The Multiplier Effect

Mitsui & Co. plans to expand its presence in new businesses and regions by reshaping itself around seven new strategic domains. Shareholder returns are also a key focus.

MITSUI & CO.

In 2020, the Summer Olympics and Paralympics will be returning to Tokyo for the first time in more than half a century. "The eyes of the world will be on Japan," says Masami Iijima, the president and CEO of Japan-based Mitsui & Co. "It will be a landmark year."

The year 2020 will also mark a key inflection point for Mitsui. Why? Because it's the target year for the company's long-term vision and for Iijima's medium-term management plan "Challenge & Innovation for 2020," a strategic reconfiguration designed to get Mitsui in optimum shape for the volatile, globalised environment of the 21st century.

Iijima looked deep into Mitsui's DNA to identify the unique strengths that can be extrapolated into new sources of growth. What is it that sets Mitsui apart from its Japanese rivals? Chiefly the fact that barriers between different departments are low and staff can move between business units. "Our corporate culture is something we have every reason to be proud of," Iijima declares.

It is this collaborative, dynamic culture that, in turn, underpins Mitsui's greatest competitive advantage—"the ability to join things up." The timely sharing of expertise, ideas, and business networks across business units enables Mitsui to operate in a coordinated manner groupwide, opportunistically pulling together different partners, customers, information, and technologies to generate innovative business models.

Masami Iijima
President and Chief Executive Officer

From one, many

Iijima now wants to take this collaborative tradition to the next level by reorienting the company away from individual product segments to concentrate on seven new broad-based strategic domains: Hydrocarbon Chain, Mineral Resources and Materials, Food and Agriculture, Infrastructure, Mobility, Medical/Healthcare, and Lifestyle Products and Value-added Services. "The concept is all about converting our pre-existing strong verticals into horizontals and further reinforcing the links between business units in line with the strategic domains," he explains.

Iijima cites hydrocarbons by way of a preview of how the concept will work in practice. After Mitsui's Energy business unit acquired shale gas interests in Pennsylvania and Texas starting in 2010, other business units in the firm began looking for related opportunities. The upshot? The Iron and Steel Products unit is supplying steel for oil well pipes and gas pipelines, the Machinery unit is supplying ships for gas export, the Chemical unit is manufacturing gas chemicals such as methanol, and the Infrastructure unit is using gas for a thermal power plant in New York State. "A single upstream drilling operation led us to a whole host of new businesses. That's what we mean by '360° business innovation,'" Iijima says, quoting Mitsui's new corporate slogan.

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Mitsui's ability to "join things up" also operates at the country-to-country level. Take the case of Mozambique. Mitsui is part of an Anadarko-led consortium developing a huge offshore gas field and a gas liquefaction plant there. Among the members of the consortium are several of India's national oil and gas companies—ONGC, Oil India, and Bharat—as well as the Thai state-owned energy company PTT. Together with Mitsui, they are working to ship LNG from Mozambique to their home markets (in addition to Japan), something that will bolster Asia's regional energy security.

Mitsui subsidiary Mitsui Oil Exploration has already been working with PTT to produce gas in the Gulf of Thailand for a long time. Meanwhile, in India, Mitsui has joint ventures with Japanese ceramics maker Toto to manufacture sanitary ware, with Mahindra Sanyo Special Steel to make specialty steel for cars, and with Ruchi Soya Industries and tomato-based food specialist Kagome to make tomato sauce. Currently, Mitsui is also exploring a range of possible new businesses with ONGC, and Iijima is eager for his firm to contribute to Prime Minister Narendra Modi's "My Clean India" and "Make in India" initiatives.

Partnerships in one region with one company are leading to joint ventures elsewhere. The trust Mitsui earns through these ventures leads, in turn, to further partnerships, proposals, and opportunities. "The aim is to repeat this virtuous circle so that we can keep broadening and evolving Mitsui as a business," says Iijima.

New departures

Energy and mineral resources have historically been areas of strength for Mitsui. Iijima, however, insists that it would be a mistake to see Mitsui primarily as a resource company. In the 1980s and 1990s, businesses such as textiles and general merchandise were its biggest profit drivers, and through two of its new key strategic domains—Healthcare and Lifestyle—Iijima is placing a renewed emphasis on non-B2B, consumer-facing businesses.

In sharp contrast to the natural resource arena, where a single project can take decades to become operational, consumer-facing products and services have a fast lifecycle, making for low barriers to entry and quick results. The ever-changing tastes of consumers, of course, pose risks. So Mitsui uses its standard playbook to stay on top of the game: teaming up with powerful and well-informed local partners. In Indonesia, for instance, Mitsui is benefitting from a surging population and growing prosperity through joint ventures with the Lippo Group, a diversified conglomerate, that offer high-speed mobile data communications services and satellite broadcasting in Jakarta.

It's a similar story in healthcare. Mitsui acquired a stake in Asia-focused healthcare provider IHH from Khazanah, the strategic investment fund of the Malaysian government. It now co-manages IHH, which owns the largest private hospital groups in Singapore and Turkey, as well as the No. 2 private hospital group in Malaysia.

Shareholder returns

Iijima stresses that the reconfigured Mitsui will balance investment in new businesses like these with an increased focus on shareholder returns. In a sign of things to come, in March 2014 the company bought back ¥50 billion of stock and promised to raise its dividend payout ratio to 30% in March 2015. Iijima's quantitative targets include achieving positive recurring free cash flow (defined as cash flow from existing businesses plus cash from asset sales minus cash for existing investments); lifting ROE to the 10%–12% range; and increasing EBITDA to the ¥1 trillion level by March 2017. Estimated recurring free cash flow of ¥1 trillion to ¥1.4 trillion over the next three years will be allocated both to investment in the new businesses that will deliver future growth and to bettering shareholder returns, including through further possible buybacks.

"We pictured to ourselves what Mitsui should look like in 2020 and how to create new value," concludes Iijima. "That means simultaneously managing for sustainable growth and for improved capital efficiency."

Next-Generation Growth: Mitsui's Seven Key Strategic Domains

1. Hydrocarbon Chain
2. Mineral Resources & Materials
3. Food & Agriculture
4. Infrastructure
5. Mobility
6. Medical/Healthcare
7. Lifestyle Products & Value-added Services

Strategic domain in action

THE HYDROCARBON CHAIN

Mitsui unveiled "Challenge & Innovation for 2020," its new corporate strategy, in May 2014. One of the plan's goals is to create new value by more effective collaboration among Mitsui's businesses in alignment with seven key strategic domains. Mitsui's US shale gas business—part of the Hydrocarbon Chain domain—gives a foretaste of how multiple business segments can actively work together at every stage of the value chain to create the "Mitsui premium."

Mitsui acquired a 15.5% interest in the Marcellus Shale project from Anadarko in 2010. This was followed by the acquisition of a 12.5% interest in the Eagle Ford shale project from SM Energy in 2011. But upstream production was only the starting point. Mitsui went on to establish a gas marketing company, MMGS, to sell and distribute the gas from Marcellus. Mitsui is also involved in a joint venture led by Sempra Energy to convert the Cameron liquefied natural gas receiving terminal in Louisiana into a liquefaction and export facility. Its LNG will be sold to Mitsui's global customer base, including gas and power generation companies in Japan and other countries in Asia.

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Mitsui, meanwhile, has participating stakes in thermal power stations in New York and Mexico that burn gas to produce electricity. In addition, it has a joint venture with Celanese Corporation in Texas to manufacture methanol—a key raw material in the manufacture of adhesives, plastics, and pharmaceuticals—from gas. Mitsui also has an interest in the strategically located ITC tank terminal in Texas, where bulk chemicals and petroleum products are stored prior to distribution in the domestic, import, and export markets.

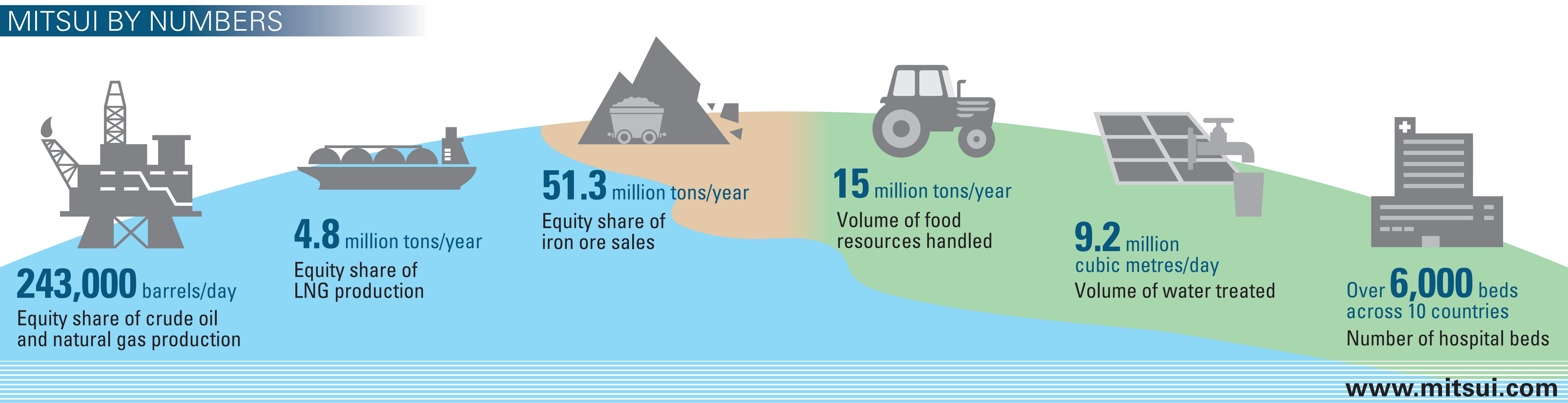
Mitsui's involvement goes beyond product processing to transportation. Together with Kinder Morgan and Mexico's state-owned oil company, Mitsui has just completed a 100 km pipeline to send natural gas from Arizona to Mexico.

Mitsui also has a fleet of tankers for long-term charter for transporting LNG by sea. Mitsui supplies both steel pipe for the pipelines and steel plate for the LNG vessels.

Mitsui is keen to replicate variants of this hydrocarbon chain model outside the United States. Mozambique—where it discovered a vast offshore gas field in 2010 together with Anadarko—is a prime candidate. The ultimate goal is to apply this integrated, value-chain-based approach across all seven key strategic domains, from providing raw rubber for car tyres and investing in jet engines in the Mobility domain to manufacturing pharmaceutical raw materials and managing hospitals in the Medical/Healthcare domain.

Clockwise from top: Drilling Rig, Eagle Ford Shale, Texas; ITC liquid bulk terminal on the Houston Ship Channel; Cameron LNG receiving terminal in Louisiana.

MITSUI BY NUMBERS



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