

Question & Answer at IR Meeting on Financial Results for FY2022 Q3

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< Questionnaire 1 >

Regarding the actual profit movements excluding one-off profits/losses in non-mineral resources businesses, the annual forecast for the current fiscal year is expected to be around 335 billion yen. If this is assumed as a starting point for the next fiscal year, how much of earnings capability do you expect, taking into account the recovery of the domestic electricity retail business and the improvement in costs of the overseas telecommunications business, which show some certainty of profit increase in next fiscal year?

< Morooka >

In the domestic electricity retail business, a deficit of about 20 billion yen is expected in the current fiscal year due to the soaring electricity procurement prices. Since April, the time has come to renew the contract with the customer, and we are negotiating on the assumption that the customer will bear the cost. Next fiscal year, we will aim to achieve profitability. In addition, although it depends partly on the economic environment, we believe that businesses under steady business growth categories such as the domestic healthcare business, which is growing its business through roll-up mergers, and the agricultural input & service business in South America, which is expanding geographically and enhancing products and functions, will contribute to a certain extent. In addition, the company expects positive impacts including Sumitomo Precision Products Co., Ltd, which we acquired additional shares through a tender offer, and the aircraft leasing business that was acquired late last year by SMBC Aviation Capital Limited, a subsidiary of Sumitomo Mitsui Finance and Leasing Company. On the other hand, we expect the telecommunications business in Ethiopia to continue to have upfront start-up costs, although it will ease slightly for the next fiscal year.

In addition, while the structural reforms we have been carrying out for nearly two years are certainly bearing fruit, we hope to further advance the turnaround of large projects, including TBC, Ambatovy, and Fyffes, to improve profits in the next fiscal year.

< Fuse >

In the telecommunications business in Myanmar, the company posted a foreign exchange loss due to the depreciation of the local currency, in addition to higher utility costs. While it is difficult to foresee the future in terms of foreign exchange trends, we expect earnings to improve slightly once the impact subsides.

< Questionnaire 1 >

With regard to the profit excluding one-off profits/losses in the mineral resources businesses, you have revised downward by about 5 billion yen from Q2, and although we can confirm a decline of about 2 billion yen in Ambatovy, we would like you to explain the rest of the breakdown, taking into account the recent plunge in thermal coal prices.

< Takayama >

About half of the 5 billion yen, was due to Ambatovy, which factored in a decline in production because periodic entire plant shutdowns took longer than expected. In addition, the silver, zinc and lead business in Bolivia experienced a fire at the port where the project uses for shipment, causing the planned sales volume to fall. In the thermal coal business, the price in the second half of the fiscal year is expected to be higher than the assumption made in Q2, but sales volumes are expected to be lower toward the end of the fiscal year, resulting in the profit to be in a downward for the full year.

< Questionnaire 2 >

Regarding shareholder returns, we recognize that the 50 billion yen share buybacks are in line with market expectations to some extent. On the other hand, I believe that the market's interest and concern is the level of dividends for the next fiscal year, and I would like to know your thoughts on dividends for the next fiscal year.

< Morooka >

The DOE range of 3.5% to 4.5% in the current shareholder return policy is based on our intention to achieve our company's target ROE of 12% to 15%, and the company aims to enhance shareholder returns by consistently delivering profits at this level over the medium to long term. Based on current assumptions, shareholders' equity at the end of March 2023, which is the basis of the DOE target range for the next fiscal year, would be 105 yen per share for the next fiscal year at DOE 3.5% as the lower end of the range. The profit level needs to be roughly 460 billion yen, in case 115 yen per share is to be paid the same as this fiscal year. In order for us to pay this dividend level, we will improve our earnings towards the next fiscal year, starting at about 220 billion yen in the second half of the year, and the mid-400 billion yen level on a simple annualized basis, excluding one-off profits/losses. Not only improving earnings but also aiming to achieve profit growth by analyzing and implementing measures in businesses that were sluggish in the current fiscal year and bringing shareholder returns to a level that meets everyone's expectations.

< Questionnaire 2 >

In the tubular products business and the transportation & construction systems business, profits were strong in Q1, Q2 and Q3, and what is your outlook for Q4 onwards?

< Fuse >

As we will discuss the budget and business plan in the company from the end of this month, so this is just an image at the moment. Regarding the metal products business, although the steel sheets business has generally remained strong, we can see a slight decline in earnings due to the decrease in the high-profit transactions that we had enjoyed due to the high prices in the steel sheet market. On the other hand, tubular products have been performing well or strongly in both North America and international markets, and we expect this environment to continue until at least the Q1 of FY2023, but we will have to keep an eye on them from Q2 onwards.

In the transportation & construction system business, the situation is expected to differ by segment. In the automotive-related business, the sales and marketing business, which performed well in the current fiscal year, is expected to see strong demand overall, although there are continuing concerns about the limited supply of vehicles due to the shortage of semiconductors. On the other hand, in the manufacturing business, the recovery of automobile production remains uncertain, and we intend to improve earnings through

internal efforts or price revisions. Regarding the construction & mining systems business, we expect the construction market to remain flat and mineral resource prices to remain high, but we need to keep an eye on the parts where cost increases or inventory shortages continue. While domestic leasing and aircraft leasing businesses remain stable, chartering business is expected to calm down on the back of a bottoming out in the shipping market.

< Takayama >

To supplement the quantitative aspect, in terms of profit excluding one-off profits/losses, in the case of metal products, the Q4 result is expected to be 22 billion yen compared to 29 billion yen in Q3 results, it looks like about 7 billion yen will decrease. And in the case of transportation & construction systems, the forecast for Q4 is 18 billion yen, compared with Q3 results of 30 billion yen, which also appears to fall. However, in both cases, the Q3 results include a certain amount of profit that is substantially a one-off profit, and we do not expect the actual trend to fall as much as the figures I have just mentioned.

< Questionnaire 2 >

In the transportation & construction system business, it has been explained that the second half of this fiscal year is expected to be weak due to concerns about a shortage of inventory, but the business is still performing well. Based on the above responses, do you expect that the concerns about the risk materializing will ease from Q4 onwards?

< Takayama >

At this point, there is no fact that the shortage of inventory has a negative effect, but we need to monitor the situation closely.

< Questionnaire 3 >

Fyffes and TBC had weak Q3 results, what is the current situation?

< Fuse >

As for TBC, the slowdown was mainly due to softer demand for tires on the back of rapid inflation in the United States, combined with a rapid recovery in the supply chain last fall, which caused an inventory buildup larger than expected. This resulted in one-time logistics costs. Furthermore, the company came under downward pressure on sales prices due to softer demand and lower ocean freight rates. Profitability in Q3 declined due to the reduction of high-cost inventories sourced during high sea freight rates. In Q4, although sales are usually expected to decline in winter due to seasonal factors, the one-time logistics costs associated with excess inventory have been eliminated, and the company has also taken steps to reduce high-cost inventory. Even if demand softens further, the decline in profitability is expected to be limited to a certain extent and full-year results are expected to be profitable.

With regard to Fyffes, the increase in costs such as transportation and materials costs continues to have a significant impact. The company is struggling a little because there is a time lag in reflecting the effect of cost transfer in its profits, although the cost transfer to price is progressing smoothly. In addition, there is also the impact of reduced production in the melon business due to rainy weather. In terms of the annual profit forecast excluding one-off profits/losses, we expect to see price pass-through in banana and pine to cover the downside of melon's results and generally progress as planned. On the other hand, the company expects

to post a one-off loss in its Russian business in Q4, which it was not factored into our forecast announced in November, resulting in a loss at the end of the fiscal year.

< Questionnaire 3 >

With the price for gas, crude oil, and other commodities falling, there has been a decline in the performance of the trade business in mineral resources. What is the outlook for the future?

< Takayama >

In addition to trading, we also have a manufacturing business, both of which are classified as a mid- and downstream business. On the basis of the revised annual forecasts, we expect profit excluding one-off profits/losses in the mid-and downstream businesses to be slightly more than 50 billion yen in the first half and slightly more than 10 billion yen in the second half. Profit is expected to fall by about 40 billion yen from the first half to the second half. The impacts were about even, mainly in gas-related products and products other than gas in mid and downstream, and it is almost the same as assumed in Q2, including perceptions of the external environment.

In the gas business, there were considerable arbitrage opportunities in the gas trading and marketing business in US and Europe, such as high volatility in market conditions in the first half of the year., while in the second half of the year, revenue opportunities were reduced due to lower level of prices and the decline in volatility. Gas liquefaction and export business conducted in Eastern US generated high profit in the first half year while it falls in the second half year due to periodic maintenance as well as market condition as mentioned earlier. Another factor is that profit and loss can fluctuate in the first and second half of the fiscal year for accounting purpose. In commodities other than gas, this was mainly due to a decline in the commodity price over the second half in various commodities such as aluminum, needle coke, and propane gas.

With regard to the future outlook, market prices and volatility have declined compared to the first half, especially due to the warm winter in Europe, and the environment for earnings opportunities is not as strong as in the first half. On the other hand, when considering plans for the next fiscal year, we will have a thorough discussion on how to assess the external environment surrounding gas.

< Questionnaire 4 >

The announced sales of the San Cristobal, which is silver, zinc and lead business, appear to have had a small impact on the results for the current fiscal year, but what is the impact on the future?

< Takayama >

With regard to the upstream portfolio of mineral resources and energy, we have spent several years analyzing the attractiveness of the products, including future megatrends, and are now working to optimize them sequentially. Other than silver, lead and zinc produced by San Cristobal are base metals, but the main part of our strategy is to build a portfolio centered on non-ferrous metals such as copper, nickel and lithium in anticipation of demand for battery metals. The primary step is to complete the previously explained Quebrada Blanca Phase 2 project for the copper mine and to contribute to profits.

Other than that, we are working on building up quality assets for the future, but the market conditions are driving up valuations and making it more difficult to acquire deals, so we will continue to exercise our investment discipline.

< Questionnaire 4 >

In terms of investments and loans, please provide a summary of the progress against the 3-year revised plan of about 1.2 trillion yen, and an outlook on the part that will be effective or expected to be led to earnings growth in the next fiscal year and beyond.

< Morooka >

The current actual results are 580 billion, which we consider to be slightly behind the revised plan. In particular, the level of 160 billion yen against the planned 500 billion yen of new investments and loans is also behind. Various projects are in the pipeline and discussed at the Investment and Loan Committee, etc., but some projects were ultimately decided not to be invested in. Investment discipline is maintained to avoid buying at inflated prices, and the investment hurdles are particularly high in areas such as those where the competitive environment is intensifying. On the other hand, our company as a whole is switching to a growth mode, and at the front line of each business department is trying to actively engage in investments and loans to achieve growth while closely examining them. I expect to see a lot of good quality deals in the second half of the current mid-term management plan. We believe that we can capture more opportunities for investments that expand areas in our steady business growth category where our strengths are demonstrated, as we are relatively easy to evaluate investment opportunities. Such businesses can also be expected to contribute to earnings at some early stage. Examples include building up assets in the construction equipment rental business to expand the coverage area and expand the product lineup, as well as increasing the number of owned and managed aircraft in the aircraft leasing business. With the expansion of its scale through the acquisition of an aircraft leasing company by SMBC Aviation Capital, which was completed at the end of last year, SMBC Aviation Capital has become the second-largest company in the world in terms of the number of aircraft owned, managed and ordered, and with some buying power, we believe it has been an effective investment.

With regard to Sumitomo Precision Products Co., Ltd., of which we acquired the additional share through the tender offer, we believe we can expect significant growth in areas such as ICT, and we will work together with the company to achieve certain results at a relatively early stage. In addition, we believe that the time frame for revenue contribution is relatively fast for expansion in domestic and overseas real estate projects, healthcare business, and agricultural input & services business. In the telecommunications business in Ethiopia, costs are now occurring ahead, but the company expects future revenue contributions.

< Questionnaire 5 >

Please tell us about the Lifestyle business division's performance, in businesses other than Fyffes, in terms of the current situation and how you can improve it in the future.

< Fuse >

The mushroom business in Canada is underperforming. The company is struggling due to an increase in costs such as materials costs, a decline in demand for high-margin mass retailers, and a temporary shutdown of factories due to cold weather. Under its new management, the company is working to reduce costs and pass on prices, and we, as a shareholder, support structural reforms.

< Takayama >

As for the domestic supermarket business, Summit, one of the core businesses, the situation has not changed much from the situation in Q2, and the company is struggling because it has not been able to fully pass on rising costs, especially in electricity costs, to sales prices, because it is a consumer business. Looking ahead, we will work to streamline our operations, including DX, pass on sales prices to the extent possible, and strengthen sales promotion to improve the top line and reduce costs. On the other hand, SC Foods, which is not a direct-to-consumer business, has remained stable.

< Questionnaire 5 >

Regarding the shipping business, the Baltic index has dropped sharply recently, but I would like to know the types of ships owned, the current situation, and the future outlook of the ship business.

< Fuse >

The recent softening of the shipping market is becoming apparent, and while business performance and profits have fallen, they are not at a level where they will be in the red.

< Takayama >

They are mostly bulk carriers. Although a softening in the shipping market has become apparent, the chartering business has hedged somewhat and is not expected to be in the red.

< Morooka >

We are already in Q4, and considering the current forecast level, we can see a profit level in the mid-400 billion yen for the next fiscal year. We will try to show that we will grow profits while incorporating the effects of improving business performance. I understand that you may have some concerns regarding the shareholder return, but first of all, we will internally discuss the underlying profit improvement and profit growth, including measures to be taken, before explaining them at the end of the fiscal year when the results are announced.

[END]