FY March 2025 First Half (April-September 2024) Financial Results Announcement Q&A Session

Date	November 5, 2024 (Tuesday) 10:00-11:20	
Speakers	Kenichi Hori	Representative Director, President and CEO
	Tetsuya Shigeta	Representative Director, Senior Executive Managing Officer, CFO
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Moderator	Hideaki Konishi	General Manager of Investor Relations Division

Q1

Regarding the overall outlook on business performance, profit from asset recycling this fiscal year is over 100 billion yen, so the market is inevitably concerned about sustainability into the next fiscal year and the decline of one-time profit. Please tell us your thoughts on the next fiscal year taking into account external and internal factors. Also, please tell us your thoughts on the economic outlook based on what you are hearing from people on the ground, your own personal network such as daily conversations you have with CEOs abroad. In addition, regarding management's internal efforts, how do you feel about the progress in asset recycling and *middle game* initiatives towards the next fiscal year? In other words, are you able to provide a message regarding confidence of profit growth for reasons other than those related to external factors?

Hori

I will talk about the economic outlook relating to the operating environment and internal factors. Regarding the operating environment, as I have been traveling myself and speaking with various CEOs around the world, I feel that risks, especially those that exist in specific countries and geopolitical risks, are increasing, as is volatility. However, many of them believe that the economy in the US and in North America remains solid, which I do too. We are seeing some downside risks in China, and while its leaders are indicating commitment to the management of the economy, so far those announcements have been rather piecemeal and we are paying attention as to whether there will be something more substantial.

In addition, G20 countries and regions are exploring their own ways for management of their economies, and the relationships between the G20 members have been changing to a certain extent, so we think it is important for Mitsui to have a strong regional strategy that is approached from a global perspective, in both the northern and southern hemispheres. There are various issues in Japan, but amid reorganization that is taking place in various industries, we would like to secure business in areas that are growing. In talking with various CEOs, I see opportunities in Japan and new ways of connecting the country with the rest of world.

As a broad trend, I think we are seeing that it is essential for management of companies, including Mitsui, to have as many options as possible. Therefore, I think the key is to move forward while securing different options in running our business.

As for internal factors, as you pointed out, there has been a fair amount of asset recycling this fiscal year, but there are a few things I would like to clarify regarding asset recycling. One is that there are several divisions within Mitsui whose business model itself is realizing profit by selling assets. There is the *develop and sell* model for some infrastructure assets, and there are many businesses in the Corporate Development Business Unit that follow this model too. Also, as I just mentioned in my point on the global outlook, in order to strengthen our portfolio and make available an array of options as we progress, we need to opportunistically and strategically reconfigure assets and do so with considerable decisiveness. At this moment in time, I think this is an important thing for us to do. I think we have seen the results of this over the past few years, and as a result we have had a certain amount of gains from asset sales each year. In turn, we have been investing, so for example if you look at us over the past seven to eight years, we have made considerable investments and so we are reconfiguring our asset portfolio.

As we head into the third year of our Medium-term Management Plan (MTMP), I think that asset recycling will take place based on these two aspects, and of course we want to do this while securing profitability, so the pace of asset sales will fluctuate somewhat from year to year, but to a certain extent we generally expect a certain amount to be realized each year. At the time of the MTMP announcement, excluding businesses for which asset sales are part of the business model, we didn't factor in any large gains from asset recycling for the third year of the plan. The plan was formulated from a high level perspective based on certain assumptions for commodity prices and exchange rates. So if we can achieve the enhancement of base profit through the *middle game* initiatives and steadily build up what we have been working on, we should be in sight to achieving our target for the third year of the MTMP, although we will adjust for commodity prices and exchange rates. However, since the first half of the fiscal year has only just ended, it is a little too early to speak on the next fiscal year, which is something we will be working towards from here on out.

Q2

Regarding cash flow allocation, you made a strong comment saying that there is potential for additional allocation backed by the strong financial base. On the other hand, with the additional 200 billion yen share repurchase, it is simple to calculate that shareholder returns as a percentage of Core Operating Cash Flow (COCF) will exceed 45% for the MTMP, so I don't think this in itself is a surprise for the market. Regarding the fact that 450 billion yen of the Management Allocation is left, it is difficult to figure out what the ideal balance sheet would look like and what the benchmark should be, so could you give us a hint on how you think about increasing capital efficiency after you go beyond the 45% payout level? Also, please explain if there has been any progress regarding the discussion on how to use this strong financial base, especially pertaining to the 1.2 trillion yen left over from the previous MTMP.

Hori

Regarding cash flow allocation, as I mentioned earlier, based on the current external factors we want to have options available to us at hand, and that is precisely the situation with the balance sheet that we bolstered a little since the previous MTMP. I think this is an important option for us to have.

If the operating environment experiences a downturn, we will depend on this to be able to endure such a downturn, and we need to be prepared to a certain extent. At the same time, the number of potential investments in our pipeline is increasing. We are being more disciplined, so although there may be an investment we would like to make, if it is still not brushed up to meet the level of return we require at the moment, we will hold our position. There are several investments that fall into this category.

When these are brushed up, we will execute, so at that time, depending on the scale of the investment, we will have the flexibility to conduct share repurchases, and depending on the situation, having the optionality to use balance sheet surplus is something very important to have.

Currently, I think that the cash flow allocation in the MTMP is basically viewed from a flow point-of-view, but it is possible to take a more aggressive approach when looking at the balance sheet. I have said this before, but based on current observations of the situation globally, we reflected that to a certain extent in the presentation material this time.

In addition, as for the payout ratio, in hindsight, it is over 45% of COCF for the current MTMP, but the model was initially created with a starting point of around 37%. If you recall the third year of the previous MTMP, this was when the payout ratio increased significantly. After looking at the performance over those three years, we thought it would be good to present this as a benchmark for the next MTMP, so we came up with 37%. Since then, a year and a half has passed, we have made good progress, and as a result, we have increased shareholder returns slightly. That's how I would put it.

While continuing to engage with investors and the market overall, we have not yet decided whether to do the next MTMP or not, but we would like to set out a benchmark when we announce the business plan after the current MTMP has been completed. We would be attentive to how the current MTMP plays out and based on that think about what to do beyond that. However, I think it is still too early to have a detailed discussion on this. We will, of course, also present the benchmarks for capital efficiency and return on capital at the same time, but since it has only been a year and a half, I would like to ask for your understanding that the current benchmarks will continue for the duration of the current MTMP, and therefore as a result, the payout ratio turns out to be higher than expected.

Q3

Regarding *progress in enhancement of base profit* on page 10 of the presentation material, while this shows an increase of 120 billion yen, the *YoY factor comparison* of base profit on page 16 shows a YoY decrease of 16 billion yen. Please explain the gap between these two numbers.

Hori

Regarding the progress in enhancement of base profit, the main point is on page 10. The YoY comparison on page 16 include swing-backs from the previous period, making it difficult to see the enhancement of base profit. On page 10, the figures for *strengthening existing businesses* and *turnarounds* are on an annual basis and include the effects of the first half of the fiscal year.

On the other hand, there is a negative impact on *strengthening existing businesses* due to the operating environment, and other factors. For example, steel prices have seen slight headwinds, so we are not seeing the numbers for *strengthening existing businesses* as expected, market prices are affecting the aquaculture business, and the grain collection business is currently struggling, but I think these will recover in the second half. Regarding the parts that are sluggish due to the influence of factors from the operating environment, we are subtracting them from the enhancement of base profit. In addition, regarding coffee trading, while the turnaround has in fact been positive compared to FY March 2023 which is the benchmark, we still have issues to tackle when considering this year's budget. We are taking measures to reduce inventory positions and to mitigate the impact of hedging costs as much as possible amid the continued backwardation of the coffee market. Looking at each factor in this way, I think that there is still work to be done. However, I feel that we have made progress toward 120 billion yen against the target of 170 billion yen by the end of the third year of the MTMP for enhancement of base profit. The profit contribution of *new businesses* is also accumulating, and we evaluate that we are in a position to achieve the target of 60 billion yen by the end of the third year of the MTMP. Since these are *middle game* initiatives that require the entire company to work as one, I think it is very important to work on each individual factor and put them all together.

The *exit from loss-making businesses* has had a 17 billion yen effect. Each item is not that big in scale, so this is an accumulation, but the effects are very clear. Although there may be one-time losses associated with withdrawals which we need to absorb, this is an important task to strengthen the base profit in the future, so we are particularly focused here.

Q4

Half of the MTMP has been completed, and you have made investments for growth of about 1 trillion yen. Please tell us your evaluation of the progress so far. Also, please tell us about the outlook for investments for growth in the second half of the MTMP.

Hori

Regarding investments for growth, the number of projects in the pipeline at present has increased even more than before. There are several investments that are likely to be made in the future in familiar areas of business or adjacent areas, where we are aware that we have knowledge or investments in which we can be the lead player. On the other hand, we are very disciplined in our investments, so we will not invest unless we are confident of achieving the targeted returns. When we do invest, there is a possibility that these will include relatively large investments. It would be a nice problem to have, but if multiple of those investments eventuate, I want to go ahead while carefully considering the company's financial strength.

There are investments in the pipeline that will contribute immediately to profit and those that will solidify our earnings base in the long term. Investing in both will create a better balance, so I would like to strengthen our portfolio by steering in this direction.

Q5

Regarding the *progress in enhancement of base profit* on page 10 of the presentation material, I get the impression that progress is smooth overall. Looking at it by business area, I guess there would be some areas that are progressing better than initially expected and others that are not progressing as expected. Could you please tell me which areas these are? Also, please tell me the background to the progress being smooth, and the causes of those not going so smoothly, and also what kind of *middle game* initiatives you are trying to use to improve in the future?

Hori

For areas that are progressing smoothly, I think the ships and automotives related business in the Americas are relatively good. I think chemicals are also doing well. In the lifestyle field, Mitsui DM Sugar, FEED ONE, and the brand business are also progressing as expected.

On the other hand, we are focusing on coffee trading, but the market has many headwinds, so we are taking steps to ensure that this translates into results. Also, in the financial results presentation material, we mention the drug discovery support fund, and like this investment, there are parts of the portfolio that are problematic, so we are working to do some restoration work in certain cases or in others, make slight revisions to the investment model.

I have gone into specifics here, but I think what is important is that management takes this perspective and takes a hands-on approach to improving the portfolio. The people involved in the field are also very conscious of this, so I'm glad we included initiatives aimed at *enhancing base profit* as part of the MTMP.

The profit contribution from *new businesses* is also progressing relatively smoothly. Domestic BPO (including food services) is progressing smoothly as planned, and food science and the Thai gas-fired power generation business are also progressing smoothly, and we feel we have made progress here.

We are focusing on our protein portfolio, including shrimp, but it is currently being affected by market prices. We expect a recovery towards the next fiscal year, but we are considering the possibility of showing the current earnings base and the effect of market prices separately in the future.

Q6

Regarding cash flow allocation, on page 11 of the presentation material, it says *potential for additional allocation backed by stronger financial base.* I'm assuming that this is referring to the financial strengthening that took place over the three years of the previous MTMP, and therefore infers that it is not necessary to make free cash flow completely positive after shareholder returns in the current MTMP.

When that time comes, please tell us about target metrics or metrics you are concerned about. For example, a net DER increase may be acceptable up to such and such level, or while the current ROE target is 12%, you may target a higher number leading into the next MTMP as investments are progressing faster than expected, and so forth. Please tell us how you use debt in the cash flow allocation and your thoughts on ROE.

Hori

Regarding metrics, for example, if you ask whether we will set a target for net DER, our position is that we will not set one at the moment. Frankly, we do not want to lose our current options by solidifying our net DER target, given the rapid changes taking place across the globe.

However, I would say that I do not think we have a strong need to maintain the current level of net DER. I think it is possible to relax the net DER level a little more, but I think there is a risk in setting a target net DER when the business environment is changing so much, such as with the US presidential election scheduled for tonight.

As for ROE, while the target for this MTMP is over 12%, we would like to constantly consider the appropriate levels for leverage and ROE, considering the expectations by investors based on the potential of our portfolio, and that ROE should always be above double digit.

In addition, while there is a level of ROE that we would like to maintain in the long term, we would also like to pursue short-term strength, so we do place importance also on the current level of ROE.

Q7

It is important to show the results of strengthening the base profit for each individual business. There was a comment that the business environment in the US is solid, but for example, the truck leasing business in North America is showing signs of slowing down compared to when performance was particularly good. Also, in the Machinery & Infrastructure segment, losses in the Mainstream business have decreased, but going forward, what are the prospects for this business as it moves toward full-scale operations? As the US pivots to lowering interest rates, some of the headwinds may turn into tailwinds, but please tell us about the areas where the results of efforts to strengthen *middle game* initiatives and base profit are yet to be seen, particularly in the Machinery & Infrastructure segment.

Hori

If you set the benchmark at the point when supply chains were disrupted after the COVID-19 pandemic, you will have a distorted viewpoint of the truck leasing business in North America, but in an environment in which supply chains have normalized, we feel that base profit has been growing. Compared to the previous fiscal year, it looks like there has been a slight slowdown, but we think that the base volume of transactions and the range of products in our portfolio will continue to expand, and we will monitor the situation to ensure that we can take advantage of the strength of the US economy. In addition, the US used truck auction business in which we have invested as an adjacent business that we understand well is a complementary business that will have an immediate impact on our earnings in our North American mobility business.

While we want to achieve results in Mainstream, currently we are working on turnarounds. While we are reorganizing our portfolio in Chile, on the other hand, projects in South Africa and Australia, for example, have showed promise, and we are making adjustments to the balance of the portfolio regarding regions. There are various regulations on investment in renewable energy projects, including the power market. This is different from the structure of long-term IPP contracts for thermal power generation and the business environment is not yet well refined. The entire industry is undergoing self-transformation so that those who take risks can earn appropriate returns, and we are trying to get a step ahead to generate profits by utilizing the lessons learnt.

In addition, we have seen results in improving base profit in construction machinery and ships, and we are confident that the Machinery & Infrastructure segment will continue to be a new earnings driver for Mitsui.

Q8

The *timing of earnings contribution from new projects* slide is easy to understand, and ideally this would be updated on a rolling basis with specific progress. Projects listed under *FY March 2027 onwards* are shown together, but I think some of these will contribute to earnings from FY March 2027 and some will begin contributing from the following fiscal year onwards. As the pipeline projects accumulate, please tell us which projects have a higher degree of certainty, and those that you expect will contribute to earnings ahead of schedule.

Hori

It is too early to say which of the projects will start contributing to earnings in FY March 2027, but we are taking action in areas such as Mineral & Metal Resources and natural gas. The development of LNG projects take a long time including the ramp-up period, so we need to examine each project carefully and talk about them one by one, but overall, we expect to see a certain level of results from our Mineral & Metal Resources and upstream natural gas development projects each year, and we want to move forward with the turnaround of our renewable energy projects. We are also steadily moving forward with projects for clean ammonia and clean methanol, and although the start would be slow until we achieve economies of scale, we can expect them to contribute to earnings from FY March 2027 onwards. In addition, we are working on a future capital event for CT Corp.

Q9

With regard to the LNG business, please tell us what has changed from the previous forecast in terms of dividends and trading, and what has become a factor in the increase in profit this time, as well as the sustainability of the future profit. Also, in recent years, LNG has been generating profit that has exceeded the business plan of each year, but I would like to know if the base of profit levels Mitsui is currently assuming has also increased, if it has increased slightly from the level that was considered in the first year of the MTMP, or even without one-time factors if more profit is being generated than expected.

Hori

Compared to last year, the situation has somewhat normalized, but in our LNG business, the realization of profits from dividends and trading is skewed towards the second half of the fiscal year. Both dividends and trading have been better than we had expected at the beginning of the fiscal year, and for example, in the area of trading, we are providing customers with supply and demand adjustment functions, and we have factored into our second half forecast an upside in trading profit due to an increase in business opportunities.

Dividends have also been good, and we have revised our figures for the second half of the fiscal year. We expect a reasonable degree of accuracy in our projections, and we think that the upside potential of the LNG business is becoming more apparent.

In terms of profit levels, for example, if production from the Cameron LNG project in the US continues to go well, our trading volume of LNG will increase. Since the original LNG production plan was formulated based on normal assumptions, it is true that if production goes well and volume exceeds the plan, various business opportunities will increase based on our LNG trading capabilities. We do not believe it is appropriate for this additional production and opportunities to be factored into the business plan.

Q10

Please tell us about the catch-up factors for the second half of the fiscal year for the Chemicals, Iron & Steel Products, and Lifestyle segments, where progress was low in the first half. Please elaborate even if they are qualitative factors.

Hori

Although we do not announce our budget for each quarter, our profit forecast for this fiscal year is weighted towards the second half, and we feel the first half has progressed in line with our expectations. However, there are some areas where we need to catch up.

For example, in Iron & Steel Products, demand for steel products was quite weak in the first half of the fiscal year, so we are expecting a certain degree of recovery in the second half, including in terms of trade volume and production volume, due to interest rate cuts in the US, among other factors. We are also making thorough efforts to reduce costs, so I think that these measures will have an effect, but I think there is some catching up we will need to do in this segment.

In the Chemicals segment, COCF progressed steadily in the first half of the fiscal year. Although there were impairment losses on some assets, we expect to catch up in the second half as we plan to recycle some assets in the downstream area. Including these factors, we believe that we are on track to achieve our business plan.

In the Lifestyle segment, as I mentioned earlier, we are expecting to see a certain level of turnaround in coffee trading and we need to make this happen. In addition, we are anticipating a demand increase in the food and retail business towards the end of the year, which will contribute to the second half of the fiscal year. In the Lifestyle segment as a whole, we have seen improvements in FVTPL and other areas, so we think we will need to catch up slightly in the second half, but we have arrived at this forecast based on the accumulation of most recent outlook

As for Innovation & Corporate Development segment, there are some capital gains and FVTPL that were not included in the original plan, but these have accumulated, and I believe the accuracy of the forecast should be very high. We are looking at the second half in this way.

Overall, it aligns with the original business plan. Given the upside we've mentioned, we can conclude that we've made some reasonable upward revisions.

Q11

On page 7 of the presentation material, the upward revision factors for both the Machinery & Infrastructure and Innovation & Corporate Development segments are asset sale gains, but for the latter, you explained that the asset sale gains were not factored into the business plan. Please tell me if there are any profits in the upward revision, that were originally expected to be generated in the next fiscal year onwards but were brought forward to this fiscal year.

Hori

Regarding factors behind the upward revision of the full-year forecast compared to the business plan, there were no changes that resulted from bringing forward items that were scheduled for next fiscal year to the current fiscal year. So please understand that it was just a case of being able to seize upon opportunities that arose through the course of our regular business activities.

Q12

It seems the downward revisions to the Mineral & Metal Resources and Iron & Steel Products segments are due to weak demand for steel. Please tell us about your price and demand assumptions for steel and iron ore in the second half.

Hori

We believe that we should monitor China related factors to a certain extent in both the Mineral & Metal Resources and the Iron & Steel Products segments. Various policies small in scale related to real estate in China have been announced, but we are keeping a close eye on whether more comprehensive policies will be announced, and also on the situation regarding steel exports from China.

If there is a further deterioration in the situation, we will need to take action, but what we are seeing at the moment has been factored into our earnings forecasts in the form of commodity prices for both segments.

In addition, when it comes to the seaborne trade of iron ore, I think there is a certain degree of downward resilience in iron ore prices, considering the competitiveness of local iron ore producers in China. China is currently the world’s largest consumer of iron ore, but in the medium term, steel production will diversify to India and other countries. We will continue to respond flexibly while carefully monitoring such macroeconomic trends.

Q13

Please tell us more about your current assessment and future plans, and any points of particular interest for healthcare and protein, which you have identified as growth drivers during the MTMP.

Hori

In terms of protein, for recent projects, we have broiler businesses in Egypt and India, and I think it was very good that we were able to make the decision to invest where the population and consumption are growing. For Egypt, this would be referring to the Mediterranean and Africa, and for India, this would be referring to India itself. Shrimp and salmon are also good sources of protein with high feed efficiency, and we will continue to take a comprehensive approach here. Prices are currently a little weak, and the market for shrimp and salmon, especially in the US, which is the main market, has been particularly sluggish, so we will be keeping a close eye on this. But in terms of our current operations and capturing future upside, I think we are making steady progress. In particular, when it comes to protein, genetics is important. For example, for chicken, this would be breeding stock, and for shrimp and salmon, this would be for juvenile shrimp and eggs. We want to selectively increase our businesses related to feed, animal health, and genetics, in order to create an overall ecosystem.

In terms of healthcare, our profit related to IHH for the first half was at the 15 billion yen level, and I think that IHH has made considerable progress in hospital M&A, and the post-merger integration is now being carried out to a higher level than before. Increasing the number of hospitals through acquisitions is also part of the business model, and from our perspective we can expect considerable organic growth, including through such methods. Healthcare is centered on the hospital business, but there are also new medical services and healthcare services that customers would use before resorting to using a hospital, as well as preventative care in the field of food science, and recently we have invested in Eu Yan Sang, a traditional Chinese medicine company, together with ROHTO Pharmaceutical. I think there will be synergies here, and as it is growing in Asia I think there is potential in this business area. From the hospital business to preventative care, nutrition, and the very important foods and science that are essential to nutrition, I think that Nutrinova's artificial sweeteners would also fall into this category, but our long-term strategic goal is to create a wellness ecosystem while looking at the whole picture, and we want to steadily expand in this area.

Q14

Are you accelerating investments in healthcare?

Hori

We want to accelerate our investments here, but because the multiples are too high when we carry out M&A for existing businesses, we want to be disciplined and accelerate this by being selective in forming deals, and entering a little earlier, entering using our existing functions, or growing a business from our current platform. In addition, although we don't have any deals to announce at the moment, we are continuing to increase our expertise of healthcare data, which we have been talking about for some time. We are working with NVIDIA to provide drug discovery support to Japanese pharmaceutical companies by combining computing time with various ancillary services. The way drug discovery is carried out, the role of hospitals, and the way clinical trials are conducted are all changing rapidly, and we have a front row view of these changes, so I think there is a great deal of potential for new businesses to emerge from this. We don't have any specific investments to talk about as of now, but we would like to explore this area in the medium to long term.

Q15

Regarding *exit from loss-making businesses* on page 10 of the presentation material, please tell us how much the gross loss is.

Hori

In Mineral & Metal Resources and Energy projects, the business model involves some losses occurring during the development stage, and most companies will make losses through upfront investments. Putting those aside, the real issue is with businesses that are making actual losses as a going concern, so we are making a list of businesses to exit from by thoroughly going through each one to make improvements. There are many small ones, and we are working on them thoroughly in order to stop wasting but rather effectively utilizing management resources.

Q16

On page 9 of the presentation material, Waitsia is listed as a factor in increased profits for FY March 2026. Please tell us about Waitsia's improvements for the next fiscal year, the likelihood of increased profits, and the scale of the contribution to profits.

Hori

I think we will achieve certain milestones towards the next fiscal year. If there is an opportunity to make an update, we will inform you of this.

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