

## Highlights of General Trading Companies' Financial Results for Fiscal Year Ended March 2023

The following are Japan Credit Rating Agency, Ltd. (JCR)'s perception of the current status and highlights for rating concerning the financial results for the fiscal year ended March 2023 (FY2022) and earnings forecasts for FY2023 of Japan's six general trading companies (collectively, the "Companies"): Mitsubishi Corporation, SUMITOMO CORPORATION, MITSUI & CO., LTD., Marubeni Corporation, ITOCHU Corporation and Sojitz Corporation.

### 1. Industry Trend

In the resource sector, prices fluctuated at different rates depending on commodities but nevertheless stayed high, by and large. For instance, the price for iron ore in FY2021 was above USD 150 per ton but fell slightly below USD 120 in FY2022, while it grew from around USD 70 per barrel to above USD 90 for crude oil and from USD 180 per ton to above USD 350 for thermal coal. The price for coking coal continued to stay at the record-high level of USD 330 to 350 into FY2022. These prices had varying impact on the Companies in monetary terms; for MITSUI, net income attributable to owners of the parent (net income) in FY2022 appear to have been affected negatively by the iron ore price in the amount of around 100 billion yen and positively by the crude oil and coking coal prices in the amount of around 65 billion yen and 24 billion yen, respectively. Resource prices are susceptible to global political and economic changes, and it is difficult to make highly accurate estimates. Market trends should thus continue to be closely monitored.

The Companies keep making aggressive new investments and are also developing new earnings sources. New investments of the Companies combined have been in the 2 trillion yen range in recent years. Because they include large-scale projects that exceed 100 billion yen on an individual basis, attention must also be paid to the diversification of investment projects. In parallel with making new investments, the Companies are also actively working on investment recovery. As such, constant asset replacement is probably a major characteristic of general trading companies. Recovery projects include not only those aimed at withdrawing from inefficient investments but also those aimed at divesting businesses, which are beginning to turn downward from their peak from the viewpoint of business life cycle, on more favorable conditions. Marubeni in FY2022 made new investments of 130.2 billion yen, while investment recoveries including the recovery of working capital associated with the divestiture of the grain business of U.S. Gavilon Agriculture Investment, Inc. amounted to as much as 404.5 billion yen.

### 2. Financial Results

Net income of the Companies combined in FY2022 came to 4,331.3 billion yen, growing 18.9% from the previous year with all but ITOCHU marking new highs. As for ITOCHU, the income declined due to the elimination of one-off profits recorded in FY2021 but, without this factor, actually hit a record high. In the resource sector, prices continued to remain high, as in FY2021, for many commodities, which helped ensure a high profit level. In the non-resource sector, the income grew favorably for the Companies alike, albeit at different rates depending on segments, which was driven by the external environment in many cases. Mitsubishi and MITSUI, which have an advantage in the resource sector over the peers, benefited remarkably from high resource prices, and both achieved a net income of over 1,000 billion yen. ITOCHU, which boasts the industry's largest profits in the non-resource sector, reported a net income of 800.5 billion yen arising mainly from the non-resource sector, down 2.4% from the previous year.

As regards the financial figures of the Companies combined as of March 31, 2023, net D/E ratio improved 0.13 points from a year before to 0.50x as net interest-bearing debt decreased by approximately 1,030 billion yen while equity capital (total equity minus non-controlling interests) grew by approximately 3,900 billion yen.

Net interest-bearing debt decreased for Mitsubishi, MITSUI, Marubeni and Sojitz but increased for SUMITOMO and ITOCHU, indicating somewhat varying trends among the Companies. Equity capital grew for all of the Companies thanks to profit accumulation and the positive impact of foreign exchange fluctuations. Looking at ITOCHU for instance, equity capital increased by 620.2 billion yen, 75.3 billion

yen of which is attributable to foreign exchange fluctuations. General trading companies have a large amount of foreign currency-denominated assets associated with overseas investments and so forth, and it must be noted that there are many cases where equity capital is affected by the valuation of such assets.

### 3. Highlights for Rating

For FY2023, prices are projected to decline for many commodities in the resource sector, while some businesses in the non-resource sector may weaken in the absence of the previous year's robust performance. Consequently, net income of the Companies combined is expected to fall 17.5% over the year to 3,575 billion yen. Although all of the Companies anticipate a lower income, it is expected that many businesses will grow steadily on the whole and thus the profit level will remain high. On a separate note, the percentages of the resource and non-resource sectors in net income vary among the Companies. On the premise of current resource prices, majority of net income is accounted for by the resource sector for Mitsubishi and MITSUI. The resource sector is susceptible to price fluctuations, and its profits are volatile. On the other hand, the non-resource sector generates profits more steadily than the resource sector, although there are some businesses in this sector that are affected by price fluctuations. Many of the Companies are thus aiming to enhance earnings in the non-resource sector, and JCR is keeping an eye on progress in the efforts to that end.

On the financial front, many of the Companies keep net D/E ratio below 1x. The Companies maintain their stance to place emphasis on the financial position, and JCR predicts that they will keep the ratio at around the current level by securing positive free cash flow.

Operating in wide-ranging business domains as general trading companies, the Companies inevitably incur a certain amount of losses every fiscal year. In particular, new investments are more prone to losses due to changes in the external environment than existing businesses. Recent examples of large losses reported were those by Marubeni in FY2019 and SUMITOMO in FY2020, both of which fell into net loss. For FY2022, there were cases where losses of several tens of billions of yen were reported, but not to the extent of drastically affecting the profit/loss situation nor finances. The Companies constantly review assets and probably have enough financial strength to absorb losses, but in any case risk management remains an important management issue.

Risk management against unexpected losses is also important for general trading companies, which operates a wide range of businesses. Many of the Companies calculate risk assets (maximum amount of losses expected under certain conditions) and manage them by balancing that amount with equity capital, etc. as a risk buffer (risk assets divided by risk buffer). As of March 31, 2023, the ratio was below 1x for three companies that disclose risk assets, namely SUMITOMO, ITOCHU and Sojitz.

Hiroyuki Chikusa, Akihisa Motonishi

(Chart 1) Consolidated Business Performance

(JPY 100 mn)

	Mitsubishi (8058)			SUMITOMO (8053)			MITSUI (8031)		
	FY2021	FY2022	FY2023F	FY2021	FY2022	FY2023F	FY2021	FY2022	FY2023F
Revenues	172,648	215,720	-	54,950	68,179	-	117,576	143,064	-
Operating Income	7,187	9,524	-	2,957	4,230	-	5,451	6,934	-
Net Income	9,375	11,807	9,200	4,637	5,652	4,800	9,147	11,306	8,800

	Marubeni (8002)			ITOCHU (8001)			Sojitz (2768)		
	FY2021	FY2022	FY2023F	FY2021	FY2022	FY2023F	FY2021	FY2022	FY2023F
Revenues	85,086	91,905	-	122,933	139,456	-	21,008	24,798	-
Operating Income	2,845	3,408	-	5,825	7,019	-	910	1,148	-
Net Income	4,243	5,430	4,200	8,203	8,005	7,800	823	1,112	950

	Total		
	FY2021	FY2022	FY2023F
Revenues	574,201	683,122	-
Operating Income	25,175	32,264	-
Net Income	36,429	43,313	35,750

Notes:

1. Operating income = Gross profit - SG&A expenses
  2. FY2023 forecasts are as announced by each of the Companies.
- Source: Prepared by JCR based on financial materials of the Companies

(Chart 2) Consolidated Financial Structure

(JPY 100 mn, times)

	Mitsubishi			SUMITOMO			MITSUI		
	FY2021	FY2022	FY2023F	FY2021	FY2022	FY2023F	FY2021	FY2022	FY2023F
Net Interest-bearing Debt	39,397	32,376	-	22,737	24,844	-	33,390	32,128	-
Equity Capital	68,802	80,710	-	31,978	37,795	-	56,052	63,678	-
Net D/E Ratio	0.57	0.40	-	0.71	0.66	-	0.60	0.50	-

	Marubeni			ITOCHU			Sojitz		
	FY2021	FY2022	FY2023F	FY2021	FY2022	FY2023F	FY2021	FY2022	FY2023F
Net Interest-bearing Debt	18,600	14,831	-	22,830	23,912	-	7,703	6,294	6,500
Equity Capital	22,422	28,777	-	41,993	48,195	-	7,280	8,377	8,700
Net D/E Ratio	0.83	0.52	-	0.54	0.50	-	1.06	0.75	0.75

	Total		
	FY2021	FY2022	FY2023F
Net Interest-bearing Debt	144,656	134,385	-
Equity Capital	228,528	267,533	-
Net D/E Ratio	0.63	0.50	-

Notes:

1. Equity capital = Total equity - Non-controlling interests
2. Net D/E ratio = Net interest-bearing debt / Equity capital
3. FY2023 forecasts are as announced by each of the Companies.

Source: Prepared by JCR based on financial materials of the Companies

<Reference>

Issuer: ITOCHU Corporation

Long-term Issuer Rating: AA+      Outlook: Stable

Issuer: Marubeni Corporation

Long-term Issuer Rating: AA-      Outlook: Stable

Issuer: Sojitz Corporation

Long-term Issuer Rating: A-      Outlook: Positive

**Japan Credit Rating Agency, Ltd.**

Jiji Press Building, 5-15-8 Ginza, Chuo-ku, Tokyo 104-0061, Japan  
Tel. +81 3 3544 7013, Fax. +81 3 3544 7026

Information herein has been obtained by JCR from the issuers and other sources believed to be accurate and reliable. However, because of the possibility of human or mechanical error as well as other factors, JCR makes no representation or warranty, express or implied, as to accuracy, results, adequacy, timeliness, completeness or merchantability, or fitness for any particular purpose, with respect to any such information, and is not responsible for any errors or omissions, or for results obtained from the use of such information. Under no circumstances will JCR be liable for any special, indirect, incidental or consequential damages of any kind caused by the use of any such information, including but not limited to, lost opportunity or lost money, whether in contract, tort, strict liability or otherwise, and whether such damages are foreseeable or unforeseeable. JCR's ratings and credit assessments are statements of JCR's current and comprehensive opinion regarding redemption possibility, etc. of financial obligations assumed by the issuers or financial products, and not statements of opinion regarding any risk other than credit risk, such as market liquidity risk or price fluctuation risk. JCR's ratings and credit assessments are statements of opinion, and not statements of fact as to credit risk decisions or recommendations regarding decisions to purchase, sell or hold any securities such as individual bonds or commercial paper. The ratings and credit assessments may be changed, suspended or withdrawn as a result of changes in or unavailability of information as well as other factors. JCR receives a rating fee paid by issuers for conducting rating services in principle. JCR retains all rights pertaining to this document, including JCR's rating data. Any reproduction, adaptation, alteration, etc. of this document, including such rating data, is prohibited, whether or not wholly or partly, without prior consent of JCR.

JCR is registered as a "Nationally Recognized Statistical Rating Organization" with the U.S. Securities and Exchange Commission with respect to the following four classes. (1) Financial institutions, brokers and dealers, (2) Insurance Companies, (3) Corporate Issuers, (4) Issuers of government securities, municipal securities and foreign government securities.

JCR publishes its press releases regarding the rating actions both in Japanese and in English on the same day. In case that it takes time to translate rating rationale, JCR may publicize the summary version, which will be replaced by the full translated version within three business days. (Regarding Structured Finance products, JCR only publicize the summary version in English.)