IR Meeting on Overview of Medium-term Management Plan 2023 and FY March 2024 Business Plan

17:00 - 18:00, Tuesday, May 2, 2023

[Results of FY March 2023 and Overview of Medium-term Management Plan (P0)]

Good afternoon, I'm Tetsuya Shigeta, CFO.
Thank you for joining us today.

First, I will explain the results for FY March 2023, give overviews of Medium-term Management Plan 2023, and of the business plan for FY March 2024.
Then, I will hand over to Masao Kurihara, Global Controller, who will speak on the results and business plan in more detail.

A separate explanation of the new Medium-term Management Plan will be presented by CEO Hori at a briefing to be held next week on May 9.

[Summary of Operating Results FY March 2023 (P4)]

I will begin by summarizing our operating results for FY March 2023.

On a year-on-year comparison, Core Operating Cash Flow increased by 46.8 billion yen to 1 trillion 205.5 billion yen, and profit increased by 215.9 billion yen to 1 trillion 130.6 billion yen, both of which exceeded forecasts and hit new record highs.

Regarding shareholder returns, we plan to raise the year-end dividend to 75 yen per share, 5 yen higher than what we announced in February, bringing the full-year total to be 140 yen. Furthermore, approximately 270 billion yen in share repurchases were made including approximately 30 billion yen of the 100 billion yen in additional share repurchases also announced in February that were executed by the end of March. Based on this, shareholder returns for the year were approximately 490 billion yen in total.

ROE reached 18.9% due to an increase in earnings power and an improvement in capital efficiency.

[Core Operating Cash Flow (Results) (P5)]

Now I will provide an overview of the Medium-term Management Plan which ended in March 2023.

Core Operating Cash Flow increased significantly over the three year period. In FY March 2023, it had more than doubled compared to FY March 2020, which was the final year of the previous Medium-term Management Plan.
In the Mineral & Metal Resources segment and Energy segment, we were able to significantly capture the upside of commodity prices through portfolio transformation.
Furthermore, earnings power increased across all segments due to our trading functions and the strengthening of businesses such as automotive and healthcare.

[Profit (Results) (P6)]
Like Core Operating Cash Flow, profit increased significantly, and in FY March 2023, it had nearly tripled compared to FY March 2020, which was the final year of the previous Medium-term Management Plan.

[Medium-term Management Plan 2023: Corporate Strategy (P7)]
I will now look back on the qualitative aspect of the previous Medium-term Management Plan. We made steady achievements by transforming the business portfolio and strengthening the management base to realize “Transform and Grow” in line with our Corporate Strategy.

In “Strengthen business management capabilities and earnings power,” we demonstrated trading functions for stable supply, and steadily captured the upside of commodity prices and business environment. Furthermore, we improved earnings power and ROE through deeper ROIC management.

In “Evolve financial strategy and portfolio management,” we executed strategic cash allocation through Management Allocation using our strong cash flow as a source of funds. In particular, for shareholder returns, we continued to increase dividends and flexibly made share repurchases.
Furthermore, we strengthened our financial position given the highly uncertain business environment.

In “Human Resources strategy,” we implemented measures such as development of capable individuals, Diversity & Inclusion, and appropriate allocation of human resources, and also realized value creation and improvement of productivity through promotion of new work styles.

In “Strategic focus, Pursue new businesses,” we made progress with initiatives such as LNG, hydrogen, ammonia, and renewable energy for the realization of a decarbonized society, the expansion of earnings within the healthcare business, and the creation of businesses related to prevention. Furthermore, we also accumulated the growth investment pipeline aimed at the new Medium-term Management Plan.

In “Sustainability management and evolution of ESG,” we formulated and executed a roadmap for climate change action, and increased the disclosure of non-financial information. Furthermore, we established a new stock-based remuneration plan for directors using ROE and ESG elements as KPIs, and engaged in improvement of the effectiveness of the Board of Directors.

[Cash Flow Allocation (Results) (P8)]

I will now discuss the results of cash flow allocation.
Cash-in was 3 trillion 815 billion yen comprising COCF of 3 trillion 23 billion yen, and asset recycling of 792 billion yen such as the sale of the Australian metallurgical coal business SMC, real estate business, financial assets measured at FVTOCI, power generation business and the Caserones copper mine in Chile.

Cash-out was 2 trillion 623 billion yen, comprising investments and loans of 1 trillion 584 billion yen and shareholder returns of 1 trillion 39 billion yen.
I will explain about the main investments and loans. In the Energy Solutions area, we made investments such as those in Mainstream, a renewable energy developer, and Climate Friendly, which is a developer of emissions credits, and a large-scale renewable energy project in India, as we pushed ahead in reshaping our portfolio. We also subscribed convertible bonds of CT Corp’s holding company.

[Management Allocation Results (P9)]

In this section I will discuss the results of Management Allocation.
While cash inflow through asset recycling was 790 billion yen, Core Operating Cash Flow was 3 trillion 20 billion yen, significantly exceeding our target as we achieved strong cash generation.

As for cash-out flow, there were 1 trillion 300 billion yen in total investments and loans, and dividends increased to 530 billion yen backed by strong cash generation.

As a result, the Management Allocation came out to be 1 trillion 980 billion yen.

Of this 1 trillion 980 billion yen in the Management Allocation, under strict investment discipline, we allocated 280 billion yen to carefully selected growth investments, and flexibly allocated cash captured from the upside of commodity prices and implemented 510 billion yen of share repurchases. As a result, we executed shareholder returns, including dividend payout, in excess of 1 trillion yen over three years.

Of the 100 billion yen in additional share repurchases announced in February, the amount executed by the end of FY March 2023 were approximately 30 billion yen. The portion of approximately 70 billion yen unexecuted will be managed by including it as part of the cash flow allocation under the new Medium-term Management Plan.

We are steadily accumulating projects in our growth investment pipeline. Actually, pipeline projects with a high probability of execution that will see cash outflows in FY March 2024 total approximately 400 billion yen, including, for example, making AIM Services our wholly-owned subsidiary for approximately 70 billion yen, the tender offer and business integration of Relia for approximately 60 billion yen. This 400 billion yen will be managed by inclusion in the cash flow allocation for the new Medium-term Management Plan.

Unallocated Management Allocations are temporarily distributed to strengthening our financial position to address a highly uncertain business environment, but we will flexibly consider future allocations, including those for growth investments and shareholder returns, taking into account the future business environment.

[Shareholder Returns (P10)]

I will explain shareholder returns.

We continued to increase dividends in line with the expansion of cash generation, with a full-year dividend per share of 140 yen, 5 yen higher than what we announced in February, and up 55 yen from the 85 yen in FY March 2021. Furthermore, we flexibly implemented share repurchases as we captured the upside of commodity prices.

As a result, shareholder returns as a percentage of Core Operating Cash Flow for the three years of the Medium-term Management Plan reached 34%.

[FY March 2024 Business Plan (P11)]

I will now explain the quantitative targets in the business plan for the FY March 2024.

Commodity prices are expected to revert, and we expect Core Operating Cash Flow of 870 billion yen and Profit of 880 billion yen.

However, despite the given business environment, we project that Core Operating Cash Flow and Profit will significantly improve compared to FY March 2021, the first year of the previous Medium-term Management Plan. Furthermore, we aim for continued growth during the new Medium-term Management Plan.

That completes my part of the presentation today.
I will now hand over to Global Controller Masao Kurihara for details of performance in FY March 2023 and our new business plan.

= Global Controller section =
[Operating Results (P12)]
I am Masao Kurihara, Global Controller.
I will now provide details of our operating results for the current year and the business plan for FY March 2024.

[Core Operating Cash Flow: Year-on-year Segment Comparison (P13)]
First, I will explain the main changes in Core Operating Cash Flow by segment compared to the previous fiscal year.
Core Operating Cash Flow for the year increased by 46.8 billion yen to 1 trillion 205.5 billion yen.

In Mineral & Metal Resources, metallurgical coal prices were higher, but COCF decreased by 116.1 billion yen to 436.7 billion yen mainly due to the decline in iron ore prices and the fall in dividends from Vale.

In Energy, COCF increased by 139.4 billion yen to 419.6 billion yen mainly due to increase in oil and gas prices, and LNG trading.

In Machinery & Infrastructure, COCF increased by 38.9 billion yen to 182.9 billion yen, mainly due to higher dividend income from associated companies, primarily in automotive and commercial vehicles related businesses.

In Chemicals, although prices and sales volumes performed well mainly for fertilizer and fertilizer raw materials, COCF decreased by 4.3 billion yen to 89.5 billion yen mainly due to falling prices and rising costs in the US methanol business.

In Iron & Steel Products, COCF increased by 5.6 billion yen to 18 billion yen, mainly due to higher dividend income from associated companies.

In Lifestyle, although grain trading etc. performed well, COCF decreased by 4.1 billion yen to 31.1 billion yen mainly due to the valuation loss on the fair value of the drug discovery support fund.

In Innovation & Corporate Development, COCF was 46.6 billion yen.

Other factors, such as expenses, interest, taxes, etc., which were not allocated to business segments, totaled an outflow of 18.9 billion yen.

[Profit: Year-on-Year Segment Comparison (P14)]

Next, I will explain the main changes in profit by segment compared to the previous fiscal year.

Profit increased by 215.9 billion yen to 1 trillion 130.6 billion yen.

In Mineral & Metal Resources, metallurgical coal prices were higher and there was a gain on the sale of the Australian metallurgical coal business, SMC, but profit decreased by 58.8 billion yen to 438.8 billion yen mainly due to the decline in iron ore prices and the fall in dividends from Vale.

In Energy, profits increased by 195.4 billion yen to 309.4 billion yen mainly due to increase in oil and gas prices, and LNG trading.

In Machinery & Infrastructure, profits increased by 51.1 billion yen to 171.9 billion yen mainly due to good performance of automotive and commercial vehicles businesses and the ship related business.

In Chemicals, although we recorded a decline in the US methanol business due to falling sale prices and rising raw material costs, profits increased by 2 billion yen to 70.9 billion yen as a result of solid performance in prices and sales volumes mainly for fertilizer and fertilizer raw materials.

In Iron & Steel Products, profits decreased by 4.4 billion yen to 22.5 billion yen, mainly due to a fall in steel prices.

In Lifestyle, although grain trading etc. performed well, profits decreased by 6.7 billion yen to 54.8 billion yen mainly due to the absence of the gain on fair value of the fashion business in the previous fiscal year.

In Innovation & Corporate Development, profits increased by 9.1 billion yen to 66.7 billion yen mainly due to gains on sales in the real estate business.

Other factors, such as expenses, interest, taxes, etc., which were not allocated to business segments, totaled a loss of 4.4 billion yen.

[Profit: YoY Factor Comparison (P15)]
This page shows the main factors influencing year-on-year changes in profit.

Base profit declined due to decreases in dividends from the iron ore business, and due to a fair value valuation loss of a drug discovery support fund. However, trading of LNG, chemicals, grain, commodity derivatives, etc., together with the automotive and ship businesses drove performance. Excluding one-time items, profit was almost unchanged YoY.

Although costs were reduced in the Energy upstream business due to lower depreciation, there was an impact of lower volumes in the Mineral & Metal Resources business which also lead to increase in unit costs, as well as increases in fuel and labor costs. It resulted in a decrease in profit by 44 billion yen under resources-related costs/volume.

Asset recycling resulted in an increase of approximately 75 billion yen mainly due to the sale of the Australian metallurgical coal business, SMC, and gains from the sale of assets in real estate business.

In Commodity prices/Forex, profit increased by approximately 236 billion yen. For commodity prices, despite the 73 billion yen decline in profit caused by falling iron ore prices, higher oil and gas prices resulted in a contribution of approximately 116 billion yen and increases in metallurgical coal prices contributed approximately 40 billion yen. In foreign exchange, the weaker yen resulted in an increase in profit of approximately 159 billion yen.

Finally, valuation gain/loss & special factors contributed to a decrease of approximately 33 billion yen due to impairment losses on some projects in Machinery & Infrastructure.

[Balance Sheet as of end-March 2023 (P16)]
Now let's take a look at the balance sheet as of the end of the previous fiscal year.

Compared to the end of March 2022, net interest-bearing debt decreased by approximately 100 billion yen to 3.2 trillion yen. Meanwhile, shareholder equity increased by approximately 800 billion yen to 6.4 trillion yen. As a result, Net DER fell to 0.5 times.

[FY March 2024 Business Plan: COCF YoY Segment Comparison P17]]
That's all for FY March 2023. I will now move on to our business plan for FY March 2024.
First, I will explain Core Operating Cash Flow by segment in the plan for FY March 2024 by comparing with the results for FY March 2023.
COCF is expected to decrease by 335.5 billion yen to 870 billion yen.

In Mineral & Metal Resources, COCF is expected to decrease by 116.7 billion yen to 320 billion yen mainly due to the impact of a projected fall in metallurgical coal prices and iron ore prices, and a decrease in dividends from associated companies.

In Energy, COCF is expected to decrease by 189.6 billion yen to 230 billion yen mainly due to a projected fall in oil and gas prices, and LNG trading.

In Machinery & Infrastructure, COCF is expected to decrease by 42.9 billion yen to 140 billion yen mainly due to a projected decrease in cash gains through asset sales and an increase in tax payments.

In Chemicals, although an increase in profit is expected due to a projected drop in costs in the US methanol business, COCF is expected to decrease by 9.5 billion yen to 80 billion yen mainly due to an expected fall in sales prices of fertilizer and fertilizer materials that performed well in the previous fiscal year.

In Iron & Steel Products, COCF is expected to decrease by 8 billion yen to 10 billion yen mainly due to a decrease in dividend income from associated companies.

In Lifestyle, COCF is expected to increase by 18.9 billion yen to 50 billon yen due to a recovery in coffee trading, in addition to rebound from the valuation loss on the fair value of the drug discovery support fund recorded in the previous fiscal year.

In Innovation & Corporate Development, COCF is expected to decrease by 6.6 billion yen to 40 billion yen.

In Others, due to COCF expected to increase by 18.9 billion yen, mainly due to expenses, interest, taxes, etc., not allocated to business segments, we are not forecasting any significant cash flow here.

[FY March 2024 Business Plan: Profit YoY Segment Comparison (P18)]
Next, I will explain profit by segment in the plan for FY March 2024 by comparing with the results for FY March 2023.
Profit is expected to decrease by 250.6 billion yen to 880 billion yen.

In Mineral & Metal Resources, profit is expected to decrease by 148.8 billion yen to 290 billion yen mainly due to the impact of a projected fall in metallurgical coal prices and iron ore prices, and the absence of the gain from sale of the Australian metallurgical coal business, SMC that was present in the previous fiscal year.

In Energy, profits are expected to decrease by 179.4 billion yen to 130 billion yen mainly due to a projected fall in oil and gas prices, and LNG trading.

In Machinery & Infrastructure, although profits are expected to fall in automotive, commercial vehicle and ship related businesses, profit is expected to increase by 68.1 billion yen to 240 billion yen mainly due to asset recycling gains.

In Chemicals, although an increase in profit is expected due to a projected drop in raw material prices in the US methanol business, profit is expected to decrease by 10.9 billion yen to 60 billion yen mainly due to an expected fall in sales prices of fertilizer and fertilizer materials that performed well in the previous fiscal year.

In Iron & Steel Products, profit is expected to decrease by 2.5 billion yen to 20 billion yen.

In Lifestyle, profit is expected to increase by 35.2 billion yen to 90 billion yen mainly due to the revaluation gain on existing holdings of AIM Services.

In Innovation & Corporate Development, profit is expected to decrease by 6.7 billion yen to

60 billion yen, mainly due to the absence of the good performance of commodity derivatives trading recorded in the previous year.

Other factors, such as expenses, interest, taxes, etc., which are not allocated to business segments, are expected to total a loss of 10 billion yen.

[FY March 2024 Business Plan: YoY Factor Comparison (P19)]
Here we have a comparison of plan for FY March 2024 and the results for FY March 2023, with a summary of the factors involved.

Base profit is expected to decrease by 159 billion yen mainly due to a decrease in trading of LNG, chemicals and grain, etc., a decrease in the Mobility business due to the impact from changes in the operating environment, and a decrease in profit from the Australian metallurgical coal business, SMC, which was sold.

Although an increase in volume is expected in the Mineral & Metal Resources business, resources-related costs/volume is expected to show a decrease of 68 billion yen, mainly due to decrease in production volume in LNG business, increases in depreciation expenses in Energy upstream business, and increases in labor expenses and fuel expenses in copper operations and iron ore operations.

Asset recycling is expected to increase profit by approximately 41 billion yen due to the anticipated sale of multiple interests including the Paiton power generation business.

Commodity prices/Forex is expected to reduce profit by approximately 155 billion yen. Following revisions to the outlook for market prices, commodity prices are expected to drive decreases in profit of approximately 80 billion yen for oil and gas, 31 billion yen for metallurgical coal and approximately 25 billion yen for iron ore. In foreign exchange, a decrease in profit of approximately 17 billion yen is expected, mainly due to the expectation of a stronger yen.

Finally, valuation gain/loss & special factors are expected to increase profit by 88 billion yen, mainly due to one-time valuation gains in multiple instances including AIM Services.

That concludes my presentation.