

Preparations and Strategies

The final game of the World Baseball Classic tournament held in the United States on March 21, 2023 was a historic match between Japan and the United States. I decided to watch the game with our employees, maintaining the balance with our work, and set up a public viewing space to watch the game. Due in part to the introduction of our “Morning-Focused Working System,” over 400 employees packed into the public viewing space by 8:30 a.m. after the game started, and we were able to collectively share the moment of victory. Just like the Japan national baseball team, ITOCHU in FYE 2023 came together as one, and focused on turning our words into results.

Since I became President in FYE 2011, ITOCHU’s consolidated net profit has expanded from ¥300.0 billion to ¥400.0 billion, and then on to ¥500.0 billion. Since then, we have continued to achieve significant growth and steadily ramp up the stage of our earnings growth. In FYE 2022, which was the first year of our medium-term management plan “Brand-new Deal 2023,” we surpassed the high hurdle for consolidated net profit of ¥800.0 billion and maintained ¥800.0 billion for the second consecutive year in FYE 2023.

As for our business results in FYE 2023, we benefited somewhat from the persistently and historically high natural resource prices despite our smaller exposure to the resource business compared to the general trading companies associated with the former *zaibatsu* industrial

groups, and the depreciation of the yen also contributed to our strong performance. However, a point I would like to draw attention to is that while the other general trading companies associated with the *zaibatsu* industrial groups expect profits to fall over 20% on average in FYE 2024, ITOCHU is the only general trading company with expectations of low single-digit declines in profit of only 2.6%. In FYE 2024, which is the last year of “Brand-new Deal 2023,” the unclear and unstable business environment is expected to persist, and the situation will remain very difficult to navigate. While keeping an eye on the eventual normalization of natural resource prices and foreign exchange rates, we intend to firmly maintain the ¥800.0 billion consolidated net profit level while steadily preparing and implementing strategies for our next stage of earnings growth. (► Page 42 CSO Interview)

However, I would like to emphasize that this does not mean we plan on doing anything special. I think the most important thing is to simply maintain a focus on our business fundamentals, starting with steadfastly practicing our “earn, cut, prevent” principles, and stably conducting management as we have until now. Another important point is to simultaneously implement a management strategy that elevates our entire business to ensure that we make progress toward the next stage of growth.

Consistent Management

I would like to touch on a story of a person I highly respect, the Founder of KYOCERA Corporation (KYOCERA)—the late Kazuo Inamori, who is widely accepted to be “the God of Management.” When one CEO visited Founder Inamori, he assumed that the source of KYOCERA’s strength must be its special technology and questioned the Founder about this. To this Mr. Inamori responded, “There is not anything special.” The visiting CEO thought, “That cannot be true.” But when he toured one of KYOCERA’s factories, he found that the technology being used there appeared to be quite conventional, like those used at the factories of other companies. Mr. Inamori explained to the bewildered CEO, “If you rely on special technologies, you may fall behind when an even better technology appears. KYOCERA’s strength is its front-line capabilities to achieve special results using normal technology.” Another person from the business community who heard this story told me that Mr. Inamori’s approach aligns with ITOCHU’s unique characteristics of not relying on special businesses, such as the resource business, but instead demonstrating the strengths of our front-line capabilities honed through the “earn, cut, prevent” principles, and through the strategy by our market-oriented perspective that helps us achieve special results.

There once was a period of time when ITOCHU also deliberately concentrated management resources into specific fields and, as a result, ended up weakening the

businesses outside of our core areas. The Machinery Company was one such business. With its business spanning a wide range of sectors, it was in urgent need of restructuring to ensure it maintained business with major client companies in the heavy industries sector. After becoming President, I issued directions to change our investment criteria so that they are not uniform across the entire Company, but rather are separated into smaller categories aligned with the characteristics of each business, given that the Machinery Company has many businesses that stably accumulate earnings through existing businesses. Positive results have gradually emerged since these changes have been implemented, and by boosting our confidence we have been able to build a strong foundation necessary to grow many profitable businesses. In a little over a decade, consolidated net profit for the Machinery Company, which at the time was around several billion yen, expanded to over ¥100.0 billion in FYE 2023.

I have learned that if we rely too heavily on specific businesses, failure in one of them could lead to vulnerability in our entire Company. In line with this consideration, I have focused on consistent management that elevates our entire business and not just specific Division Companies. The reason I do not casually talk about specific businesses is that I adopt a management strategy that is mindful of all our businesses.

As evidenced by the fact that approximately 90% of our Group companies are profitable, we not only focus on “additions” to steadily build up profits but also on “subtractions” to reduce loss-making companies. Although the Dole business and the North American meat-products-related business went into the red in FYE 2023, we took swift actions including the adoption of provisions for vulnerable assets and implementing changes in management structure, and we expect a recovery in performance in FYE 2024 from these prior

Understanding Peoples’ Emotions and Situations

After watching one of our TV commercials, a viewer sent an email to ITOCHU. The commercial depicted a widower talking to his deceased wife in front of the family’s Buddhist altar. The viewer said this situation was exactly the same as his own, and he said he wanted to see the commercial one more time. Unfortunately, the period for airing the commercial had ended, so he was no longer able to see it. To fulfill his wish, we sent him a DVD of the TV commercial, and he was very grateful to us.

Another episode happened around April 2023 when we had a face-to-face meeting with Mr. Warren Buffett of Berkshire Hathaway Inc., who is a world-renowned investor and one of ITOCHU’s major shareholders. We figured he and his team must be exhausted from their long flight, so to allow them to relax a bit we skipped the detailed briefing on our business, of which they already had a solid understanding. We instead showed them a video highlighting our non-financial aspects, including scenes depicting our corporate culture.

At first glance, these two stories may seem unrelated. But they are connected by our policy of understanding people’s emotions and situations, and providing them with what we believe they desire. This is the essence of the “market-oriented perspective” approach that we practice, and it does not require any stretch of logic.

There is a limit to the added value that upstream resources and materials can generate. Even if a hit product is created, its popularity can be nearly impossible to sustain. On the other hand, profit margins downstream can become quite significant by identifying customers’ needs and adding value accordingly. Companies in the raw materials sector may have strengths in advanced technologies, but the companies that sell products with added value using those materials are able to earn a much higher level of profit. In



Meeting with Berkshire Hathaway Inc.

losses. The lesson we learned from this is that problems in business are similar to illnesses. In other words, what matters is how early you can detect problems, and how quickly you can begin to treat them. And we have taken steps to ensure that this lesson has been thoroughly shared and understood across the entire Company. We firmly believe that “preparedness” will ensure that we can avoid making similar mistakes, and thereby prevent major losses and further stabilize our business foundation. (► Page 12 COO Message)

many such instances, it is safe to say that “profit opportunities are shifting downstream.” This policy is common among all our businesses, not just the ones that have contact points with consumers. By seizing business opportunities in the downstream, we are able to steadily evolve our business model. Take the aforementioned Machinery Company for instance. YANASE & CO., LTD. leveraged its unique sales network, customer base, and the added value of its after-sales service, thereby serving as a good example of a Group company expanding its business results that simultaneously benefited upstream manufacturers as well. By figuring out what it is that consumers want, and with each business strengthening their own brands, we can steadily create profit generating mechanisms over the long term.

General trading companies associated with the former *zaibatsu* industrial groups expanded earnings through wide-ranging businesses, mainly in upstream and midstream industrial sectors during the period of postwar recovery and high economic growth. During that time, ITOCHU accumulated expertise and steadily built up its non-resource businesses, especially in the downstream daily consumables realm that is close to consumers. Currently, our competitors are actively working to shift to non-resource businesses. ITOCHU, of course, has an advantage in this area. The value chain of the ICT & Financial Business Company in particular is one of the main strengths of our businesses, unlike any of the other companies. If the tender offer bid (TOB) for CTC that was recently announced receives the trust of the stock market, it is not an exaggeration to say that this will be an investment that contributes to the further evolution of our business going forward. In particular, there is currently a pressing need to transform business models using digital technologies. Downstream companies are faced with an especially strong need to grow their business by analyzing and leveraging data gained from customer contact points to create new added value. To precisely meet diversifying customer needs in light of these trends, including responses to various SDGs-related issues, if the TOB is successful, we intend to further accelerate the implementation of strategies in the value chain of the ICT & Financial Business Company, and also use this to differentiate ITOCHU from our competitors. (► Page 70 Evolution of the Value Chain through Collaboration between CTC and Our Group of Digital Businesses)