

## **FY2020 3Q Financial Results Analyst Conference: Q&A Summary**

Date: February 5, 2020 (Wed.) 17:00 to 18:00  
Respondents: Tsuyoshi Hachimura, Chief Financial Officer;  
Tatsuya Izumi, General Manager, General Accounting Control Division

### **1. Profit/Loss (FY2020 1–3Q Results and FY2021 Forecasts)**

Q: Which business segments experienced a change in the momentum of their performance from the first half (e.g., from steady to sluggish or from weak to positive)?

A: The domestic consumer businesses, especially the Textile Company and the Food Company, seemed somewhat weaker. General Products & Realty Company had the effect of plummeting pulp prices. Given these circumstances, third quarter results were not as strong as the first half. A more serious response is needed going into the second half. Although there are of course well-performing individual group companies, as a whole there are not many fields where we can confidently say that there is strong momentum. ITOCHU's management pledges to always live up to its publically announced commitments, even amid a difficult environment. In the second half of the fiscal year, in careful consideration of the situation, we will first thoroughly implement the "cut" and "prevent" principles, such as by cutting corporate expenses at each group company, as we continue to implement commitment-based management.

Q: What is the outlook for the next fiscal year onward in fields that are expected to struggle, like the resources field, and in light of the coronavirus?

A: The impact of the coronavirus is difficult to quantify. In addition, the price of iron ore is not something the Company can control, so we will need to leverage other fields to offset the expected drop in the price and attendant decline in the profit of the iron ore business, which was particularly strong in the current fiscal year. Because China's supply and demand strongly affects the price of iron ore, we will need to pay close attention to the trends moving forward.

Q: With ITOCHU continually replacing its assets, what is the expected scale of extraordinary gains and losses in the next fiscal year and what is the policy to control these profits and losses?

A: We are currently moving ahead with formulating our plan and it's still early to talk about next year. Our first priority is ensuring a soft landing for the coming fourth quarter. However, management is constantly discussing how to demonstrate its next stage of growth to the market. Although we recorded an extraordinary gain of ¥64.0 billion over the first three quarters, we do not yet know the scale of extraordinary gains and losses in the fourth quarter. However, we do know that we must always be conscious of undertaking asset replacement. We have not realized large-scale growth investments to the extent expected, but that does not mean there has been nothing in the pipeline. While controlling investment premiums, we have made decisions on investments while keeping a careful eye on growth fields going forward. Top management is aware that from the fourth quarter onward we will need to make growth investments geared toward the next fiscal year. Amid discussions on growth investments, we always review low-performing businesses, and asset replacement accompanying new investments will certainly arise. We have stated that during the period of the current medium-term management plan, we will stabilize our earnings base at ¥500.0 billion, and we will of course be aware of this level in the next fiscal year. Although this is not a direct answer, the next fiscal year's extraordinary gains and losses will be discussed based on this kind of policy.

Q: What is the possibility of extraordinary losses in the fourth quarter?

A: In the third quarter, we appropriately took care of items where we should recognize impairment loss. Although the progress made in the third quarter toward our annual plan is 85%, which seems

high, the progress made in the third quarter of prior fiscal years has been as follows: 85% in FY2016, 86% in FY2017, 89% in FY2018, and 88% in FY2019. As we appropriately calculate our results, it is possible that we will decide we should take swift action to nip future concerns in the bud. We have steadily achieved growth to date with our commitment-based management. We will continue taking this approach going forward.

Q: Could you give us a summary of the numbers of extraordinary gains and losses in the original plan, the third quarter cumulative results, and the full-year forecast.

A: The extraordinary gain for the first three quarters was ¥64.0 billion. Although this exceeds the original plan of ¥42.0 billion, this result includes almost all items that we planned originally, along with an additional alpha boost in terms of profit. We have not used the loss buffer of ¥30.0 billion. As for the full-year forecast, I would like to hold off on that.

## **2. Shareholder Returns**

Q: We cannot see progress on the announced share buybacks, so what is the policy going forward?

A: The simple truth is that given the current share price level, it is relatively difficult to acquire the 40 million shares for under ¥70.0 billion as announced in June 2019, but we will continue executing the share buybacks. We announced our plan to buy back around 100 million shares in the Medium-to Long-Term Shareholders Return Policy unveiled in October 2018. By the beginning of 2019, we had successfully conducted three consecutive rounds of share buybacks. However, it does feel like the stage has really changed. In addition, we announced a policy that emphasizes EPS as a financial strategy in the FY2020 plan, and we are aware that to improve EPS we need to continue with the share buybacks. We will carefully assess the situation while looking at the progress we can make going forward.

Q: What will be the dividend policy if the full-year results for FY2020 are higher than forecast?

A: We have raised the dividend per share for FY2020 up from ¥83 in the last fiscal year to ¥85. Because it is important to first achieve the original plan of ¥500.0 billion, we will consider dividends in light of those results.

Q: In FY2020, ITOCHU is striving to enhance its corporate value by realizing sustainable growth in EPS and progressive dividends in addition to being at a stage where the Company can reliably generate consolidated net profit of ¥500.0 billion. Can we continue to expect ongoing share buybacks and increases in the dividend payout ratio?

A: To raise EPS, our original position is to continually raise earnings (i.e. consolidated net profit), and we would like to steadily implement a growth strategy in tandem with share buybacks. It is not enough to stably achieve ¥500.0 billion; we must demonstrate concrete growth strategies to continue growing after this current fiscal year. As stated in the Medium to Long Term Shareholders Return Policy released in October 2018, we will continue to steadily buy back shares. As for our progressive dividend policy, because ITOCHU already announced a minimum guarantee of ¥85 in FY2020, for the next fiscal year we should announce an amount equal to or greater than the dividend of this fiscal year. We will definitely carry this out because this is a commitment. We will continue to show enhancement of EPS while also embracing this policy. As for enhancing earnings, as you can tell from the cumulative third quarter results underpinned by the core profit that reached a record high for the fourth consecutive year, ITOCHU's core profit has steadily strengthened.

## **3. Other**

Q: What is your approach to parent-subsidary listings (including affiliates)? What is the approach to ownership of listed subsidiaries and listed affiliates?

A: We have been considering the significance of listed parent and subsidiary companies. We held a thorough discussion on this matter at the Special Headquarters Management Committee meeting held in September 2019.

The Group currently has seven listed subsidiaries and a total of 22 when including affiliates, but the meaning of ownership is different in each case. As long as we own listed subsidiaries as a parent company, we are aware of our responsibility to clarify the significance of maintaining the listings and that we have not leveraged our superior position toward the listed subsidiaries. We need to show that ITOCHU's relationships with its subsidiaries are win-win. At the same time, each listed subsidiary also needs to show the merits of remaining within the ITOCHU Group and ensure that independence is maintained toward its own minority shareholders. For example, there are cases in which the listed subsidiaries appoint more than one-third of outside directors or establish an independent committee to ensure each entity's independence as a system and organization to meet external standards even if we need to reduce the number of directors from ITOCHU. We will continue to firmly fulfill our accountability at listed subsidiaries.

The histories and trajectories to date of our seven listed subsidiaries are all different. For example, since CTC was spun off from ITOCHU in 1999, it has not been in competition with ITOCHU's operations and is a completely independent business. CTC has independently grown its own businesses, and ITOCHU has expanded the Group while partnering with CTC. There is no abuse of power as a parent company and we have built a win-win relationship. As for FamilyMart, it began as a non-affiliated company, became an affiliate and is now a subsidiary. FamilyMart is one of our core Group companies, and mutual business transactions cover a wide range, including textiles, electric power supply, and plastics. These transactions now total around ¥1.3 trillion. Of course, ITOCHU and FamilyMart are two independent companies. Because FamilyMart is conducting business with its parent company, there is always a bidding process and FamilyMart engages in tough negotiations with ITOCHU to reduce costs, so these transactions are considered fair by both parties. Beginning with the above examples, going forward, we must clarify our relationship with each listed subsidiary. In addition to clarifying the significance of maintaining subsidiary listings, ITOCHU conducts simulations on the effect of changes in the percentage of ownership. We will continue to regularly conduct such modeling going forward.

Q: I would like to hear about the impact of the novel coronavirus by business, especially the non-resource sector and businesses in China, including CITIC.

A: The performance of CITIC has been strong, especially the financial business. The Chinese government will attempt to stimulate the economy by providing liquidity if the economy slows down. That means, the larger the impact of the novel coronavirus, the higher the probability that CITIC will play a larger role because it is a state-owned enterprise. The progress of the annual plan is high and we are not worried about the performance of CITIC. However, we think that the scenario with the most negative impact on our business would be the worldwide spread of the effect of a drop in consumption due to a slowdown in the overall Chinese economy and a negative impact in capital investment and exports due to a break in the supply chain. In addition, there is a worry that, regardless of corporate profitability, the stock markets of China and Hong Kong could crash. The percentage of consolidated net profit attributable to Chinese business-related profit (excluding equity in earnings from CITIC) is 5% for business within China (including consumer finance, trade for food resources, general-use resins, and textiles) or 15% if you include transactions for iron ore and pulp where the end customer is in China. In other words, a large percentage of our China-related profit is from the iron ore business, but for FY2020, we have mostly completed the price hedging so the impact is limited. However, we cannot yet forecast the next fiscal year, and the impact could be bigger.