Hiroyuki Naka
Member of the Board,
Executive Officer,
CSO;
General Manager, Group CEO Office

CSO INTERVIEW

We view changes in the business environment as opportunities to utilize our strategy of both “offense” and “defense” to maximize expected value of our stakeholders.

Please explain the current business environment surrounding ITOCHU and the initial plan for FYE 2024.

Although we are in a period of a highly uncertain and unpredictable business environment, our plan reflects ITOCHU’s stable earnings foundation that is highly resilient to economic volatility.

Looking back on the business environment over the last few years, the COVID-19 pandemic caused chaos in the global economy, and the situation has remained extremely uncertain and unpredictable due to the prolonged Russian invasion of Ukraine. This has been accompanied by breakdowns in supply chains and soaring prices of resources. High raw material costs that were spurred by these soaring resource prices have led to inflation, and in turn interest rate hikes to curb inflation have brought about dramatic yen depreciation, creating a situation where multiple variables have compounded each other. In addition, real GDP growth was negative in 2020 during the COVID-19 pandemic, but made a huge rebound in 2021. Furthermore, developed, emerging, and developing countries maintained a decent level of growth in 2022 as well. In April, just before ITOCHU announced the FYE 2024 Management Plan, the International Monetary Fund (IMF) predicted that economic recovery will be polarized in 2023 among developed countries, especially with the United States and the Eurozone expected to experience significant deceleration, while emerging and developing countries, especially China and India, are expected to see solid economic recoveries. (▶ Page 74 PEST Analysis (Macroenvironmental Factors through 2030))

The outlook for the Japanese economy is expected to gradually strengthen in 2023. In addition to full-scale “revenge spending” expected to follow the lifting of COVID-19 pandemic-related restrictions, there will also be positive effects from robust inbound travel demand, the continuation of monetary easing measures that will support corporate funding and capital expenditure expansion, rising wages, and the inflation control measures of the government.

Amid this business environment, the initial plan for FYE 2024 is based on conservative assumptions for the gradual normalization of resource prices and foreign exchange rates. The plan also incorporates profit growth in the non-resource sector, which is our Company’s strength, and a certain level of returns from growth investments. Our initial plan for core profit, which demonstrates our Company’s ability to generate profits, is ¥800.0 billion, and if achieved will be a record high for the third consecutive year. Consolidated net profit in the initial plan is ¥780.0 billion, net of extraordinary gains of ¥30.0 billion, a loss buffer of ¥50.0 billion, which is more conservative than usual, and core profit. Amid the gradual stabilization of resource prices, the plan is suitable for a profit level of ¥800.0 billion and it indicates that ITOCHU’s stable earnings generating capability is highly resilient to economic volatility. (▶ Page 48 FYE 2024 Management Plan)

Our business performance in FYE 2024 is already off to a very strong start given that earnings from our businesses are weighted more heavily toward the second half of the fiscal year. As CSO, I will work to firmly achieve our initial plan and continuously enhance our corporate value from both the financial and non-financial aspects by implementing preemptive strategies and countermeasures, while at the same time continuing to pay close attention to rapid changes in our business environment.

What are the points you consider important when making growth investments, and what are the FYE 2024 forecasts for CITIC’s performance?

For growth investments, we endeavor to uphold “the Four Lessons for Investments,” and expect CITIC’s performance to be stable.

We position FYE 2024 as a year in which we will shift the focus of our growth investments with an eye to the next stage of growth beyond the ¥800.0 billion profit level. ITOCHU’s exposure to the non-resource sector is around 80% to 90%, and we expect to maintain this level of exposure going forward. Stakeholders, especially investors, sometimes point out that we should place more focus on the non-resource sector, which is our strength. However, we believe that amid the aforementioned business environment, a decentralized portfolio leads to lower risk for our overall business. Furthermore, we gain valuable insights from directly conducting the resource sector business which we can leverage in our non-resource sector business. I believe our “comprehensive strength” as a general trading company is a factor contributing to our “conglomerate premium.”

When making growth investments, ITOCHU endeavors to uphold “the Four Lessons for Investments” that I explained in detail in my interview last year. These lessons are designed to prevent, 1. Overpaying for investments; 2. Investments aimed at seizing profit from investees; 3. Overdependence on and overconfidence in partners; and 4. Lack of hands-on management. In particular, we always take essential steps to prevent overpaying for acquisitions by conducting careful due diligence and analyses of business plans before investing, securing effective exit strategies, and confirming the management structure of target companies. After making the investment, we make sure to avoid taking a blanket approach to all investments, and manage each investment differently. It is very important that those responsible for the investments visit the front lines of these investments themselves and quickly implement measures to resolve issues in accordance with the real time conditions observed on these front lines. (▶ Page 60 The Four Lessons for Investments)

CITIC’s performance remained extremely robust, setting record highs for the eighth consecutive year after ITOCHU invested in it in 2015. CITIC and its subsidiary CITIC Bank have made a solid start in FYE 2024 as well. We need to pay attention to factors such as U.S.–China trade friction, the Taiwan situation, downward pressure on the Chinese economy, financial instability originating from the United States, and low share price valuations. However, the Chinese Government maintains its policy of strengthening state-owned enterprises, and we have determined that CITIC’s business foundation is robust. Therefore, we expect it to maintain solid performance in FYE 2024 that is similar to that seen in FYE 2023.

Please explain the background behind newly establishing the Group CEO Office.

We were determined to upgrade the organization in order to be able to quickly and accurately respond to changes in the business environment without being bound by existing frameworks.

The Group CEO Office, which was launched in April 2023, is directly supervised by our Chairman & CEO, and is a virtual organization headed by the CSO, myself. Also, the general managers of the Corporate Planning & Administration, Human Resources & General Affairs, and Global Risk Management divisions, as well as the manager of the CRE Department*, concurrently oversee this organization and invite the officers and employees required for each project to participate in this organization. To further strengthen our Group management, the Group CEO Office selects and trains management personnel, drafts plans to appropriately allocate assets, business expenses, and personnel within our Group, and promotes Groupwide rationalization measures. The Group CEO Office is also in charge of strengthening Group engagement through evaluations and awards. Group companies are essential for us to enhance consolidated management, but the presidents of Group companies are typically individuals who have achieved success at ITOCHU, and tend to be senior to ITOCHU’s Division Company Presidents, who in some cases used to be their bosses. Therefore, Division Company Presidents sometimes feel hesitant to reach out to the presidents of Group companies, and Group company presidents may also find it difficult to consult with former subordinates. To prevent these kinds of situations, the Group CEO Office maintains a policy to support both ITOCHU’s Division Companies and Group companies based on the Chairman & CEO’s direct instructions.

Along with this reorganization, we placed The 8th Company, which was established in July 2019, under the supervision of the Group CEO Office. Although there is no change in the role of The 8th Company, the Chairman & CEO will become more directly than ever involved with guiding and supervising Group companies, and will strengthen relationships between Group companies and resolve issues such as conflicts of interest and unequal treatment. The effective functioning of the huge supply chain is very important for the convenience store business, and I will continue to leverage our comprehensive strength as a general trading company by ensuring our Group companies extend further support to FamilyMart, and by allowing the entire Group to move faster in the same direction.

* CRE Department: A dedicated department for the Jingu Gaien District Urban Redevelopment Project relating to our Tokyo Headquarters.