Announcement of Medium-term Management Plan 2023

QA Session (translation)

Time and Date: May 8, 2020 (Fri.) 10:00 – 11:30

Presenters: President and Chief Executive Officer, Tatsuo Yasunaga
Executive Vice President, CFO, Takakazu Uchida
Managing Officer, General Manager of Global Controller Division, Tetsuya Shigeta
General Manager of Investor Relations Division, Masaya Inamuro

[Question 1: Impact of COVID-19]

Q1: How is COVID-19 changing Mitsui's management policies? Are there any new focus areas? For example, has there been a further shift in focus to the Healthcare business, or will there be changes in your approach to the food business in Lifestyle and the E&P business in Energy? Are there any businesses which are operating differently due to the impact of COVID-19? What are you thinking about for post COVID-19?

A1: First, we will prioritize the health and safety of our employees and then secure the continuity of our business. We are taking the opportunity to conduct a thorough review of our cost structure and have asked employees to think about what they should do once business conditions have returned normal. We are making full use of web conferencing and other digital tools. As for post COVID-19, people's perception of work, or "the office," etc. will change due to various factors such as the working style reforms using digital tools mentioned above, focus on efficiency, and diversity. With the quality of output and performance of each individual employee becoming more visible, our working environment will consequently shift to pay for performance.

As for individual businesses, we will be selective even on expansion of existing projects in the E&P business under Energy. COVID-19 may have a prolonged impact on materials related businesses linked to the automobile industry, such as Iron & Steel Products and Chemicals – areas where we would like to pursue M&A opportunities.

[Question 2: Paths to achieving FY Mar/2023 quantitative targets]

Q2: The FY Mar/2023 forecast for profit for the year in non-resources area is 240 billion yen, a 77 billion increase from 163 billion yen in FY Mar/2020. Please provide background to these forecasts. In which specific areas do you plan to increase profit? Please provide a breakdown by organic growth, profits on asset recycling, and returns on new investments. What are the resource price assumptions and volumes?

A2: We forecast 80 billion yen in profit for the year in non-resources areas for FY Mar/2021, which will improve by approx. 100 billion yen in FY Mar/2023 due to impact of COVID-19 recovering. In addition, we forecast approx. 30 billion yen by strengthening profitability of existing businesses, and approx. 30 billion yen from new contributions from projects during the Medium-term Management Plan and profits on asset recycling, and therefore we forecast 240 billion yen for FY Mar/2023. Regarding asset recycling, we have continued to improve the quality of our portfolio through resource/non-resources recycling and continued to record profit gains. We have a history of achieving between approx. 53-54 billion yen a year in profit on average over the past five years.

Strengthening the non-resources area is one of our most important business matters. The Corporate Development Division of the CD Business Unit has established special teams that consolidates Mitsui's capabilities in management improvement. These teams have been assigned to affiliated companies to improve the management. We have already seen results at Mitsui Norin, Mitsui Bussan I-Fashion, Mitsui Knowledge Industry, and others, but the teams will continue to take action to improve management through the steady implementation of activities to increase sales, improve costs, etc.

Regarding resources, in Energy, oil majors and oil-producing countries are considerably reducing their investments, but we believe there will be a gradual recovery in oil prices as we expect both the market and demand that has disappeared to recover. In addition, we formulated these plans factoring in increased volume from projects like Tempa Rossa. In Resources, the mining majors who are our partners, are working to implement COVID-19 countermeasures while maintaining stable operations. We expect volume to be maintained at current levels and for price to weaken slightly. In consideration of these factors, we believe profit for the year for Resources in FY Mar/2023 will recover to 170 billion yen, mainly due to a recovery in oil prices.

[Question 3: Minimum annual dividend per share]

Q3: What thinking is the minimum annual dividend per share of 80 yen based on? What level of core operating cash flow is this equivalent to?

A3: The basis of our shareholder returns policy is to directly distribute returns through dividends. We consider the core operating cash flow as the source of funds from which dividends are paid. For FY Mar/2021, we expect to generate core operating cash flow of 400 billion yen despite the impact of COVID-19 and the fall in oil prices. We regard stability and continuity of dividends as highly important and therefore plan a dividend of the same value as the previous financial year at 80 yen, with a total annual dividend amount of approx. 130 billion yen. Mitsui believes that it can continue to deliver an annual yearly dividend amount of around 130 billion yen (a return ratio of 33% vs. core operating cash flow) with core operating cash flow around 400 billion yen continuing for three years even if the harsher than anticipated business environment continued, and thus determined the minimum annual dividend per share previously stated.

[Question 4: Management allocation]

Q4: Please explain the thinking behind the management allocation, in terms of achieving the target of 10% ROE under a 400 billion yen in profit scenario for FY Mar/2023 and also in terms of how you would balance between growth investments and additional shareholder returns.

A4: During the previous Medium-term Management Plan we significantly strengthened non-resources areas and our competitiveness in resources. As a result, we have realized a considerably stronger earnings base. If we exclude the impact of COVID-19, the company was already on track to achieving the target of 10% ROE during the previous Medium-term Management Plan.

In FY Mar/2021, the first year of the new Medium-term Management Plan, COVID-19 is the primary cause of considerable constraints and the depression in performance. We have discussed how to recover to a level at which we ought to be within three years and realize growth after that. Previously, we had approved a certain budget to each project, but under the new Medium-term Management Plan, we have shifted instead to a system where the management judges and allocates the funds for investment.

This does not only apply to new investments, but also expansions to existing investments, investments to maintain businesses, and those investments which have already been approved internally. All investments will be reviewed "without compromise" based on whether they can be justified under the current market or the demand forecast. We have put a range to these investments between 1.5-1.7 trillion yen, but depending on the situation, it may be necessary to reduce this.

Whether we can achieve 900 billion yen in asset recycling in the new Medium-term Management Plan depends on the recovery of economic activities and progress of due diligence made under the current constraints. Another condition is whether assets can be sold at an appropriate price level.

We have set aside a portion of investment as management allocation where management has control, and which can be allocated upon careful review of the certainty of the growth investments and the speed of recovery in demand. We wish to allocate growth investments (which contribute to improving corporate value) and additional shareholder returns (which contribute to improvements in capital efficiency) based on serious consideration of the circumstances within a three-year, medium-term perspective.

[Question 5: Investment plan]

Q5: In your investment plans for the new Medium-term Management Plan, which areas do you intend to invest in? Can you provide a breakdown of investment in non-resources areas?

A5: The planned investment amount of between 1.5 and 1.7 trillion yen will in principle be used either to strengthen existing businesses or to make bolt-on acquisitions of businesses that we can control, on the proviso that through such additional investment we can realize improved earnings and sustainability. New large-scale investments will target opportunities in our strategic focus areas such as healthcare & nutrition, the environment and Market Asia. And rather than loosening our investment guidelines, given the COVID-19 situation we intend to make our investment selection process even more rigorous by applying stricter earnings targets and taking a more conservative approach to the assumptions we use to assess demand recovery.

In healthcare, as we did last year with the sale of Colombia Asia Healthcare and Sogo Medical Holdings, we will look at priorities across the overall portfolio and pursue further asset recycling. There is no change to our policy of aiming to achieve both sound cash flow management and portfolio optimization.

[Question 6: ROIC as an internal management indicator]

Q6: Do you intend to establish quantitative targets for the ROIC you are adopting as part of internal management KPI? And what specific initiatives are you taking to strengthen budget control? In terms of increasing capital efficiency, what are you conscious of, through the experiences from the previous Medium-term Management Plan?

A6: Ever since the previous Medium-term Management Plan, each business unit has been tasked not only with increasing profits and core operating cash flow but also with improving capital efficiency. With the aim of further improving capital efficiency at the business unit level, about one year ago we began discussions on using ROIC as an internal KPI and formally adopted the measure from April this year. For technical and other reasons, we do not currently plan to disclose the targets externally, but I can tell you that we have had very thorough internal discussions and awareness of capital efficiency in our investments has greatly increased.

After analyzing the main business domains of each business unit, we set target ROIC levels for each business domain. To support the achievement of these targets, we have established even more fragmented quantitative targets that can be measured in even more detail, with an associated action plan. We are going to closely monitor progress against plan and follow a PDCA cycle.

[Question 7: Achieving 10% ROE]

Q7. If the FY Mar/2023 profit for the year target of 400 billion yen were to become unfeasible, would you implement a share buyback proactively to achieve the 10% ROE target? Also, is the reason that you have put growth investments and additional shareholder returns in the same page that you intend to allocate capital to whichever offers the best return in consideration of the business environment at that time?

A7. To achieve ROE of 10%, we must either invest in future growth or improve capital efficiency under the cash flow allocation system. At the same time, the economic recovery scenario and commodity price assumptions built into the Medium-term Management Plan are highly unpredictable and if the external environment changes significantly we will need to revise management decisions accordingly. Under certain assumptions, while the external environment is recovering, management aims to achieve ROE of 10% by balancing returns to shareholders and growth investment while increasing inflows and controlling outflows.

[Question 8: Trading companies' commitment to results]

Q8. You mentioned that you require strong commitment from employees. What specifically is the company doing to achieve this? Core projects in the area of Resources & Energy have a long lead time and fluctuations in commodity prices during that time can have a significant impact on business performance. Would it not be difficult to measure short-term achievements?

A8. In the past we evaluated an employee's individual performance and performance as part of a team by looking at both individual and organizational results. We have now introduced a new personnel system to enhance pay for performance. Under this system, we will discontinue organizational results as a factor in employee appraisals, set more measurable individual goals, and measure progress through regular one-on-one meetings with line managers. We will establish a transparent evaluation criteria, in order to promote employees from overseas offices or affiliated companies to be assessed on equal terms (the same Level Playing Field) as the HQ hired staff.

[Question 9: Mitsui's core competencies]

Q9. When formulating the Medium-term Management Plan, what did you consider as Mitsui's core competencies? What is the link between these and the newly established MVV?

A9. As the name of the company signifies, in Japanese, Mitsui & Co., is a company that produces things. To put it another way, our mission is to create businesses and projects. The spirit of challenge and innovation that is a part of Mitsui's DNA is what helps us achieve this mission and in that sense is our core competency in my view. In timing with the new Medium-term Management Plan, we have updated the MVV that will drive our actions.