FYE 2026 Q1 Financial Results Online Analyst Conference: Q&A Summary

Date: August 1, 2025 (Fri.) 14:45 to 15:45
Respondents: Tsuyoshi Hachimura, Chief Financial Officer
Shuichiro Yamaura, General Manager, General Accounting Control Division
Terminology: CTC = ITOCHU Techno-Solutions, FM = FamilyMart, CM = CSN Mineração

Q: Regarding the progress on turnarounds in Q1, as shown on page 8 of the disclosed materials, "Progress Toward the FYE 2026 Profit Plan," could you share the details? Also, although you mentioned that approximately ¥50.0 billion in new investments were executed in Q1 for FYE 2026, the progress appears slightly slow if excluded investments approved projects in FYE2025 and CAPEX. Could you update us on the current status of the investment pipeline and whether there are any projects that could contribute to future growth?

A: First, let me explain the overall progress against the profit plan based on page 8 of the disclosed materials. The profit contribution from turnaround projects in Q1 was approximately ¥5.0 billion. Although IFL has reduced its losses, in particular, demand for packaging materials in China declined due to the effects of the Trump tariffs, and with the summer off-season, there was no significant profit improvement. Paper prices remained low because of oversupply, and the pulp market in Asia and Europe also fell from April to June, resulting in sluggish conditions. Although production capacity for METSA FIBRE has recovered from the factory explosion that occurred in the previous fiscal year, we need to closely monitor on future demand trends. Of the two coking coal projects, Allegheny in the U.S. has exited Chapter 11, and while operations may start slightly earlier than the initially planned October, we do not expect to achieve profitability in this fiscal year and will focus first on reducing losses. Fitzroy in Australia continues to operate at a low level, but this is within our planned expectations. Metals & Minerals Company is putting its full efforts into turning around these two projects. Dole's profit contribution increased from ¥0.2 billion in the same period last year to ¥0.9 billion for this quarter. In the U.S. packaged foods business, operating profit decreased slightly due to higher procurement costs, but the Asian fresh produce business secured profit growth through improved productivity and cost reductions, and the reduction of headquarters expenses also contributed to steady progress. For packaged foods business, we export to the U.S. from several countries including the Philippines, Thailand, Vietnam, China, and Greece. However, it is still unclear whether all tariff impacts can be passed on to prices, and whether the price increases since July will be accepted by the market. We will watch these trends carefully.

Regarding recession risk, the impact of Trump tariffs in Q1 was minor impact. However, although a tariff agreement has been reached, our understanding is that a formal written agreement has not yet been put in place, so uncertainty remains. After re-examining the impact based on the assumption of a 15% reciprocal tariff, there has been no significant change in our assessment. We still expect to see some impact on Food, Machinery, Chemicals, etc. While there are USMCA-compliant products and items where price increases are possible that are not subject to tariffs, from Q2 onward, we cannot fully predict the effects of tariffs and price increases on the economy and consumption, so we are maintaining a conservative view. Easing of recession risk could become an upside factor in the future, but at this stage, it is too early to revise our outlook. Organic growth in existing businesses such as FM, CTC, and North American electric power business remains steady. In particular, the North American electric power business has been making a significant contribution to Machinery's performance compared to the last fiscal year, supported by additional acquisitions and increased profits from long-term contracts with secured margins.

Regarding the investment pipeline, although we also considered several large-scale projects and investments in adjacent fields of Group companies in Q1, there were some opportunities that we ultimately decided not to execute. Acquisition premiums have recently increased, so we are evaluating opportunities carefully. In our initial plan, we targeted this year's profit increases at a total of +¥80.0 billion, which combines (1) organic growth of existing businesses, (2) profit contribution from new investments in FYE 2026, and (3) additional extraordinary gains and losses. For (3), ¥15.0 billion in profit has already been realized in Q1. We will continue to steadily build up the other components to achieve this +¥80.0 billion increases. Our policy remains unchanged: we will execute new investments if good opportunities arise. From Q2 onward, several investment projects have already been approved, mainly in Machinery. We would like to continue accumulating high-quality projects going forward.

Q: Machinery Company has contributed to profit growth in recent years, but Q1 result seems slightly weak. Could you tell us about any notable changes in Q1 and recovery measures for Q2 onwards?

A: Please refer to page 17 of the disclosed materials. There was a period when our Asian power generation business could not operate due to operational issues. However, this was a temporary factor and its impact on profits is not expected to continue. This issue has already been resolved, operations have resumed, and we expect recovery from Q2 onward. In the ship-related business, since many ships were sold last year, this year is a time for procurement, making it difficult to achieve the same figures as last fiscal year. At YANASE, in addition to lower profit margins on used car sales, the number of both new and used cars sold declined compared to the same period of last year, but we expect sales volume to increase from Q2 onwards. The overall gross profit is roughly 40% from new car sales, 20% from used car sales, and 40% from after-sales. Maintenance, which is a large part of after-sales, is usually weighted toward the second half of the year, so we believe there is room for improvement over the full year. Regarding Citrus Investment, Hitachi Construction Machinery has already announced a downward revision of ¥10.0 billion from its initial plan. The CEO of United Rentals recently expressed a positive outlook for construction equipment demand in the U.S. in the second half of the year, and we also plan to expand the leasing business established with Hitachi Construction Machinery. Inventory at Hitachi Construction Machinery in the U.S. subsidiary is decreasing, and we are working to expand our market share in the U.S. through finance programs and other initiatives. Although the environment remains challenging, we hope to see a recovery going forward. In overseas automobile businesses, some regions are performing well, but profit contribution has declined due to yen appreciation, and we expect improvement in the second half. In ITOCHU's auto trades, sales volume decreased compared to the same period of last fiscal year due to the impact of tariffs and reduced shipping volume, but the profit contribution from these trades is not significant. North American electric power business posted a substantial increase in profit compared to same period of last fiscal year, and we have high expectations for the full year. In Machinery overall, while some businesses have seen profit declines due to temporary factors and yen appreciation, we are actively considering new investments and expect profit contributions not only from organic growth but also from future new investments.

Q: The 8th Company's performance has been extremely strong. Do you expect to revise outlook upward?

A: FM achieved record-high profit for Q1. As the Q2 is the peak season for the CVS business, a particularly hot summer could further boost profits. Therefore, we have high expectations for the company's performance going forward. However, due to seasonality, the Q1 profit level will not continue for the whole year. The main reasons for the strong results in Q1 were improvements in product appeal and enhanced sales promotion, leading to higher daily sales and gross margins. The advertising and media business is also performing well, and restructuring of overseas businesses has contributed to profit growth. Meanwhile, the company has been able to absorb increased costs resulting from changes in the external environment, such as the end of subsidies for utilities and rising labor expenses. While FM aims to achieve record-high operating profit for the full year, the company has not revised its full-year forecast at this time. As a result, the outlook can be considered somewhat conservative. FM is also making proactive capital investments, such as system upgrades, to promote growth in future years. The promotional campaign featuring Shohei Ohtani has had a significant positive impact on daily sales. In addition, the collaboration product with Kraft Heinz, a Berkshire Hathaway Inc.'s associated company, which was realized through our own initiative, will continue to be offered.

Q: Regarding the momentum of core profit, it seems slightly weak compared to the same period last year and the previous quarter. With a target range of ¥770.0 billion to ¥850.0 billion, what factors do you see as drivers for improvement and growth going forward?

A: Our plan is for core profit to increase gradually toward Q4. In addition to existing businesses that are typically stronger in the second half of the year, we also expect to see execution of projects as new investments, so the Q1 level of core profit is within our expectations. However, there were special factors such as the Asian power generation business in Machinery Company, projects with delayed progress due to own specific reasons, and delays in some turnaround projects in Q1, so we recognize the need to take proper measures for improvement from Q2 onwards. This was also discussed at today's management meeting. However, we are not particularly pessimistic about the current overall progress.

Q: General Products & Realty Company seems to be struggling, with profit declines in the North American construction-materials business, IFL, DAIKEN, and ETEL. What is your outlook and what measures will you take to achieve the segment's full-year plan?

A: In the North American construction-materials business, we expect some recovery depending on the U.S. economy in the second half, but the environment remains challenging due to high U.S. home mortgage rates and sluggish new housing starts. We are also implementing price increases under these tough conditions, so uncertainty remains. DAIKEN is facing a similar situation due to rising domestic home mortgage rates. ETEL is affected by weak economic trends in the U.K., and tire sales are shifting to lower-priced products, so we are working to recover by strengthening the aftermarket business. Within the General Products & Realty Company, we are considering the option of capital strategy, but first, we are working to improve business performance. However, decline compared to same period of last year is partly due to a rebound from a concentration of property deliveries by ITOCHU Property Development in the same period last year. In addition, expect contributions from new investments such as equity participation in Nishimatsu Construction going forward. General Products & Realty Company has traditionally positioned itself as a "trading company-style private equity" business, expanding its operations by effectively utilizing asset replacement. Going forward, they will continue to leverage asset replacement and M&A activities in order to achieve its full-year targets.

Q: The core profit plan for FYE 2026 is in the range of ¥770.0 billion to ¥850.0 billion. Based on Q1 results, what is the target level for this fiscal year?

A: Although there was an impact from resource price influences in Q1, progress in core profit appears to be slightly slower than expected. It is too early to say at what level within the range we will end up for Q2 onwards. Many of our businesses are stronger in the second half of the year. In Textile, we handle high-unit-price products such as fall and winter items in the second half. We expect growth in the second half from government-related specially equipped vehicle projects in newly invested businesses, as well as from maintenance earnings at certain Group companies such as winter tire changes for YANASE in Machinery Company and ETEL in General Products & Realty Company. In Food Company, Dole and FUJI OIL will see significant demand for Christmas and winter events, and the grain-related business enters its harvest season from Q3 onward. In ICT & Financial Business Company, system-related budgets, including those for government agencies, are mostly executed at the end of the year or fiscal year. Our core profit generally tends to be weighted toward the second half of the fiscal year, and it is extremely important to ensure that this trend can be maintained going forward. As we look toward next fiscal year, we naturally want to enhance further growth from the consolidated net profit forecast of ¥900.0 billion through an increase in core profit. While we have achieved a 13% CAGR from FYE 2011 to FYE 2025, even with single fiscal year fluctuations, we aim to show that we can maintain around 10% growth over the medium to long term. We are committed to the financial matrix focused on the three points we emphasize to the market: high growth rate, high ROE, and high shareholder returns. Management is committed to this principle, and we plan to achieve this year's consolidated net profit forecast of ¥900.0 billion through a combination of organic growth in existing businesses, profit from new investments, and extraordinary gains and losses.

Q: To ensure 10% growth in the future, how do you view on the investment pipeline and investment direction from the Q2 onwards?

A: While some projects were withdrawn in Q1, we are considering many new investment opportunities. However, as the U.S. tariff issue stabilizes, we expect trends of investing money to change, and even now, there are several high-premium deals, including those involving private equity funds. It is also true that there are some projects for which it would be prudent not to rush a decision. Our policy remains unchanged: we continue to prioritize projects that can reliably generate profits in the near term. When executing growth investments, we do not intend to make large-scale investments in projects that are highly uncertain or dependent on GX or technological innovation with long-term view. As mentioned before, we are strongly aware of the need to asset replacement proactively, especially among Group companies with profit contribution between ¥2.0 billion and ¥10.0 billion that have low asset efficiency or growth rates. At the ALM Committee in June, we conducted key management indicator analysis and gave strong instructions to the front line to formulate growth strategies, including asset replacement. From July onward, each segment is holding growth strategy meetings, and in early September, we plan to hold an overall strategy meeting with all executive officers, including outside directors. We will also discuss review of the investment pipeline and asset replacement. The ¥1 trillion growth investment amount is not a budget that must be fully spent, but our policy of actively considering good opportunities remains unchanged.

Q: Metals & Minerals Company's CM (Brazilian iron ore business) posted lower profit due to FX valuation losses. Is it correct to understand that the underlying business remains profitable, even considering the impact of market downturns? If the current exchange rate level continues, is a full-year loss expected?

A: The operations of CM itself are steady. The FX valuation loss was caused by the impact of the weaker USD and stronger BRL on cash and deposits held in USD. While we do not disclose a full-year outlook, we are not planning for a loss.