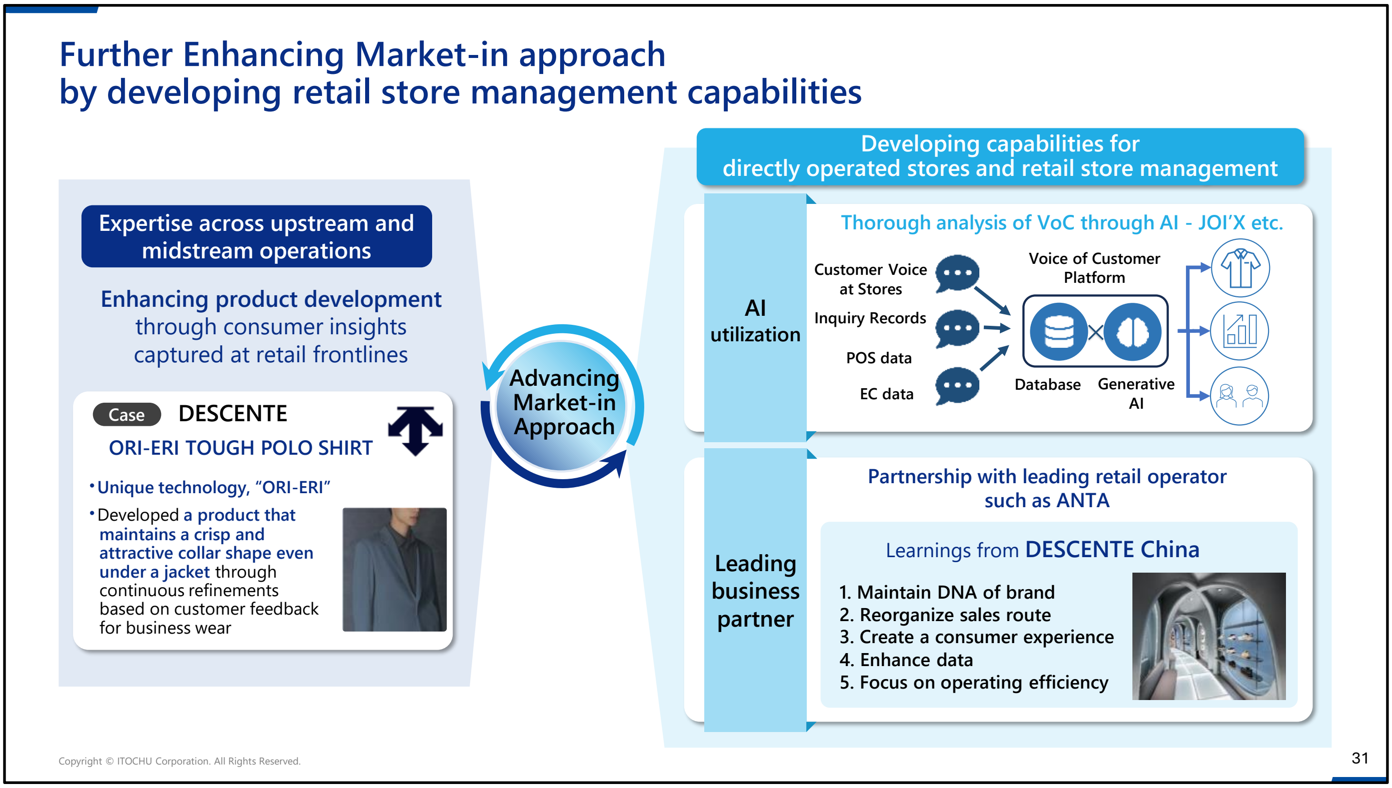


First, let me introduce several examples from our B-to-B business.

The first example is the development of innerwear with deodorizing functionality. ROYNE, our subsidiary engaged in apparel OEM business, jointly developed deodorizing innerwear with a major retailer. In addition to its functional value, the product name was updated to better align with the target customer segment, which helped drive sales growth.

The second example is the initiative of ITS, our subsidiary in China. ITS is a supplier that is highly regarded by global sports brands. In the sportswear segment, where multi-style, small-lot production requires a high level of manufacturing expertise, ITS leverages its value-added manufacturing capabilities to expand its OEM business not only for DESCENTE, but also for other brands within ANTA Group which jointly operates DESCENTE China.

The third example is product development for FamilyMart's Convenience Wear line. For FamilyMart's Convenience Wear, products are planned by combining data from more than 16,000 stores nationwide and direct consumer feedback with ITOCHU's supply and production capabilities. "Bra Wear," launched last year, is one example of a high-value-added product that requires advanced sewing technology and showcases our manufacturing strengths.



Next, I would like to introduce our initiatives in the B-to-C business.

In addition to JOI'X and Leilian, which have long operated directly managed retail businesses, DESCENTE, EDWIN, DOME, and CORONET are also strengthening their retail operations. Because retail businesses allow us to capture voice of customers directly, they are indispensable to further refining our Market-in approach. Going forward, we intend to further enhance our retail management capabilities by recruiting external specialists, utilizing AI-based consumer analysis, and learning from our partner companies.

One example of the results of these efforts is DESCENTE's "ORI-ERI" polo shirt. By uncovering customer demand for apparel suitable for business settings and applying DESCENTE's technological strengths, we repeatedly refined the product so that the collar would maintain a neat appearance even under a business jacket. As a result, it has become a popular item. In this way, by combining consumer insights gained at the retail front line with our manufacturing capabilities upstream and midstream, we can create hit products with both speed and precision.

Looking ahead, we will continue to strengthen our product competitiveness by connecting insights between upstream, midstream, and downstream operations and leveraging a Market-in approach throughout the value chain. We believe that consistently creating value-added products such as those presented today will be a key driver of the Textile Company's sustainable growth.

The essence of "Profit Opportunities are Shifting Downstream“
(1) Practice of Market-in

Food Company

Shuichi Miyamoto

Senior Executive Officer
President, Food Company （FY2023～）

- Joined ITOCHU in 1989; has worked in the food business throughout his career
- Stationed in Asia and Oceania with a total of 11 years, and his experience covers a wide range of areas, from food ingredients to fresh products and retail distribution
- His mottoes are “Adapt to Change” and “TRUE GRIT.”

Today, I would like to explain our approach to the downstream area. The Food Company operates across the full value chain, from raw materials and distribution to retail. In the past, our business may have been seen as a product-out model, where products move from upstream to downstream. In recent years, however, we have changed this approach significantly. Today, I would like to focus on that change.

First, let me talk about the idea, “profit opportunities are shifting downstream.” This is a message that Chairman and CEO Okafuji has emphasized repeatedly, and as the Food Company, we have once again recognized the fundamental importance of this approach. Focusing on downstream does not simply mean owning downstream businesses. While that is important, the real essence is to stay close to consumers, accurately capture changes in their needs, and build the entire business starting from that point of view. In the food sector, consumer needs are becoming more diverse and continue to evolve. These changes range from health and nutrition awareness, time-saving and convenience preferences, to shifts in the definition of taste and deliciousness, environmental considerations and SDGs, and also topical appeal and experience value. In this environment, one of our key priorities is how to respond to these changes and turn them into business opportunities.

Our aim is to capture these changes accurately at the downstream level and connect them to product planning, raw material procurement, material development, manufacturing, processing, logistics, and sales. In this way, we seek to create valuable products from a consumer starting point and deliver them in the best possible way. In particular, the food market has changed greatly over the past ten years.

First, products that highlight health, nutrition, and beauty benefits have become far more important. A symbolic example is protein. Ten years ago, protein products were not nearly as common as they are today. Now, in addition to protein, there are many products that promote specific functional value, such as better gut health, lower blood pressure, or relaxation effects.

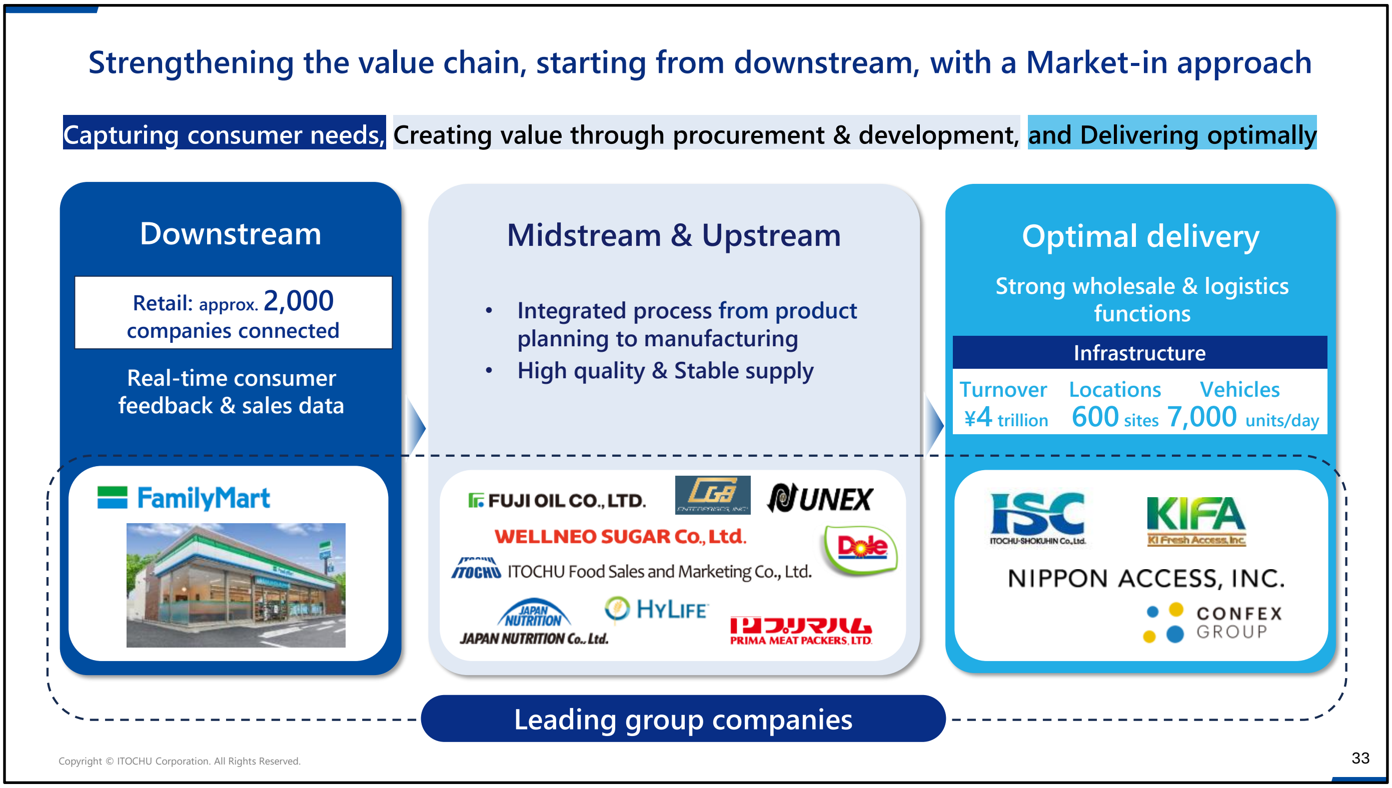
At the same time, consumer needs are not only about adding something beneficial. They are also about removing unnecessary things consumers do not want. We now see many “zero” products in the market, such as sugar-free, zero-carb, zero-calorie, and zero-purine products.

From an ethical perspective, we also see changes linked to the SDGs. Especially among younger consumers, some are becoming more conscious about eating animals. Not all of them are fully vegan, but some are adopting styles such as eating vegan once a week. We are seeing these kinds of lifestyle choices become more common. Environmental awareness is also rising sharply. For example, even university students now speak more often about these issues during job interviews. Another clear change among younger consumers compared with ten years ago is lower alcohol consumption. Terms such as “smart drinking” are now used, and choosing not to drink alcohol has become more socially accepted. People can express that choice more openly.

We also see changes in preferred food texture. Younger consumers often do not like foods that are too hard. Softer textures are preferred. In some cases, rice crackers or even grilled meat may be seen as too firm. At the same time, Korean food and ethnic food have become more common, while Japanese food is also spreading more widely around the world, supported by growing inbound demand. It is no longer limited to premium dishes such as sushi and tempura. A much broader range of Japanese foods, including tonkatsu, ramen, and even egg sandwiches, is now gaining acceptance overseas.

In addition, as hot summer weather lasts longer, demand for ice cream, soft-serve ice cream, and frozen food is rising further.

As you can see, one of the key themes for the Food Company today is how to keep pace with these changes and turn them into growth opportunities.



This slide shows our value chain, and the starting point is clearly downstream. One of our greatest strengths is our wide range of customer touchpoints, including FamilyMart, which is one of our key assets. In retail alone, we do business with around 2,000 companies. If we also include intermediate materials, such as transactions with factories, we have about 10,000 business partners. Among these roughly 2,000 retail customers, there are also companies where we dispatch personnel, regardless of whether we have an equity relationship with them. Through store data, purchasing data, customer feedback, and frontline sales knowledge, we capture changes in consumers and at the point of sale every day. What matters most is that we do not leave those insights as simple information. We connect them to our own functions and turn them into actual product development.

At the center of the slide is the process of designing product concepts based on consumer needs and linking them to development.

Let me share one example, although it is not a recent one. A buyer and developer for canned coffee once approached our coffee team for support in product development. The manufacturer wanted to create an authentic coffee with both a bright, floral aroma and rich body. In response, we proposed coffee beans from Guatemala and also provided dozens of ideas for fermentation methods. That effort led to commercialization. This is a good example of how we connect consumer needs to concept design and product development. Working together with our midstream and upstream group companies, we continue to promote many such initiatives today.

And of course, it is just as important to deliver the products we create in the best way. The annual value of products we supply through our downstream infrastructure is approximately ¥4 trillion. We have around 600 logistics sites and about 7,000 operating vehicles per day. We are always focused on delivering the right products at the right time. Nippon Access has a very strong competitive position in frozen and chilled logistics. ITOCHU-SHOKUHIN became our wholly owned subsidiary in May this year. We also have strong logistics capabilities in many fields, including confectionery logistics through Confex and fresh produce logistics through K.I. Fresh Access.

In this way, we do not simply wait for products to sell. We propose valuable products from a consumer starting point and create demand ourselves. That is our mission.

Next, let me explain three examples.

The first is NISSEI. We invested in NISSEI, a comprehensive soft-serve ice cream manufacturer. NISSEI does more than just sell soft-serve ingredients. It also sells machines as part of a package, provides maintenance, develops products, and carries out its own sales promotion activities. It then provides these products and services to customers in food service and retail. One area where we can add value is channel expansion. As I mentioned earlier, we have broad customer touchpoints through our business network. In addition to the customer base that NISSEI already has, we can introduce new customers through our own network. In that sense, our downstream strengths can play a major role. Going forward, we hope to expand this partnership not only in Japan but also in overseas markets.

The second example is Dole's initiatives addressing environmental and social awareness. At Dole, bananas that are slightly outside standard specifications or slightly discolored, but have no issue at all in taste or quality, have been branded as "Mottainai Banana." For example, these bananas are delivered directly to offices and consumed through subscription-style services. They are also being used as ingredients in a range of products. In addition, charcoal made from "Mottainai Banana" has also been developed. It is easy to light, lightweight, and easy to use, so it has found applications in camping. More recently, it has also been used in deodorizing products.

The third example is the initiative between FamilyMart and Afternoon Tea. Working with the tea brand Afternoon Tea, we developed 28 collaboration products and sell them at FamilyMart. These products are not limited to tea. We have also jointly developed sweets and alcoholic drinks.

We believe that responding to these kinds of changes is our mission. At the same time, we believe they represent significant business opportunities. Going forward, starting from downstream ideas, we will continue to evolve our business by linking upstream to downstream, and also downstream back to upstream, with “Fork to Factory” and “Factory to Farm” firmly in mind.