

Investors Meeting for Operating Segments (Digital Strategy in the ICT & Financial Business Company and The 8th Company):

Q&A Summary

This document is an English translation of a statement written originally in Japanese. The Japanese original should be considered as the primary version.

Date and time: March 24, 2022 (Thu.) 14:00 to 15:30
Respondents: (ICT & Financial Business Company)
Tatsushi Shingu, President of ICT & Financial Business Company
Hiroshi Kajiwara, Chief Operating Officer of ICT Division
Atsushi Hashimoto, General Manager of Planning & Administration Department
(The 8th Company)
Shuichi Kato, President of The 8th Company
Tetsuya Mukohata, General Manager of Planning & Administration Section
Hiroshi Nakamoto, General Manager of The 8th Company
Observer: Tsuyoshi Hachimura, CFO of ITOCHU Corporation
MC: Suguru Amano, General Manager of Investor Relations Division

1. ICT & Financial Business Company

- Q. You mentioned that the core profit of the ICT & Financial Business Company for FYE 2026 is expected to be approximately ¥100 billion, an increase of approximately ¥30 billion from the core profit forecast for FYE 2022. Please explain your specific growth strategy.
- A. In addition to an increase in profit of CTC and BELLSYSTEM24 by strengthening and expanding DX support businesses, we expect more than ¥10 billion in profit by acquiring additional shares of existing investments. Furthermore, new business development via business incubation has created around 20 initiatives to date, and three to five of those initiatives will contribute around ¥3 to ¥5 billion in profit if they reach the level of the ICT & Financial Business Company's requirement. We also expect organic growth from existing Group companies. Currently, we set an investment limit of around ¥30 billion for venture businesses. Despite the volatility, if we achieve an IRR of around 15%, we can expect a continuous profit contribution of around ¥5 billion.
- Q. ITOCHU explained that total assets in the ICT & Financial Business Company in FYE 2026 are expected to increase around ¥700 billion at present to around ¥2 trillion. Please tell us about specific growth investments.
- A. We think a certain level of investment is needed to create stable core profit. In the ICT field, corporate value is generally high, and there is a trend toward larger investments. For example, regarding the function augmentation of DX support businesses, we are considering further strengthening relationships, such as through investment and capital and business alliances in security and other new fields as well as increased funding of existing investments.
- Q. My understanding is that ITOCHU's basic strategy for venture investments to date has been to start at the seed stage and when an investee lists on the stock market, ITOCHU divests. Going forward, do you expect ITOCHU to maintain ownership of investees and commercialize them or turn them into affiliates?
- A. Like you said, our strategy for past venture investments was to invest around ¥100 million, divest when they list on the stock market, and capture capital gains. However, in light of the expanding role of venture companies as the digitalization of society progresses, we also outlined a policy around four years ago to directly participate in the management of venture companies by dispatching ITOCHU personnel and then to commercialize or turn them into affiliates in order to take advantage of the growth of venture companies. Paidy is a good example. At first, we invested at the seed stage and then we provided growth support, such as personnel dispatches. Ultimately, we divested through a full buyout by PayPal. We want to repeat this success with other ventures.

Q. What impact has COVID-19 had on the business of major Group companies in the ICT & Financial Business Company?

A. CTC's profits expanded due to higher demand for remote work compared to pre-pandemic levels as well as higher DX demand from companies. However, CONEXIO's business model relied on store visits. Although there were periods when they could not open shops due to COVID-19, they constructed profit pillars by developing new businesses, such as sales of POSA cards (prepaid cards for web shopping) for FamilyMart and a solutions business that includes corporate mobile phone management services. The impact of COVID-19 was therefore limited. In addition, because HOKEN NO MADOGUCHI's business model also relies on store visits, they did not acquire as many new customers as expected. The company promoted digitalization by conducting sales activities to its around 1.3 million existing customers and introducing remote consultations in an effort to lift up profits. BELLSYSTEM24 steadily expanded profits due to steady sales from EC-related companies and higher orders for call center operations, such as for scheduling vaccinations, due to COVID-19.

Q. What is your aim for investing in Gaitame.Com?

A. The Financial & Insurance Business Division focuses on retail finance, especially settlements and financing, such as POCKET CARD's retail settlement services and Money Communications' salary prepayment services. The division also promoted business expansion in the new area of personal asset management services. The aim of investing in Gaitame.Com is to pursue new synergy by offering the new service of asset management to the existing customer base in retail finance of POCKET CARD and other companies as well as mutually referring customers with Gaitame.Com.

2. The 8th Company

Q. Compared to other convenience stores in the industry, FamilyMart's daily sales have increased compared with the previous year, but what value has been added as a result of the collaboration with ITOCHU? Also, please explain your strategy for future growth.

A. First, one of the key factors behind FamilyMart's strong performance in FYE 2022, with an increase in daily sales compared with the previous year outperforming its convenience store competitors, was the launch of several hot-selling products as a result of the strengthening of its product appeal. For example, the high-priced "Gochimusubi (fancy rice balls)," featuring delicacies, was selected as the Nikkei Trendy magazine's Hit of the Year for the first half of 2021. In addition to the mainstay FAMICHIKI (fried chicken), sales were also strong for crispy chicken and desserts, especially butter biscuit sandwiches and soufflé pudding, which were featured on TV programs. In the second half of FYE 2022, several private brands were unified under the newly launched private brand "Famimaru," which contributed to an increase in daily sales. Thus, in FYE 2022, the product strategy of new President Kensuke Hosomi and the marketing strategy of Chief Marketing Officer Hikaru Adachi meshed well, and FamilyMart was able to achieve better results compared with the previous year than its competitors. In terms of value added by ITOCHU, the new President Hosomi and other personnel from The 8th Company and other Division Companies have been dispatched to FamilyMart, and through the active use of digital technology, FamilyMart's management has been steadily improving. It will be some time before the new businesses that are working together with FamilyMart will be profitable. We believe that profits from the new businesses will increase at an accelerated pace after a certain point, rather than gradually and steadily. The advertising business by Data One is expected to turn profitable in FYE 2023–2024, and the media business by Gate One is also expected to turn profitable in FYE 2024. Although the financial business is unprofitable at first, we hope to achieve growth in transaction volume in FYE 2024–2025 and achieve our profit target in FYE 2026. Only FamilyMart has its own payment system, FamiPay, which differentiates FamilyMart from other convenience stores. In addition, FamilyMart's media business using digital signage and targeted advertising business using in-store purchase data are unique and differentiated from other convenience stores. The 8th Company and FamilyMart will continue to work together to build new earnings bases in the advertising, media, and financial businesses.

Q. Is the viewership rate of the advertisements distributed through FamilyMart's digital signage high?

A. In the proof of concept testing of digital signage with manufacturers, we tested signage placement in different areas of FamilyMart stores. Areas at a 90 degree angle from register lines had the highest view rate and left an impression on customers. Manufacturers have offered high praise for the effectiveness of

advertisements on the digital signage. Specifically, around 60% of customers view the digital signage, and customers' appetite for shopping increases around 1.5 times after viewing an advertisement on the digital signage. These are very good results compared to other forms of media. Convenience store customers generally visit stores multiple times in short periods, so even an advertisement that is only over 10 seconds long will be seen multiple times, leaving an impression on customers. In addition, we verified that combining signage with distribution of targeted advertisements increases product recognition. The number of manufacturers requesting to put advertisements on FamilyMart's digital signage is increasing, and its value as a media platform is increasing.

- Q. It is my understanding that by FYE 2026, ITOCHU aims to achieve growth of around ¥5 to ¥10 billion in consolidated net profit in the advertising, media, and financial businesses, but can we expect further improvement in core profit by improving FamilyMart's daily sales and rolling out successful initiatives to other small retailers? In that case, how much profit contribution can we expect?
- A. As you said, we aim to achieve around ¥5 to ¥10 billion in consolidated net profit by FYE 2026 in those three businesses. Separately, we aim to further improve core profit by ¥10 to ¥20 billion mainly by improving FamilyMart's daily sales and profit margins as well as reducing costs through higher operational efficiency. We will continue to improve existing businesses and implement new business initiatives. In addition, if we can seize new business opportunities by rolling out successful initiatives, we can expect to further boost consolidated net profit.
- Q. Please provide the expected timeline for rolling out successful initiatives at FamilyMart to other small retailers.
- A. We have gotten inquiries from multiple small retailers with different business formats that are interested in the initiatives of Data One and Gate One and have initiated discussions with two or three companies. We want to roll out the initiatives to other business formats in two or three years.
- A. First, we want to roll out the initiatives to one company in FYE 2023 and roll them out to more companies continually every year going forward.