8001.T gideon lens

ITOCHU Corporation (8001.T) — Gideon-Lens Equity Research

Report date: 2026-09-28 **Analyst:** Codex Production ER2 **Price anchor:** JPY2,226 per XJPX:8001 ordinary share at the 2026-09-28 close **Market capitalization basis:** approximately JPY15.56 trillion on 6,990.376 million quote-basis diluted shares **Fiscal year-end:** March 31

VERDICT BLOCK

Verdict: PASS

Scorecard:

Gate	Result	Notes
Management	YELLOW	Excellent long-run stewardship; succession and the investment step-up remain unproved
Moat	YELLOW	Real asset-level advantages, but blended pricing power and 2046 durability are not established
P/E <= 15 on confident EPS at TTM + 5 calendar years	FAIL	Base EPS of JPY142.419 gives a -4.03% cushion at JPY2,226
Compounder Score	Audited 44 / 100	Reject classification
Business Quality Score	Audited 40 / 80	Strong history offset by conglomerate opacity and durability gaps
20% Return UW Score	Audited 4 / 20	Base and probability-weighted returns are negative

One-line thesis (or reason to pass): ITOCHU has an unusually strong Japanese trading-house stewardship record, but JPY2,226 prices the shares above the P/E-15 gate while the governed Base and probability-weighted return cases destroy value in both JPY and SGD.

Security return underwriting (mandatory even when the verdict is PASS):

Measure	Result	Notes
Primary valuation method	P/E	One audited method for all scenarios, weighting and net-SGD conversion
Gross local-currency Bear / Base / Bull IRR	-21.54% / -3.55% / 7.03%	Annualized JPY shareholder return over exactly five years
Probability-weighted gross local-currency IRR	-4.03%	CAGR of JPY1,812.449 probability-weighted terminal wealth; weights 25% / 55% / 20%
Return bridge	JPY2,226 to scenario terminal wealth	Statutory diluted EPS × locked exit P/E plus governed distributions; no second cash/debt adjustment

The return clock runs from 2026-06-30 to 2031-06-30, exactly 5.0 years, while the price is the 2026-09-28 completed close. The report discloses that short decision-date lag rather than changing the governed horizon. Reported TTM P/E is 17.147870x on JPY129.812039 EPS. The constrained normalized P/E is 18.469109x on JPY120.525578 EPS; it removes JPY60.107 billion of identified extraordinary items and JPY5.000 billion of temporary chemicals uplift, but is not claimed to be commodity- or FX-cycle-neutral.

Bear-case operating and return bridge

Bear case	Start (2026-06-30)	Horizon (2031-06-30)	CAGR / change	Justification
Revenue	JPY15,140.015bn	JPY15,102.934bn	-0.05%	Defensive Food offsets weaker spreads, resources and project activity
Operating margin	4.87%	2.90%	-1.97 pp	Resource and construction-material pressure overwhelms diversification

Bear case	Start (2026-06-30)	Horizon (2031-06-30)	CAGR / change	Justification
Operating earnings	JPY736.608bn	JPY438.044bn	-9.87%	Mechanical statutory roll-up of reviewed segment cases
Diluted share count	6,990.376m	6,720.585m	-0.79%	Disclosed tender and conservative future repurchases offset compensation issuance
EPS	JPY129.812 reported / JPY120.526 normalized	JPY62.967	-12.24% vs normalized	Statutory diluted EPS on the same listed-unit perimeter
Valuation denominator	JPY120.526 constrained normalized EPS	JPY62.967 statutory diluted EPS	comparable	Same security and per-share basis
Valuation	18.469x normalized P/E	8.0x P/E	-10.469x	Below the historical median but within source-bound ITOCHU history
Terminal equity value	—	JPY3,385.401bn	terminal	JPY503.736 per share × 6,720.585m shares
Share value	JPY2,226.000	JPY503.736	-25.71% gross local IRR	EPS × 8.0x; no separate net cash/debt add-on
Cumulative distributions	—	JPY158.000/share	governed schedule	Source-bound payout path, counted once
Total ending value	JPY2,226.000	JPY661.736	-21.54% gross local IRR	Terminal share value plus cumulative distributions

Base-case operating and return bridge

Base case	Start (2026-06-30)	Horizon (2031-06-30)	CAGR / change	Justification
Revenue	JPY15,140.015bn	JPY17,493.511bn	2.93%	Food, Machinery and ICT offset mature or cyclical pools
Operating margin	4.87%	4.74%	-0.13 pp	Consolidated margin stays near its five-year band
Operating earnings	JPY736.608bn	JPY829.478bn	2.40%	Reviewed segment roll-up and JPY30bn corporate cost
Diluted share count	6,990.376m	6,648.260m	-1.00%	Tender plus bounded repurchases, net of compensation issuance
EPS	JPY129.812 reported / JPY120.526 normalized	JPY142.419	3.39% vs normalized	JPY946.841bn attributable profit divided by diluted shares
Valuation denominator	JPY120.526 constrained normalized EPS	JPY142.419 statutory diluted EPS	comparable	Same security and listed-unit denominator
Valuation	18.469x normalized P/E	11.5x P/E	-6.969x	Near ITOCHU's source-bound recent five-year median
Terminal equity value	—	JPY10,888.643bn	terminal	JPY1,637.8185 per share × 6,648.260m shares
Share value	JPY2,226.000	JPY1,637.8185	-5.95% gross local IRR	EPS × 11.5x; no separate net cash/debt add-on
Cumulative distributions	—	JPY220.000/share	governed schedule	Flat-to-modestly progressive, consistent with payout capacity
Total ending value	JPY2,226.000	JPY1,857.8185	-3.55% gross local IRR	Terminal share value plus cumulative distributions

Bull-case operating and return bridge

Bull case	Start (2026-06-30)	Horizon (2031-06-30)	CAGR / change	Justification
Revenue	JPY15,140.015bn	JPY19,376.493bn	5.06%	Broad execution across consumer, digital, machinery and resource assets
Operating margin	4.87%	6.03%	+1.16 pp	Favorable mix and execution across multiple segments
Operating earnings	JPY736.608bn	JPY1,167.495bn	9.63%	Mechanical statutory roll-up; no corporate-profit plug

Bull case	Start (2026-06-30)	Horizon (2031-06-30)	CAGR / change	Justification
Diluted share count	6,990.376m	6,631.413m	-1.04%	Stronger cash generation supports larger repurchases
EPS	JPY129.812 reported / JPY120.526 normalized	JPY205.791	11.32% vs normalized	JPY1,364.684bn attributable profit divided by diluted shares
Valuation denominator	JPY120.526 constrained normalized EPS	JPY205.791 statutory diluted EPS	comparable	Same security and listed-unit denominator
Valuation	18.469x normalized P/E	14.0x P/E	-4.469x	Near live-peer medians and below ITOCHU FY2026
Terminal equity value	—	JPY19,105.592bn	terminal	JPY2,881.074 per share × 6,631.413m shares
Share value	JPY2,226.000	JPY2,881.074	5.29% gross local IRR	EPS × 14.0x; no separate net cash/debt add-on
Cumulative distributions	—	JPY245.000/share	governed schedule	Progressive path bounded by modeled earnings and cash capacity
Total ending value	JPY2,226.000	JPY3,126.074	7.03% gross local IRR	Terminal share value plus cumulative distributions

CIO actionability (separate from ER2 underwriting):

Measure	Result	Notes
Status	PASS	Research conclusion is do not advance; no trade or portfolio authority
Bear / Base / Bull net-SGD IRR	-25.65% / -6.11% / 7.54%	Same P/E method after costs, scenario FX and dividend withholding
Probability-weighted net-SGD IRR	-5.70%	CAGR of probability-weighted net SGD wealth, not an average of IRRs
10% mandate hurdle	FAIL	Base and probability-weighted cases fail
15% stretch hurdle	FAIL	Bull remains below 15%
Downside and portfolio fit	FAIL / UNAVAILABLE	Security downside fails; portfolio context was not supplied
Proposed sizing ceiling	none	Sizing is outside research authority and unsupported by portfolio data

The SGD diagnostic uses entry JPY/SGD 0.008121; Bear/Base/Bull exit rates of 0.0065/0.0073/0.0085; 0.5% entry and exit costs; and 15.315% Japanese dividend withholding. Withholding reduces cumulative dividends by JPY24.1977 / JPY33.6930 / JPY37.52175 per share and is not applied to sale proceeds. Terminal cash, gross debt, lease liabilities, minority interests and non-operating assets are unavailable by scenario. Because the selected method is P/E on statutory EPS—which already embeds interest and NCI—none is added or subtracted again.

Trade execution authorized: NO

Kill / trigger criteria:

- Valuation reconsideration requires price at or below JPY2,136.285 (15× Base EPS) and improvement in both YELLOW gates; the 20% Base-return diagnostic requires no more than JPY746.616 after Base distributions.
- Downgrade durability if consolidated Trading-income margin stays below 4.0% for two years while non-resource margins also compress.
- Re-underwrite if FamilyMart traffic/franchise economics weaken structurally, CTC backlog or margin deteriorates under AI disintermediation, or major acquisitions fail cash-return hurdles.
- Treat cumulative impairments, associate-cash shortfalls, materially higher net DER, or weaker ratings as evidence that relationship access is trapping rather than compounding capital.

Stage 0 — time anchor and refresh status

This is the first governed Production ER2 for this security; no valid prior report was selected for comparison. The latest fiscal year ended 2026-03-31, the TTM anchor ends 2026-06-30, and the operating and security-return horizon ends 2031-06-30. The 2026-09-28 price is newer than the model anchor and is disclosed rather than used to rewrite the five-year earnings cadence.

Stage 1 — disqualifier sweep

Accounting reconciliation and source provenance are GREEN. Free-cash-flow history and per-share capital return are GREEN. Balance-sheet resilience is YELLOW because the acquisition program can lift net DER toward 0.6×. Management is YELLOW for key-person succession and the untested investment step-up. Moat, pricing power and 2046 durability are YELLOW because strong CTC, FamilyMart and physical-network assets coexist with commodity, pass-through and associate-heavy economics. End-market cyclicality and China/CITIC concentration are YELLOW. AI is two-sided: it can expand infrastructure and integration work, but threatens BPO and labor-based IT delivery. Entry valuation and expected return are RED and independently force PASS.

Management and moat summary

Masahiro Okafuji's record is exceptional: profit, free cash flow, ROIC and per-share outcomes improved while ITOCHU shifted toward non-resource earnings and retired shares. Management discloses investee reviews, cost-of-capital thresholds and exit rules, and recent Q&A distinguishes reported gains from underlying profit. The gate remains YELLOW because a 76-year-old combined Chairman and CEO remains the central allocator and initial proposer of successors, without a disclosed transition timetable. The JPY1.5 trillion investment year—including aircraft leasing, Dentsu Soken and Hitachi Construction Machinery exposure—also marks a scale change whose cash returns are not yet demonstrated.

ITOCHU's moat is a portfolio of advantages, not a single franchise. CTC has certifications, engineering depth, installed systems and switching costs. FamilyMart offers dense distribution, first-party demand data and consumer access. Machinery service networks, qualified materials, logistics, concessions and partner relationships create asset-level resilience. Yet benchmark-linked resources, wholesale pass-through, competitive retail, construction bidding and associate opacity dilute pricing power. Five-year group Trading-income margin stability near 4.7% is supportive but not a full-cycle proof. The 2046 test stays YELLOW until consumer-platform economics, AI-era CTC monetization, resource replacement and post-Okafuji allocation are observable.

Synthesis and return conclusion

Base 2031 revenue is JPY17,493.511 billion, operating income JPY829.478 billion, attributable profit JPY946.841 billion and EPS JPY142.419. The Base P/E-15 hurdle needs JPY148.400, so the cushion is -4.03%. The gap is not enormous, but it cannot be closed by assuming favorable tax, buybacks or margins. Food's new perimeter and The 8th's FamilyMart transfer are separated to prevent double counting; associate/JV earnings remain below the operating line. Bear/Base/Bull probabilities are 25%/55%/20%, and weighted return is calculated from terminal wealth before annualization.

The independent red team rejected the original zero-distribution shortcut because a flat current dividend alone moved Base and weighted IRRs by more than two points. The repaired schedule is now governed in S and audited end-to-end: cumulative gross dividends are JPY158 / JPY220 / JPY245 per share. They are added once to terminal shareholder wealth, and Japanese withholding is applied only in the net-SGD layer. Even after this material repair, Base capital loss and Bear downside keep the conclusion at PASS. Exit P/Es of 8.0x, 11.5x and 14.0x were chosen before returns, anchored to ITOCHU history and live peers, and remain below the constrained current 18.469x multiple in every scenario.

Analyst flags

The model is most sensitive to investment gains, associate earnings, buyback execution and the consumer-segment perimeter. The constrained normalized current denominator removes identified items but is not a complete commodity/FX normalization. Portfolio fit and sizing are unavailable solely because portfolio context was not supplied; this does not weaken the security-return conclusion. Research authority stops here: no order, ranking, sizing, portfolio mutation, message or BUY-queue action is authorized.

Appendix A - Company Primer

ITOCHU Corporation (8001.T) — Company Primer

As of: September 28, 2026 **Fiscal year-end:** March 31 **Latest complete quarter:** Q1 FY2027, ended June 30, 2026 **Financial anchor:** TTM ended June 30, 2026 **Exact five-year horizon used elsewhere in the ER2:** June 30, 2031 **Financial units:** JPY millions unless otherwise noted

This primer is an orientation to ITOCHU rather than a forecast or investment verdict. All financial figures come from the QFR-cleared `quant_foundation.md` and the sealed `statutory_bridge.json`; the qualitative discussion is anchored in ITOCHU's current official materials. The foundation hash recorded in the gate manifest is `e5b62e669d5cc88a00632ce3004ccaf145e7f1c695d7d99afd850437cd3a26e7`. The sealed statutory-bridge hash is `97d763c7c2b858f45dec2262263e347e013c2bf636d8161d7563cb3882a16317`.

1. Business overview: a merchant, operator, and capital allocator

ITOCHU is one of Japan's *sogo shosha*, or general trading companies. That label is easy to misunderstand. The modern company is not merely a broker moving commodities from seller to buyer. It combines four activities: arranging trade, owning and financing supply-chain assets, taking minority or controlling interests in operating companies, and using its customer and partner network to create additional transactions around those investments. It operates through approximately 90 bases in about 60 countries and organizes its activities into eight Division Companies. ITOCHU's official description emphasizes domestic, import/export, and overseas trade across textiles, machinery, metals, energy, chemicals, food, general products, real estate, ICT, and finance, plus business investment in Japan and abroad ([corporate profile](https://www.itochu.co.jp/en/about/profile/index.html)).

The central commercial idea is that “trade” and “business investment” reinforce one another. A stake in an apparel brand can create sourcing, logistics, licensing, retail, and digital-commerce flows. Ownership of a convenience-store platform can create demand for food manufacturing, packaging, distribution, payments, advertising, and data services. An investment in a mine can secure product for steel customers and generate marketing income in addition to dividends or equity-accounted profit. ITOCHU describes investments as “points,” trade flows as “lines,” and the resulting connected value chains as “surfaces” ([business model](https://www.itochu.co.jp/en/ir/doc/annual_report/online2025/model.html)).

Customers therefore differ by division: manufacturers buying inputs, utilities and infrastructure users, automakers and equipment dealers, retailers and consumer brands, property buyers and tenants, corporate IT clients, borrowers and insurance customers, and end-consumers reached through controlled or affiliated businesses. Purchases are usually relationship-based rather than self-service at the parent-company level. Contracts are negotiated directly; distribution, finance, logistics, and risk-management services are often bundled. At downstream subsidiaries such as FamilyMart, apparel brands, housing businesses, or digital services, the final consumer may transact in stores or online, but ITOCHU's economic role is still broader than the customer-facing sale.

The organization mirrors this model. Since 1997, the Division Companies have been run with responsibility for their own fields as if they were independent companies, while headquarters controls capital allocation, leverage, risk limits, and major investment approvals. This is meant to preserve entrepreneurial speed at the front line without giving divisions unconstrained balance-sheet authority ([ITOCHU FAQ](https://www.itochu.co.jp/en/ir/faq/index.html)).

2. Revenue architecture and the eight reportable segments

For the year ended March 31, 2026, consolidated external revenue was JPY 14,823.1 billion. Food and Energy & Chemicals together represented 55% of revenue, but revenue is not a complete measure of economic importance: commodity pass-through, retail consolidation, equity-accounted affiliates, and investment gains create very different revenue-to-profit relationships. The appropriate operating measure in the cleared packet is ITOCHU's exact label, **Trading income**, defined as gross trading profit plus selling, general and administrative expenses plus provision for doubtful accounts.

Reportable line	FY2026 external revenue	Share of consolidated revenue	FY2026 Trading income	Trading-income margin
Textile	679,140	4.6%	28,584	4.21%
Machinery	1,500,536	10.1%	90,949	6.06%
Metals & Minerals	1,231,499	8.3%	127,577	10.36%

Reportable line	FY2026 external revenue	Share of consolidated revenue	FY2026 Trading income	Trading-income margin
Energy & Chemicals	3,026,231	20.4%	103,783	3.43%
Food	5,121,655	34.6%	114,401	2.23%
General Products & Realty	1,528,334	10.3%	76,448	5.00%
ICT & Financial Business	1,103,075	7.4%	102,474	9.29%
The 8th	512,437	3.5%	83,440	16.28%
Others, Adjustments & Eliminations	120,180	0.8%	(25,768)	n/m
Consolidated	14,823,087	100.0%	701,888	4.74%

Textile

Textile spans the chain from fibers, yarn, and fabric through garments, home furnishings, industrial materials, brand licensing, direct retail, and e-commerce. It sells to apparel companies and retailers, while controlled and affiliated brands also reach consumers. The value proposition is not just procurement: ITOCHU tries to connect consumer demand and brand positioning to product design, material sourcing, manufacturing, logistics, and retail. The division can earn trading margins, licensing fees, and operating profits from investees. Economics depend on brand relevance, sell-through, sourcing discipline, currency, and markdown control. Working capital and store leases matter, but capital intensity is lower than mining or power. Fashion mistakes and inventory obsolescence can erase an otherwise attractive gross margin.

Machinery

Machinery covers plants, transport and utility infrastructure, power generation, ships, aircraft, automobiles, construction and industrial machinery, environmental equipment, and related finance and services. Customers include governments, utilities, airlines, fleet operators, manufacturers, dealers, and infrastructure developers. The division earns fees and margins on equipment trade, equity-accounted earnings or dividends from investees, and recurring service or financing income. Project development and aircraft or power assets are capital intensive; trading and distribution businesses are less so. Returns depend on project selection, financing terms, utilization, residual values, operating availability, and partners. Long-duration contracts may create stability, but cost overruns, regulation, and technology shifts can create large downside.

Metals & Minerals

Metals & Minerals invests in resource development and trades iron ore, coal, steelmaking materials, non-ferrous metals, steel products, nuclear fuel, environmental products, and recycling services. Customers are steelmakers, industrial buyers, and manufacturers. Mining interests can produce high margins when ore prices and volumes are favorable, while trading and processing add network value with less ownership capital. The segment's economics are driven by grade, mine cost position, freight, production reliability, commodity prices, foreign exchange, royalties, and sustaining capital. Depleting resources require replacement or reinvestment, and the gap between accounting earnings and distributable cash can widen when mines need capital or when associate dividends lag earnings.

Energy & Chemicals

This division trades and invests across crude oil, petroleum products, LNG and other fuels, power and renewable energy, basic and specialty chemicals, plastics, consumer-related chemical products, and related infrastructure. Revenue is large partly because commodity value passes through the income statement; the FY2026 Trading-income margin was only 3.43%. Profit depends on trading spreads, logistics, inventory discipline, downstream distribution volumes, chemical margins, upstream prices and production, and power-asset performance. Working-capital demands can rise sharply when oil or chemical prices rise. Upstream assets add commodity sensitivity and depletion risk; chemical distribution and domestic demand can be steadier.

Food

Food reaches from agricultural and marine raw materials through processing, wholesale, logistics, and retail. Customers include food manufacturers, restaurants, wholesalers, retailers, and consumers. Its huge revenue base and low Trading-income margin reflect high product throughput, substantial pass-through costs, and thin distribution economics. The model can still be attractive if scale, inventory turns, procurement, logistics density, private-label development, and retail data improve returns on capital. FamilyMart is central to ITOCHU's downstream strategy: it supplies daily consumer touchpoints

and demand information that can be connected to manufacturing and distribution. Food safety, commodity inflation, labor, franchise economics, and price competition are important risks.

General Products & Realty

General Products & Realty includes pulp and paper, natural rubber, building products, timber, tires and automotive aftermarket products, logistics, and real-estate development, sales, leasing, and operation. Customers range from builders and industrial users to dealers, property buyers, and tenants. Trading and distribution earn spreads and service income; property projects earn development margins and rent but require land and construction capital. Returns are sensitive to housing and construction cycles, timber and rubber prices, interest rates, occupancy, project timing, and inventory. Its mixed portfolio can diversify cash generation, but also makes a single margin ratio less informative.

ICT & Financial Business

This division includes IT solutions, systems integration, internet and BPO services, mobile-device distribution and after-sales service, healthcare and medical technology, satellite and content businesses, lending, insurance, and other financial services. Corporate customers buy IT systems, managed services, cybersecurity, digital transformation, and outsourcing; consumers and small businesses appear through finance, insurance, mobile, and healthcare channels. Compared with physical commodity trade, systems integration and recurring services can earn higher margins with less inventory, although labor availability and project execution are critical. Lending and insurance introduce credit, funding, reserving, and regulatory risks. ITOCHU positions ITOCHU Techno-Solutions and its digital value chain as a vehicle for both external growth and transformation inside other divisions ([Integrated Report 2026, pp. 54–55](https://www.itochu.co.jp/en/files/ar2026E.pdf)).

The 8th

The 8th is explicitly cross-divisional. Its purpose is to use consumer platforms, especially FamilyMart, to create businesses that do not fit neatly into a single legacy industry silo. It combines physical retail touchpoints, loyalty and purchase data, advertising, marketing, finance, healthcare, and supply-chain initiatives. Its external revenue is modest relative to the group, but its FY2026 Trading-income margin was 16.28%. That ratio should not be read as a conventional retail margin: segment attribution and the allocation of FamilyMart-related profit make it structurally different from a stand-alone retailer. ITOCHU highlights 16,500 FamilyMart stores, 60 million linked customer IDs, and purchase data of roughly JPY 10 trillion annually as the platform for “Consumer Intelligence” ([Integrated Report 2026, p. 55](https://www.itochu.co.jp/en/files/ar2026E.pdf)).

Others, Adjustments & Eliminations

Others is not a ninth modeled operating segment. It contains headquarters and unallocated activities, elimination of intersegment transactions, and other corporate items. In FY2026 it contributed JPY 120.2 billion of external revenue but reduced Trading income by JPY 25.8 billion. In the sealed statutory bridge, it is classified as a corporate/unallocated adjustment, so it must remain separate from the eight segment forecasts. Below the operating line, however, this category can contain substantial parent-attributable profit from items not assigned to the eight divisions; that is why an operating loss in Others cannot be interpreted as its full economic contribution.

3. Geographic concentration and customer reach

FY2026 revenue was primarily Japanese: JPY 11,353.5 billion, or about 76.6% of consolidated revenue, was assigned to Japan by customer geography. The United States contributed JPY 936.0 billion, Singapore JPY 902.7 billion, the United Kingdom JPY 392.2 billion, Australia JPY 363.4 billion, and other geographies JPY 875.3 billion. Non-current assets were also concentrated in Japan. ITOCHU separately describes approximately 60% of group assets as domestic by actual location, with North America, East Asia, and Asia/Oceania each around 10% and Europe/CIS around 5% ([Financial Information Report 2026, p. 52](https://www.itochu.co.jp/en/ir/download/__icsFiles/afieldfile/2026/06/12/FIR2026E.pdf); [Integrated Report 2026, p. 31](https://www.itochu.co.jp/en/files/ar2026E.pdf)).

That Japan weight is both a stabilizer and a concentration. It exposes ITOCHU to Japanese consumption, wages, inflation, demographic pressure, and policy, but also reflects unusually deep partner relationships and downstream distribution. Overseas assets add commodity, infrastructure, and growth exposure. The most prominent single-country concentration is China: ITOCHU disclosed JPY 1,909.0 billion of exposure at March 31, 2026, mainly CITIC and DESCENTE China.

4. How reported earnings are built

ITOCHU's earnings architecture has several layers, and confusing them can produce a distorted view of the business.

First, external revenue measures consolidated sales but excludes the revenue of equity-accounted associates. Second, **gross trading profit** captures the spread or gross profit on consolidated activities. Third, **Trading income** deducts SG&A and credit provisions. For FY2026, the eight segments generated JPY 727.7 billion of Trading income; Others reduced this by JPY 25.8 billion, yielding statutory operating income of JPY 701.9 billion.

Operating income is not close to parent profit because ITOCHU owns many important associates and joint ventures. FY2026 equity in earnings of associates and JVs was JPY 323.5 billion. Gains on investments added JPY 175.2 billion, interest income and dividends added JPY 108.5 billion combined, while interest expense was JPY 105.6 billion. After other items, pretax income was JPY 1,199.5 billion. Tax of JPY 262.0 billion and JPY 37.2 billion attributable to non-controlling interests left JPY 900.3 billion attributable to ITOCHU.

The TTM ended June 30, 2026 shows the same structure: JPY 736.6 billion of Trading income, JPY 371.3 billion of equity-method earnings, JPY 82.8 billion of investment gains, JPY 1,194.7 billion of pretax income, and JPY 910.1 billion of parent-attributable profit. The key analytical implication is that consolidated operating margin alone understates the importance of affiliates and portfolio management. Conversely, parent profit can be boosted by disposals and valuation events that are not recurring operating economics.

5. Cash economics, balance sheet, and working capital

TTM operating cash flow was JPY 992.9 billion. Cash capital expenditure on property, plant, equipment, and intangibles was JPY 260.1 billion, leaving the cleared foundation's simple free-cash-flow measure of JPY 732.8 billion. Parent profit was JPY 910.1 billion, so free cash flow was lower than earnings. This does not automatically indicate weak conversion: a trading company carries receivables, inventory, trade finance, resource and infrastructure assets, and equity interests; associate earnings may precede dividends, and investment purchases are not included in ordinary capex.

At June 30, 2026, cash and cash equivalents were JPY 673.4 billion. Borrowings plus lease liabilities were JPY 5,244.0 billion, producing net debt after cash of JPY 4,570.6 billion. The balance sheet therefore needs to be assessed together with the liquidity and earning assets that support trade, not as though ITOCHU were an asset-light software company. At March 2026, ITOCHU noted that non-current assets were funded with equity and long-term debt and reported a fixed-assets-to-long-term-capital ratio of 92.0%. Its major long-term ratings were stable, including A2 from Moody's and A from S&P as of August 2026 ([Integrated Report 2026, p. 29](https://www.itochu.co.jp/en/files/ar2026E.pdf)).

Cash use has three competing destinations: investment, dividends, and repurchases. TTM dividends paid were JPY 294.7 billion and treasury-stock cash outflow was JPY 130.0 billion. The share count declined, with a TTM weighted-average basis of approximately 7.011 billion post-split shares. Management's standing policy is a progressive dividend and total payout ratio of at least 40%, while maintaining balance-sheet control appropriate for an A credit rating. This is a framework, not a guarantee that repurchases or the pace of dividend growth will be constant.

6. Acquisition and investment model

ITOCHU differs from a private-equity fund in three important ways. It generally seeks strategic fit with existing trade and operating capabilities; it expects to improve businesses through hands-on management; and it may hold assets indefinitely when trade, dividends, and strategic synergies remain attractive. Returns can come through a combination of investee cash flow, dividends, equity-accounted earnings, trading profit generated around the investee, and eventual sale proceeds.

Investment ideas originate in the divisions, but major projects require headquarters approval. ITOCHU says it does not impose fixed sector quotas. It evaluates both the NPV of the investee's free cash flow and the NPV of cash returns specifically to ITOCHU, including dividends and trading profits. Hurdle rates vary by roughly 70 industries and by country risk, using cost-of-equity and WACC inputs; management also references an 8% company cost of equity. Plans are feasibility-tested and stressed where needed ([Integrated Report 2026, p. 22](https://www.itochu.co.jp/en/files/ar2026E.pdf)).

The company articulates four recurring investment failures to avoid: overpaying; buying only to capture near-term investee profit; depending too heavily on a partner or customer; and entering fields where ITOCHU lacks expertise. Independent administrative teams within each Division Company report through the CFO line rather than to business promoters, creating a formal challenge function. After acquisition, headquarters monitors budget variances, ROA, operating cash flow, cash-conversion cycles, and changes in the external environment. Exit is a normal portfolio-management tool, not an admission that the original strategic thesis always failed.

Historical examples illustrate the range. ITOCHU has increased control of downstream platforms such as FamilyMart, ITOCHU Techno-Solutions, DESCENTE, and DAIKEN; it has partnered through minority or equity-method stakes such as

CITIC and Hitachi Construction Machinery; and it has sold assets such as selected resource interests, CONEXIO, Paidy, and part of PPIH. From FY2010 through FY2025, the company reported JPY 7.2 trillion of non-resource investment, JPY 1.5 trillion of resource investment, and JPY 3.2 trillion of exits ([Integrated Report 2026, p. 30](https://www.itochu.co.jp/en/files/ar2026E.pdf)). The model's strength is recycling capital into better uses; its weakness is that reported profit can conceal whether an acquisition's full cash return clears its cost of capital.

7. Resource, market, and credit exposures

ITOCHU is less resource-heavy than some general-trading-company peers, but the exposure is material. The TTM Metals & Minerals segment generated JPY 137.9 billion of Trading income and Energy & Chemicals JPY 117.4 billion, together 34.7% of the eight-segment Trading-income sum. Commodity prices affect upstream profits, inventory values, collateral, working capital, and customer credit. Mine grades, weather, freight, maintenance, sanctions, and partner behavior can matter as much as the headline spot price.

The foundation gives useful balance-sheet bounds. At March 2026, recorded commodity positions were JPY 15.4 billion long and JPY 0.5 billion short, with a disclosed 99% five-day commodity VaR of JPY 1.1 billion. These measures cover trading-position risk, not the full economic sensitivity of mines, oil interests, processing assets, or equity-accounted investees. ITOCHU manages designated commodities with value, quantity, and period-loss limits and periodically checks compliance.

Credit risk arises because trade requires receivables, loans, guarantees, and settlement exposure. Stage 3 operating receivables and contract assets were JPY 37.7 billion; Stage 3 loans were JPY 15.6 billion; and financial-guarantee contracts assessed as having substantial risk were JPY 137.3 billion. ITOCHU states that no individual counterparty creates a significant concentration, but country, industry, and correlated commodity stress can still make diversified exposures fail together. China deserves separate attention because CITIC is both a large financial exposure and a strategic partner. ITOCHU says it calculates CITIC's recoverable value quarterly and that it exceeded carrying value as of the report date ([Integrated Report 2026, p. 32](https://www.itochu.co.jp/en/files/ar2026E.pdf)).

8. Governance and control structure

ITOCHU is a Japanese company with an Audit & Supervisory Board. As of July 1, 2026, the Board comprised five inside and four outside directors; the Audit & Supervisory Board comprised two inside and three outside members. Outside officers therefore represented seven of fourteen directors and statutory auditors combined, and all-board attendance in FY2025 was reported at 99% across 19 meetings. The Governance, Nomination and Remuneration Committee is chaired by an outside director and has an outside majority. Its remit includes executive appointments and dismissals, succession, director nominations, and remuneration. The board also receives support from an Audit & Supervisory Board, Internal Audit, the Headquarters Management Committee, and specialized committees for investment, ALM, disclosure, compliance, internal control, and sustainability ([Integrated Report 2026, pp. 56–58](https://www.itochu.co.jp/en/files/ar2026E.pdf)).

The control design matters because divisions are entrepreneurial and the group contains many subsidiaries and affiliates. Investment promotion and risk checking are intentionally separated. The Board receives prior briefings on strategy and management discussions, while outside directors can request follow-up information and directly engage with investors. The annual board-effectiveness evaluation is externally supported and, for FY2025, added individual self-assessments and peer evaluation.

Executive incentives are heavily variable. Annual bonuses depend on consolidated net profit, while medium-term awards include share-price performance relative to TOPIX and performance-linked stock. This creates alignment with earnings and shareholder returns, but it also raises familiar risks: emphasis on reported net profit, share-price sensitivity, and the temptation to time gains or repurchases. Strong audit, valuation, and capital-allocation discipline are therefore more important than the incentive formula alone.

9. Competitive context

ITOCHU competes most directly with Mitsubishi Corporation, Mitsui & Co., Sumitomo Corporation, and Marubeni in capital, talent, global projects, counterparties, and investor attention. It also competes within each vertical against specialists: miners and commodity traders, infrastructure funds, consumer groups, distributors, systems integrators, real-estate developers, insurers, and financial firms. Scale and access to capital are necessary but not sufficient; many rivals can fund a mine, aircraft portfolio, or retailer.

ITOCHU's differentiation is its downstream and non-resource emphasis, particularly in Japan. Its portfolio is closer to consumers than a classic resource-led trading house, with FamilyMart, brands, food distribution, ICT, and other daily-life

businesses supplying demand signals and transaction access. Headquarters presents an approximate long-run portfolio balance of 90% non-resource and 10% resource assets, and 80% non-resource and 20% resource profit; recent profit mix was about 85% non-resource and 15% resource. This reduces direct commodity dependence but increases exposure to Japanese consumption, retail execution, and complex cross-segment coordination.

Other potential advantages are network density, partner trust, information, funding access, and talent able to structure multi-party transactions. These are cumulative rather than patented. They can deepen over decades when good capital allocation creates more customer touchpoints and successful partnerships. They can also decay quickly after overpayment, a governance failure, or a loss of trust. Conglomerate breadth offers resilience and option value, but it makes transparency and accountability harder and can justify a market discount if the company cannot show cash returns by asset.

10. Key risks

Capital allocation and acquisition risk. A trading company's largest mistakes often begin with overpayment, excessive leverage, optimistic synergies, or weak partners. Large investments can appear accretive to net profit while earning inadequate cash returns. Equity-accounted structures and partial ownership can reduce control precisely when intervention is most needed.

Commodity and asset-cycle risk. Metals, energy, chemicals, construction, shipping, aircraft, real estate, and food inputs respond to different cycles. Diversification reduces dependence on a single cycle but does not eliminate global recession, inflation, or funding shocks. Higher commodity prices can improve upstream profit while worsening working capital and customer distress elsewhere.

China and geopolitical risk. The JPY 1.9 trillion China exposure, particularly CITIC, brings policy, property, financial-system, capital-market, and governance risk. Tariffs, sanctions, export controls, shipping disruption, and economic fragmentation can alter both trade flows and the value of overseas assets.

Credit, guarantee, and liquidity risk. Receivables, loans, and guarantees are intrinsic to facilitating trade. A counterparty failure can combine with inventory losses or commodity moves. Funding is substantial, and a loss of A-category credit quality would raise costs and could limit the ability to invest when asset prices are attractive.

Consumer and operating risk. Food safety, product quality, fashion errors, cyber incidents, store economics, labor shortages, and reputational damage can hurt downstream franchises. The same consumer proximity that supplies data and opportunity creates direct exposure to service failures.

Accounting and transparency risk. Consolidated revenue, Trading income, equity-method earnings, disposal gains, and parent profit describe different perimeters. A reader who focuses on only one can miss economic leverage, recurring cash conversion, or minority claims. Complex segment attributions, including FamilyMart-related profit between Food and The 8th, require consistent treatment.

Climate and transition risk. Resource and industrial assets face carbon policy, physical disruption, remediation, and obsolescence. Transition investment can create growth, but returns depend on technology, subsidy, regulation, and customer willingness to pay. Exiting high-emission assets can reduce reported emissions without eliminating the real-world emissions.

Key-person and culture risk. ITOCHU's performance culture and “Earn, Cut, Prevent” discipline are associated with a long leadership era. Succession must preserve challenge and accountability without becoming rigid or dependent on one individual. Aggressive divisions also require strong administrative counterweights.

11. What would make this a 20-year compounder — and what would prevent it

ITOCHU has several ingredients that can support very long-duration compounding. It operates across essential value chains, has recurring access to transactions and partners, can redeploy capital between industries, and uses downstream platforms to create new revenue around existing assets. Its non-resource mix can moderate commodity dependence; its Japanese franchise and FamilyMart ecosystem can provide durable customer access; and its scale, ratings, and relationship network can let it act when smaller competitors cannot. Repurchases have reduced the share count, while the progressive-dividend framework imposes some cash discipline.

But the engine is not self-executing. A 20-year outcome requires investment returns above the cost of capital after impairments, not merely growing accounting profit. Equity-method earnings must become dividends or realizable value. Portfolio exits must reflect discipline rather than the need to conceal weak returns. Leverage must remain compatible with resilient ratings. Consumer platforms must produce genuine incremental cash flow rather than attractive narratives about

data. Most importantly, the governance system must continue to challenge charismatic or division-led investment proposals.

The counter-case is straightforward. Overpayment during an investment “gear shift,” a major China impairment, resource replacement at poor economics, deterioration in FamilyMart or other consumer assets, or weakening administrative controls could absorb years of retained earnings. Persistent reliance on disposal gains, rising net debt without matching cash flow, or widening gaps between associate earnings and dividends would signal that the merchant cycle is no longer compounding cash for common shareholders. Conglomerate breadth can then become a liability: complexity obscures underperformance, capital remains trapped, and the market applies a discount.

Accordingly, the long-run question is not whether ITOCHU can grow revenue across eight segments. It is whether the company can repeatedly convert information and relationships into high-return investments, convert accounting earnings into distributable cash, and recycle capital before assets deteriorate. The existing structure makes that possible; the same structure also creates the principal ways it can fail. That tension is the correct starting point for the segment work, management review, moat analysis, and later valuation stages.

Primary sources

- ITOCHU, [Integrated Report 2026](https://www.itochu.co.jp/en/files/ar2026E.pdf), published September 2026.
- ITOCHU, [Financial Information Report 2026](https://www.itochu.co.jp/en/ir/download/__icsFiles/afieldfile/2026/06/12/FIR2026E.pdf), June 12, 2026.
- ITOCHU, [FY2026 financial-statements library](https://www.itochu.co.jp/en/ir/financial_statements/2026/index.html).
- ITOCHU, [Our Business](https://www.itochu.co.jp/en/business/index.html) and [Corporate Profile](https://www.itochu.co.jp/en/about/profile/index.html).
- QFR-cleared local quantitative foundation and sealed statutory bridge for run `pulse-cio-20260928T200149+0800`.

Appendix M - Management Assessment

ITOCHU — Management Assessment

Ticker: 8001.T **Run ID:** `pulse-cio-20260928T200149+0800` **Evidence date:** 28 September 2026 **Authority:** false
Management gate: YELLOW

Bottom line

ITOCHU has one of the strongest realized stewardship records among the Japanese *sogo shosha*. Under Masahiro Okafuji, attributable profit rose from ¥240.4 billion in the year ended March 2015 to ¥900.3 billion in the year ended March 2026; the company's own total-shareholder-return series shows 1,991.3% from March 2010 to March 2026. In the sealed five-year package, free cash flow rose from ¥644.0 billion to ¥871.8 billion, calculated ROIC stayed above 11%, average shares fell 5.2%, and the business absorbed commodity and operating setbacks while shifting profit toward non-resource activities. That is real per-share value creation, not a presentation exercise.

The gate does not clear PASS because the next decade is not yet underwritten. Okafuji is 76, has been the top executive since 2010, combines chairman and CEO, has served 22 years on the board, and is the person who formally proposes CEO candidates. ITOCHU has no CEO term or retirement-age rule. The independent directors explicitly acknowledge that the market assigns an "Okafuji premium," while the latest board evaluation says the company still needs to clarify succession planning. At the same time, the company is moving from historically cautious bolt-on investment to a ¥1.5 trillion growth-investment year that includes an approximately US$1.946 billion ACG aircraft-leasing stake, the proposed ¥215.2 billion Dentsu Soken tender, and a 33.4% Hitachi Construction Machinery position. These investments may be sensible, but they are not yet a demonstrated post-Okafuji capital-allocation record.

1. Who is running the company

ITOCHU deliberately separates strategy from execution but not chairmanship from executive authority.

- **Masahiro Okafuji, Chairman & CEO.** He joined in 1974, led the Textile Company, became President & CEO in April 2010, and became Chairman & CEO in April 2018. The formal design makes him responsible for group strategy, major relationships, and the top management framework. His longevity means he owns the consumer/non-resource pivot, "Earn, Cut, Prevent," the CITIC/CP alliance, the drive into FamilyMart/CTC/DESCENTE, and the current "gear shift." His [official biography](https://www.itochu.co.jp/en/about/officer/okafuji.html) makes the tenure unambiguous.
- **Keita Ishii, President & COO, CSO, and head of the Group CEO Office.** He joined in 1983, built his career in chemicals, Thailand/Indochina, and Energy & Chemicals, became President & COO in April 2021, added CSO in April 2025, and the CEO Office in April 2026. He is the most visible internal successor and owns execution of Okafuji's strategy, but is not yet the autonomous CEO. See [Ishii's current role and career](https://www.itochu.co.jp/en/about/officer/ishii.html).
- **Hiroyuki Naka, CFO & CXO.** He joined in 1987 and moved through textiles, corporate planning, food distribution, CP/CITIC development, digital/IT, strategy, and transformation. He became CFO only in April 2026, so he has useful breadth but a short record in the seat. His first-quarter answers show command of investment returns and cash allocation; the proof will be whether he restrains leverage and exits weak assets during the investment step-up. See [Naka's biography](https://www.itochu.co.jp/en/about/officer/naka.html).
- **Operating-company leadership.** Hiroyuki Tsubai is Executive Vice President, Deputy COO, and Machinery President (in that segment seat since 2019); the other presidents are Hideto Takeuchi (Textile), Masaya Tanaka (Metals & Minerals), Tsutomu Miyazaki (Energy & Chemicals), Shuichi Miyamoto (Food), Masatoshi Maki (General Products & Realty), Shunsuke Noda (ICT & Financial Business), and Kensuke Hosomi (The 8th). The breadth of this bench is a positive, although only Tsubai sits on the board.

The board has nine directors, of whom four (44%) are independent outside directors; two of the nine are women. There are also five Audit & Supervisory Board members, three outside, creating seven independent outside officers in total. Masatoshi Kawana, an outside director, chairs the seven-member Governance, Nomination and Remuneration Committee, on which outside directors hold four seats. There is no disclosed lead independent director. Independent director tenure is eight, seven, five, and three years. All attended 19 of 19 FY2026 board meetings. This is credible Japanese monitoring architecture, but not

an independent-majority board, and the combined chairman/CEO remains structurally dominant. The current composition is documented in the [June 2026 governance report](https://www.itochu.co.jp/en/files/CG_e.pdf) and [Integrated Report 2026](https://www.itochu.co.jp/en/files/ar2026E.pdf).

2. Tenure and track record

Okafuji's record is long enough to judge. Three decisions matter most.

First, the shift toward consumer and non-resource earnings. The five-year sealed package shows Metals & Minerals plus Energy & Chemicals trading income falling from ¥355.3 billion in FY2023 to ¥231.4 billion in FY2026, while Food, ICT & Financial Business, and The 8th increased. The strategy did not eliminate resource exposure; it built counterweights. FamilyMart, CTC, and DESCENTE became platforms that ITOCHU could influence directly. In Q1 FY2027, CTC grew operating and net profit more than 20% for a fourth consecutive first quarter, orders rose more than 50%, and backlog approached ¥600 billion. DESCENTE added ¥4.3 billion of year-on-year profit. These results support the hands-on-management claim.

Second, disciplined balance-sheet and per-share management. Over FY2022–FY2026, repurchases were ¥60.0 billion, ¥60.2 billion, ¥100.1 billion, ¥153.9 billion, and ¥170.3 billion; dividends rose from ¥135.4 billion to ¥282.7 billion. Average shares fell from 7,418.5 million to 7,033.5 million while free cash flow rose 35%. The current authorization is at least ¥300 billion; the company actually tendered 82.736 million shares for ¥150.0 billion on 2 September 2026, leaving roughly ¥150 billion for market purchases. Buybacks are annual rather than purely countercyclical, but their size has varied with cash flow and the current tender was explicitly designed to absorb unwinding strategic holders without destabilizing the market. That is more price- and circumstance-aware than a mechanical fixed-percentage program.

Third, willingness to buy, improve, and exit. The CP-group asset replacement produced roughly ¥170 billion of cash proceeds and approximately ¥120 billion of cumulative profit while ITOCHU retained CITIC, CTEI, and HYLIFE cooperation. CIECO Azer was sold after production had passed its peak, generating a ¥34 billion gain. Conversely, Metsä Fibre was deconsolidated after continuing losses and a plant explosion, and management openly discussed the delayed coking-coal turnaround. The process has learning mechanisms: annual investee reviews, industry/country hurdle rates, investee and ITOCHU cash-return NPVs, an 8% cost-of-equity reference, and formal exit triggers for three-year losses, returns below plan, or negative economic added value.

The record is not spotless. FY2025 core profit was ¥770 billion versus an earlier ¥820 billion framework; the company still met the ¥880.3 billion reported result because extraordinary gains were about ¥110 billion. Management admitted a ¥50 billion adverse swing in Q4 core profit versus internal plan, offset by a favorable swing in extraordinary items. Dole, two coking-coal projects, Metsä Fibre/IFL, and North American construction materials all required repair. Management did eventually name the misses and act, but the experience shows why reported-profit "commitment" is not interchangeable with repeatable core earnings.

3. Capital allocation behavior

The sealed package controls the historical record. Five-year capital expenditure rose from ¥157.1 billion to ¥260.1 billion; free cash flow remained positive and reached ¥871.8 billion in FY2026. FY2026 dividends plus repurchases were about ¥453.0 billion, roughly 50% of attributable profit and 52% of free cash flow. Calculated ROIC ranged from 11.2% to 12.7%. Management's official non-resource disclosure states that ¥2.28 trillion invested in FY2016–FY2024 produced ¥220 billion of FY2026 profit contribution, approximately 10% ROI and above an 8% reference cost of capital. The [2026 integrated report](https://www.itochu.co.jp/en/files/ar2026E.pdf) also commits to a progressive dividend, a long-run total payout ratio of at least 40%, and roughly 15% ROE; FY2027 initial payout is 64%.

The current investment wave is the key forward test. Recent and conditional actions include a 33.4% Hitachi Construction Machinery stake, privatization of ITOCHU-SHOKUHIN, investment in Sun Frontier Fudousan, 50% of SKY-U/ACG for about US$1.946 billion, and 38.22% of Dentsu Soken for ¥215.2 billion. Management says Dentsu Soken should exceed 8% return and that ACG should first improve earnings from the existing aircraft base before synergies. That phrasing is appropriately sober. However, a portfolio-level 8% policy permits individual consumer investments below 8%, ACG is leveraged and long-cycle, and the FY2027 plan envisages about ¥1.3 trillion of net investment cash flow against roughly ¥1.0 trillion of core operating cash flow. Net DER was 0.46 times in March 2026, 0.51 times in June, and may approach 0.6 times. The pace is not balance-sheet reckless, but it is a genuine regime change.

4. Compensation alignment

Alignment is high in stock exposure but incomplete in economic KPIs. For FY2026 inside directors, variable compensation was expected to be roughly 90% for Okafuji, Ishii, and Tsubai and 78% for Naka; stock remuneration represented 54%, 50%, 44%, and 28%, respectively. Okafuji's FY2026 remuneration was ¥1.984 billion, of which ¥191 million was fixed. His disclosed share interest was 3,548,206 shares, including 1,797,390 shares to be delivered after retirement; Ishii held 1,813,226 including 1,076,793 deferred shares. Thus actual already-held Okafuji shares were about 1.75 million, and Ishii's about 0.74 million—real ownership, though modest relative to corporate value.

The weakness is that annual bonuses and both BIP/RS stock grants are driven mainly by consolidated net profit and position, while the two-year share-price bonus uses absolute share-price appreciation and relative performance versus TOPIX. There is no explicit ROIC, free-cash-flow, impairment, or multi-year TSR threshold. Segment executives receive organization profit achievement/growth adjustments, which can reward accounting profit before the full cash return is known. The governance and integrated reports contain no disclosed clawback or executive hedging prohibition; absence from these primary disclosures is a governance gap, not proof that no internal rule exists. Outside directors receive fixed pay only, preserving independence.

Dilution is not a concern. The RS ceiling is 1.5 million shares per year and BIP points average no more than 2.25 million per year, together about 0.05% of roughly 7.0 billion shares—dwarfed by repurchases. Statutory diluted EPS is shown as not applicable. The issue is KPI design, not chronic stock issuance.

5. Disclosure quality, candor, and guidance discipline

I reviewed eight fresh official Q&A sets: Q2, Q3, and annual FY2025; Q1, Q2, Q3, and annual FY2026; and Q1 FY2027. These are summaries rather than verbatim transcripts, which limits tone analysis, but they preserve questions and attributed answers.

Question handling is above average. Management quantified tariff risk, resource/FX sensitivity, coking-coal losses, acquisition returns, delayed investment contributions, CITIC valuation, and segment underperformance. In the latest [Q1 FY2027 Q&A](https://www.itochu.co.jp/en/ir/financial_statements/2027/__icsFiles/afieldfile/2026/08/05/27_1st_03_e_2.pdf), Naka refused to annualize ¥250 billion of quarterly core profit, separated roughly ¥20 billion of resource/FX/Middle East benefit from sustainable drivers, identified North American construction materials as the main concern, and acknowledged some projects can earn below 8% even though the portfolio must earn around 8%. That is candid, useful disclosure.

Guidance credibility is strong at the reported-profit level but only moderate at the core/composition level. ITOCHU met ¥880 billion and then ¥900 billion reported commitments, but extraordinary gains repeatedly bridged core shortfalls. During FY2026, core guidance moved from a broad growth framework to ¥800–820 billion and then approximately ¥800 billion as coking-coal and IFL recoveries lagged. Management did not hide the revision; it explained the bridge by name and amount. Investors should therefore underwrite the reported commitment as a floor supported by portfolio actions, not as proof that every operating thesis is on plan.

Explicit "conservative" framing appeared in four of the eight Q&A sets, especially around recession buffers, segment forecasts, and FX. Uncertainty or caution language appeared in others. This is not empty hedging because the answers usually supplied amounts and direction. The one recurring soft spot is the claim that forecasts are "conservative" while weak segments can be offset elsewhere; this conglomerate-level framing can postpone recognition that a specific investment is failing.

6. Strategic coherence

The strategy is coherent: apply a market-in approach, move downstream toward consumer needs, use "Earn, Cut, Prevent" to improve existing holdings, grow across all eight companies rather than declare a single core, and recycle assets that fail cash-return tests. Okafuji's current message is explicit: "No growth without investments," paired with "earn, cut, prevent." The investment process supports the words with bottom-up origination, independent CFO-line risk review, board review of large cases, annual monitoring, and exit criteria. The capital pattern—consumer platforms, data/IT, convenience retail, machinery partnerships, and selective resource reinforcement—fits the strategy.

The strategic risk is that "broad-based growth" can become a license for conglomerate sprawl. The latest ¥1.5 trillion plan is partly motivated by management's concern that cautious investments lacked market "excitement." That admission is valuable but troubling: market-relative ambition must not weaken price discipline. The upgrade test is cash return, not announced deal size.

7. Governance flags and minority protection

ITOCHU has one class of ordinary shares and no controlling shareholder or dual-class structure. The June 2026 register shows dispersed trust-bank ownership; National Indemnity/Berkshire had separately reported 8.53% on the pre-split basis. There is no disclosed material conflicted director transaction, restatement, enforcement action, or material internal-control weakness. The Audit & Supervisory Board reported no material deficiencies in FY2026.

Japanese governance caveats remain material. Cross-shareholdings are permitted for business relationships and strategic significance. Holdings are reviewed annually and generally put on sale policy after two cumulative years without economic added value or when strategic purpose weakens, but issuer disclosure does not provide a simple aggregate scorecard of every strategic holding's cash return. Minority protections for listed affiliates rely on investee boards and transaction-review procedures; ITOCHU's own governance report describes specific safeguards at Tokyo Century, BELLSYSTEM24, SKY Perfect JSAT, and others. That is better than silence, but listed-parent/affiliate conflicts cannot be assumed away.

CITIC is the largest governance and valuation concentration. ITOCHU and CP each own 50% of CTB, which owns 20% of CITIC Limited, so ITOCHU has roughly 10% look-through economics. At March 2026 ITOCHU's CTB equity and shareholder loan totaled about ¥731.4 billion. Half of the underlying CITIC stake's quoted value was roughly ¥701.5 billion, below that funding basis, while CITIC traded near 0.4 times book. No impairment was recorded because estimated recoverable value exceeded carrying value, but the auditor again treated CITIC valuation as a key audit matter because assumptions about Chinese financial regulation, growth, and cash flows are subjective. China exposure was ¥1.909 trillion, mainly CITIC and DESCENTE China. CITIC contributes profit, tens of billions of yen of dividends, and trade/strategic access; it is not a conventional insider related-party transaction. It is nevertheless a state-linked strategic holding whose minority value realization and exitability are constrained.

Succession is the other major flag. The outside-majority nomination committee exists, but Okafuji makes the initial proposal, there is no CEO term/age rule, and the integrated report openly says the market assigns him a premium. Ishii, Tsubai, and Naka form a credible bench, yet investors do not have a timetable, emergency protocol, or independently originated candidate process. This is exactly the kind of key-person risk a 20-year underwriter must not wave through.

8. Peer comparison

Company / CEO	Capital allocation and disclosure	Relative stewardship view
ITOCHU / Masahiro Okafuji	Approximately 15% ROE, 11%–13% calculated ROIC, progressive dividend, rising buybacks, explicit 8% cost-of-equity reference and investee exit rules	Best realized 10+ year per-share record; weakest succession concentration and less explicit pay linkage to ROIC/FCF
Mitsubishi Corp. / Katsuya Nakanishi	Targets at least 12% ROE, uses underlying operating cash flow, announced ¥1 trillion buyback, and reduces pay if ROE target is missed	Stronger compensation design and cash-flow framing; less dominant long-run CEO record than ITOCHU
Mitsui / Kenichi Hori	Targets 12% ROE and returns over 50% of three-year core operating cash flow; explicitly emphasizes ROIC and risk-adjusted exposure	Clearer cash-return and portfolio disclosure; lower ROE ambition but less dependence on one executive
Marubeni / Masayuki Omoto	Targets 15% ROE and ROIC-WACC spread; moved to a Company with Nominating Committee structure in 2026	Stronger formal board independence and CEO alignment; current CEO record is only about one year

ITOCHU ranks first on realized stewardship and reported commitment delivery, but not first on governance architecture. Mitsubishi and Mitsui disclose cleaner cash/ROIC links; Marubeni now has the more independent statutory committee form. ITOCHU's premium is earned by results, but it remains partly an Okafuji premium.

9. Management gate verdict

YELLOW. The current team is investable and Okafuji is a proven allocator, but a 20-year compounder gate cannot PASS while a 76-year-old combined chairman/CEO remains the central strategist, proposes his own successor slate, and has no disclosed transition timetable. The new CFO has only been in seat since April 2026, and the step-up to ¥1.5 trillion of investment has not yet established post-deal cash returns. This is a bounded continuity and execution problem, not evidence of dishonesty or value-destructive management; FAIL would be too harsh.

Upgrade to PASS requires all three: (1) an independent-led CEO transition with a clear timetable and no indefinite de facto control by Okafuji; (2) at least two years of post-transition delivery at roughly 15% ROE, positive free cash flow after normal investment, and no material guidance-quality deterioration; and (3) disclosed cash returns on the FY2026–FY2027 acquisition cohort at or above the 8% portfolio hurdle, with ACG leverage and Dentsu Soken synergies visible rather than asserted.

Downgrade to FAIL if any of the following occurs: the successor process is delayed or captured by the incumbent; net DER moves materially above 0.7 times without contracted cash returns; the current acquisition cohort produces cumulative impairments or cash ROI below cost of capital; CITIC requires a material impairment without prior warning; or management again meets headline profit chiefly through disposal gains while core earnings and cash conversion miss by more than 10% for two reporting cycles.

Principal official sources

- [Corporate Governance Report, revised 19 June 2026](https://www.itochu.co.jp/en/files/CG_e.pdf)
- [Integrated Report 2026](https://www.itochu.co.jp/en/files/ar2026E.pdf)
- [Financial Information Report 2026](https://www.itochu.co.jp/en/ir/download/__icsFiles/afieldfile/2026/06/12/FIR2026E.pdf)
- [FY2026 annual results Q&A](https://www.itochu.co.jp/en/ir/financial_statements/2026/__icsFiles/afieldfile/2026/05/12/26_ended_03_e_1.pdf)
- [Q1 FY2027 Q&A](https://www.itochu.co.jp/en/ir/financial_statements/2027/__icsFiles/afieldfile/2026/08/05/27_1st_03_e_2.pdf)
- [ITOCHU DAY 2026 materials](https://www.itochu.co.jp/en/ir/doc/presentation/ir_day/index.html)

Appendix W - Moat and 2046 Durability

ITOCHU — Moat and 2046 Durability

Ticker: 8001.T **Assessment date:** 28 September 2026 **20-year test date:** 28 September 2046 **Evidence boundary:** DR-cleared `data_package.md`, `appendix_A_primer.md`, all eight substantive segment appendices (competitive dynamics and segment-level moat sections), and current official/peer sources. No warehouse or cached evidence was used. **Authority:** Research only; `trade_execution_authorized=false`.

1. Moat taxonomy applied

Network effects — limited, localized, and not company-wide. ITOCHU does not have a classic user-to-user network effect. Its relevant networks are commercial: thousands of suppliers and customers, Japanese corporate and government relationships, CTC's enterprise customers and technology partners, and FamilyMart's franchise/store/data ecosystem. FamilyMart is the clearest reinforcing loop. More stores and visits produce more purchase data; better data can improve assortment and advertising measurement; better products and promotions can support traffic. The current system is substantial—FamilyMart reported 16,455 Japanese stores at 31 August 2026, while ITOCHU's consumer-platform materials describe purchase-linked advertising IDs and a national in-store media network ([FamilyMart store count](https://www.family.co.jp/english/company/store.html); [The 8th growth strategy](https://www.itochu.co.jp/en/ir/financial_statements/2026/__icsFiles/afieldfile/2026/05/01/26_ended_Supplementary_e_2.pdf)). However, Seven-Eleven is larger, advertisers can use dominant digital platforms, and The 8th's continuing standalone economics are not yet proven. This is a narrow network advantage, not a self-sustaining group moat.

Switching costs — moderate in selected workflows, weak in pass-through trade. CTC's responsibility for mission-critical, multi-vendor enterprise systems creates migration, outage, security and retraining risk; managed operations deepen that lock-in. Machinery aftermarket service, certified aerospace/defense support, long-duration infrastructure operations, qualified industrial textiles, specialty chemicals, embedded food logistics and complex 3PL contracts also impose operational switching costs. Switching is much easier in benchmark commodities, basic apparel sourcing, mobile-device distribution, forwarding lanes and standardized finance or insurance. The moat therefore lives in installation, qualification and accountability, not in ITOCHU's legal entity alone.

Scale economies — real, but shared by formidable peers. Investment-grade funding, working-capital capacity, global origination, procurement volume, multi-temperature food logistics, parts/service density and the ability to absorb complex project risk lower unit costs and broaden opportunity. Scale is especially useful in Food, Machinery, Chemicals and FamilyMart. It is necessary but not sufficient: Mitsubishi, Mitsui, Marubeni, Sumitomo and specialist global traders have comparable or greater capital, while Seven-Eleven has greater convenience-store density. Scale protects access and resilience; it does not guarantee an attractive entry price for an asset or prevent auctions from bidding away returns.

Brand — valuable at asset level, uneven at the parent. ITOCHU's corporate reputation helps secure counterparties, talent and financing, but most end consumers buy FamilyMart, DESCENTE, Converse or investee products rather than “ITOCHU.” Trademark ownership and exclusive territorial licenses in Textile can be legal barriers for their contract terms. FamilyMart's habitual convenience proposition and Dole's brand matter. Yet brands require continual product relevance and marketing, and rights can expire or become expensive. Brand is a collection of renewable assets, not a blanket premium-price franchise.

Regulation, concessions and physical chokepoints — strong for specific assets. Mine rights, reserves, rail/port access, aircraft certification, infrastructure concessions, power contracts, financial licenses, food-safety systems and prime retail locations take years and capital to reproduce. They protect particular cash flows, especially in Metals, Machinery and regulated activities. The protection is often shared with operators or governments, and it can reverse through fiscal, environmental or geopolitical change. Physical scarcity is not the same as pricing power when commodity benchmarks or regulated tariffs determine revenue.

IP and proprietary data — secondary rather than foundational. The group owns some trademarks, software, know-how and proprietary customer or purchase data, but it is not broadly patent-led. CTC usually integrates vendors' infrastructure and software; its moat is trusted implementation and operations. FamilyMart transaction data can improve targeting and closed-loop measurement, subject to consent and privacy. The strongest future IP would be reusable industry software, private-label recipes, traceability systems and measured consumer insights. Current disclosure does not show that these assets yet dominate group profit.

High-trust procurement and relationships — the strongest group-level advantage. ITOCHU repeatedly assembles manufacturers, capital, governments, distributors and customers across borders. In Japan, reputation, long operating history, credit standing and willingness to take ownership make it a credible accountable counterparty. In China and Asia, ITOCHU describes its 1972 “friendly trading company” status and the CITIC/CP alliance as sources of information, personal networks, project access and credibility ([ITOCHU CITIC/CP alliance](https://www.itochu.co.jp/en/business/alliance/index.html)). That is a genuine relationship asset, but also concentrated risk: China exposure was ¥1.909 trillion at March 2026, mainly CITIC and DESCENTE China. Relationships remain valuable only while partners and governments consent; geopolitics can turn privileged access into trapped capital.

2. Per-segment moat

Textile — moderate for five to ten years; not a 20-year stand-alone moat. Brand rights, more than 200 sublicensee/distributor relationships, Asian sourcing, compliance capability and qualified industrial materials create defensible pockets. Basic apparel sourcing has low switching costs and can be internalized by large retailers or digital platforms. The FY2026 Trading-income margin was 4.21%, consistent with a few attractive niches diluted by competitive intermediation. Break signal: loss or expensive renewal of important licenses, direct sourcing by major customers, weaker sell-through, or margin below roughly 3.5% despite stable demand.

Machinery — moderate and activity-specific, plausibly ten years. The moat is strongest in installed-base parts/service, construction-equipment distribution, certified aerospace support, project origination and contracted infrastructure operations. Customers pay for uptime, financing, regulatory capability and one accountable orchestrator; pure ship chartering or asset funding is more commoditized. FY2026 margin reached 6.06% from 4.80% in FY2022, evidence of improved mix but not immunity to credit and equipment cycles. Break signal: service share or backlog weakens, project overruns rise, residual values fall, or acquisitions add assets without aftersales and cash returns.

Metals & Minerals — asset moat, commodity earnings; five-to-ten-year visibility. Low-cost reserves, mine/rail/port infrastructure and long customer relationships are expensive to replicate. ITOCHU, however, often owns minority economics and does not set iron-ore or coal benchmarks. Margin fell from 15.54% to 10.36% over FY2022–FY2026 while revenue rose, showing that relationships cannot neutralize price, grade and cost. Break signal: cost-curve slippage, reserve-life deterioration, lower operator distributions, repeated capex overruns or resource replacement at poor returns.

Energy & Chemicals — moderate network/execution moat, weak commodity pricing power. Credit, logistics, origination, Japanese/Asian customer access and qualified specialty-chemical channels are defensible. Transparent energy and basic-chemical trades are readily contestable; upstream economics belong to the asset and fiscal regime. Power contracts can stabilize revenue after commissioning, but competitive auctions may eliminate excess returns at entry. Five-to-ten-year durability depends on stable spread per unit and transition assets earning above their fully loaded cost. Break signal: chemical/downstream spread compression, impairments, delayed power projects or upstream cash fading before replacement businesses mature.

Food — narrow-to-moderate system moat, with 10–20-year potential if FamilyMart reinforces it. Procurement, food-safety controls, processing, Nippon Access/ITOCHU-SHOKUHIN logistics, Dole and FamilyMart can form a closed loop from consumer demand to sourcing and replenishment. The integration is tangible, including products coordinated from feed procurement through refrigerated delivery ([ITOCHU Food retail model](https://www.itochu.co.jp/en/business/food/field/04.html)). Yet commodity trading and wholesale are thin-margin, retailers have bargaining power and biological/logistics risk persists. The 1.42%–2.23% five-year margin band leaves little room for error. Break signal: traffic or franchise economics deteriorate, logistics costs outrun pass-through, working capital rises, or nominal revenue grows while real volume and cash returns fall.

General Products & Realty — local advantages, not one moat; five-to-ten-year durability. Distribution density, engineered-material know-how, construction credentials, land/tenant relationships, property management and automotive-aftermarket locations can be sticky. Commodity pulp, lumber and building products remain market-priced; land is competitively bid; forwarding lanes are contestable. Margin declined from 6.33% to 5.00% over five years, so breadth did not prevent adverse mix and weak North American construction-material performance. Break signal: sustained margin below 5%, unrecovered contract inflation, property impairments, poor pre-leasing or inventory/receivable expansion.

ICT & Financial Business — the clearest switching-cost moat, moderate but uneven. CTC's multi-vendor certifications, engineering talent, more than 10,000 enterprise customers and mission-critical installed systems support renewals and managed services. ITOCHU's proposed Dentsu Soken partnership adds upstream consulting and proprietary software potential, but integration and returns are unproven ([ITOCHU tender

rationale](https://www.itochu.co.jp/en/ir/news/2026/__icsFiles/afieldfile/2026/08/31/ITC20260831E_1.pdf)). Finance and insurance receive less moat credit absent through-cycle loss and renewal data; devices and BPO seats are commoditizing. The margin has held around 9% in four of five years. Break signal: project pricing or backlog weakens, managed-services mix stalls, AI reduces billable work without outcome-based pricing, engineer attrition rises or credit losses normalize above plan.

The 8th — FamilyMart platform access is real; standalone monetization remains unproved. Dense physical distribution, roughly 15 million daily visits, purchase-linked identity, FamiPay, FamiMa TV and ITOCHU supply-chain reach are difficult to recreate together. But Seven-Eleven leads the channel; a rival can copy a product, app feature or digital screen; and Q1 FY2027 continuing-segment revenue of ¥3.4 billion with a ¥0.8 billion Trading loss shows that internal FamilyMart profit allocation is not itself a moat. Durability is five-to-ten years today, potentially 20 if repeat advertiser and new-service cash economics emerge. Break signal: declining traffic/store productivity, weak active-app use, poor advertiser retention, privacy restrictions or ventures that dilute franchisee returns.

The blended moat is weaker than its best assets. FY2026 Food and Energy & Chemicals were 55% of revenue, while Metals plus Energy represented 34.7% of TTM named-segment Trading income. Much of that activity is low-margin or cyclical. CTC and FamilyMart improve durability, but they do not yet dominate consolidated economics enough to make ITOCHU a uniformly high-return franchise.

3. Margin persistence evidence

The DR-cleared package provides a directly comparable five-year window, not a full ten-year segment series. Trading-income margin is the correct operating basis used below; it excludes large equity-method earnings and investment gains, so it is evidence about operating spread persistence rather than total shareholder economics.

Trading-income margin	FY2022	FY2023	FY2024	FY2025	FY2026
Consolidated	4.74%	5.03%	5.01%	4.64%	4.74%
Textile	3.07%	3.77%	4.69%	3.97%	4.21%
Machinery	4.80%	5.15%	5.74%	5.76%	6.06%
Metals & Minerals	15.54%	15.95%	14.41%	11.71%	10.36%
Energy & Chemicals	3.49%	4.52%	3.37%	3.19%	3.43%
Food	1.73%	1.42%	2.10%	2.19%	2.23%
General Products & Realty	6.33%	6.32%	6.24%	5.46%	5.00%
ICT & Financial Business	9.09%	7.93%	9.15%	9.33%	9.29%
The 8th	9.20%	9.87%	13.02%	13.23%	16.28%

The group band of 4.64%–5.03% is meaningful evidence that diversification, cost control and portfolio mix absorb shocks. Beneath it, Machinery and ICT strengthened or held, Food improved from a low base, and resource weakness was offset elsewhere. But Metals compression and General Products decline show that the group figure can hide erosion. The 8th series reflects the old reporting perimeter and FamilyMart profit attribution; the FY2027 transfer to Food makes it unsuitable as a continuing-margin proof point. Stability supports a current moat, but five years—including a favorable commodity and inflationary environment—is not a complete 20-year cycle test.

4. AI disruption stress test

Most exposed: ICT/BPO, followed by Textile and trading information work. Generative AI can automate code, testing, contact-center interactions, product design, trend analysis, documentation, procurement matching and routine risk analysis. CTC's project labor and Bellsystem24's seat-based BPO economics are vulnerable if customers buy cloud-native agents directly. The defensible layer is architecture, cybersecurity, regulated data, system integration, change management and responsibility for production uptime. CTC is also platform-adjacent: demand for AI infrastructure, data platforms and operational integration can expand. It wins only if new outcome and managed-service revenue exceeds lost labor intensity.

Moderately exposed: Finance, The 8th and consumer businesses. AI improves underwriting, fraud detection, personalized offers, media measurement, inventory forecasting and private-label design. Foundation models with access to the same transaction data could reproduce much of the analytical workflow; the moat must therefore remain permissioned first-party data, physical distribution and trusted execution. FamilyMart's stores, cold chain and franchise network cannot be prompted into existence. Privacy breaches, biased offers or a stronger identity platform could nevertheless disintermediate ITOCHU's media layer.

More protected from direct AI substitution: Machinery, Metals, Energy, Food logistics and Realty. Mines, ports, aircraft certifications, power assets, warehouses, food-safety systems, land and service technicians are physical chokepoints. AI can lower cost and improve maintenance, routing and bidding, but does not dissolve the asset. Protection from AI is not protection from economics: transparent digital markets can compress trading spreads, better bidders can reduce project returns, and optimized competitors can push higher-cost mines or properties down the curve. Metals is the least replicable workflow; ICT/BPO is the most disintermediable.

5. The 2046 test

Specific base-case description on 28 September 2046. ITOCHU is a Japan- and Asia-centered operator, distributor and capital allocator selling convenience retail, food procurement/private label/cold-chain services, enterprise AI integration and managed operations, machinery lifecycle service and finance, logistics, infrastructure and selected low-cost materials. Japanese consumers and franchisees buy through an evolved FamilyMart network that combines local fulfillment, payments, healthcare and retail media. Large enterprises and public bodies buy secure multi-vendor AI/IT operations from CTC and its industry-software partners. Manufacturers buy qualified materials, equipment uptime, supply assurance and financing. Upstream oil and metallurgical coal are smaller; recycled materials, power/grid assets and specialty chemicals are larger; marginal commodity broking and weak fashion labels have withered. Consolidated Trading-income margin is directionally stable to modestly higher than today's roughly 4.7%, because fee, service, private-label and managed-operation profit offsets lower legacy commodity volume. The intact moat is not “being a trading company.” It is the combination of dense Japanese distribution and first-party demand data, qualified physical supply chains, mission-critical enterprise integration, relationship access and disciplined recycling of capital.

Erosion case. By 2046 FamilyMart has lost traffic and franchisee economics to Seven-Eleven, Lawson, delivery and demographic shrinkage; privacy rules and superior digital identity platforms have commoditized retail media. CTC has become a low-margin reseller after hyperscalers and AI agents captured software and BPO value. Commodity assets depleted or moved up the cost curve, while replacement mines, aircraft, power and property were bought at auction prices. CITIC/China exposure became harder to monetize under geopolitical fragmentation, and Japan's relationship model protected incumbency but delayed exits. ITOCHU still exists and earns money, but as an asset-heavy collection of cyclical holdings with lower, more volatile margin and a persistent conglomerate discount. This is a material but not base-case outcome—approximately one-third probability—because every mechanism already exists even though none yet dominates group results.

6. Competitive threat inventory

Threat	Mechanism	Segment(s) affected	Earliest observable signal	Plausibility
Digital/AI disintermediation	Hyperscalers, AI agents, direct sourcing and automated marketplaces remove labor and intermediary spread	ICT, Textile, Energy/Chemicals, Food trading, The 8th	ICT margin/backlog weakens; BPO volumes fall; direct procurement rises; advertiser renewal stalls	High
Consumer platform and Japan pressure	Seven-Eleven/Lawson, inflation, labor scarcity and demographics reduce FamilyMart traffic and franchise returns	Food, The 8th, ICT/media	Customer counts and same-store traffic fall; closures rise; franchisee support costs outgrow gross profit	High
Capital/geopolitical cycle	Overpriced acquisitions, China/CITIC impairment, commodity decline or policy change traps capital	Metals, Energy, Machinery, GPR, corporate	Impairments; associate dividends lag earnings; net DER/ratings worsen; reserve replacement costs rise	Medium-high

7. Pricing power verification

Pricing power is selective, not group-wide. The positive evidence is margin stability through inflation, Machinery's 126-basis-point five-year margin gain, ICT's roughly 9% margin, brand/trademark rights, qualified specialty products, equipment uptime economics, private label and scarce infrastructure. Certain contracts include long duration or cost pass-through, but the package does not disclose a universal escalator, minimum-commitment or customer-renewal dataset.

The negative evidence is more decisive. Metals and energy accept benchmarks; wholesalers and apparel sourcing face rebids; construction and power auctions transfer value to customers; and consumer staples are transparent. ITOCHU's FY2026 investor Q&A acknowledged that FamilyMart customer traffic had declined after price increases and framed matching procurement inflation with selling prices as margin maintenance, not excess pricing power ([FY2026 investor

Q&A](https://www.itochu.co.jp/en/ir/financial_statements/2026/__icsFiles/afieldfile/2026/05/12/26_ended_03_e_1.pdf)). No segment appendix provides broad adoption/churn evidence following explicit price rises. The correct conclusion is **weak-to-moderate blended pricing power**, with stronger asset-level pockets.

8. Moat verdict and transition signals

Moat gate: YELLOW. ITOCHU has genuine, observable protection in high-trust procurement, physical and logistics scale, selected rights/concessions, CTC switching costs and the FamilyMart consumer platform. Five-year consolidated margin stability corroborates that these assets collectively absorb shocks. It does not clear PASS because cyclically exposed/pass-through pools remain large, broad pricing power is unproved, resource and GPR margins compressed, and FamilyMart/The 8th monetization lacks standalone return disclosure.

2046 test: YELLOW. The 2046 company can be described specifically and plausibly, with named buyers, products and surviving moats. But getting there requires continuous capital allocation, privacy-safe monetization, CTC moving above commoditized AI labor, healthy FamilyMart franchise economics, reserve/asset replacement and durable China/Japan partner access. Those are unresolved durability conditions, not minor monitoring items.

Upgrade to PASS if: (1) for at least three years, non-resource core earnings convert to cash without reliance on disposal gains while consolidated Trading-income margin remains at or above 4.7%; (2) FamilyMart discloses stable/rising traffic and franchisee returns, The 8th achieves positive standalone Trading income, and retail-media profit/advertiser retention progress beyond the FY2028 ¥10 billion target; (3) CTC grows recurring managed/industry-software revenue and holds or expands margin despite AI-driven delivery productivity; and (4) new investments disclose through-cycle cash returns above the cost of capital while CITIC and other associates remit cash proportionate to earnings.

Downgrade to FAIL if: (1) consolidated Trading-income margin falls below 4.0% for two years alongside simultaneous non-resource compression; (2) FamilyMart traffic, store productivity and franchise health weaken structurally or privacy rules impair data monetization; (3) ICT margin/backlog deteriorates as hyperscalers and AI agents bypass CTC/BPO; (4) cumulative major impairments, associate-cash shortfalls or net-DER/ratings deterioration show that relationship access is trapping capital; or (5) resource replacement and transition projects consume cash without preserving reserve life and economic returns.

Appendix B1 - Food

ITOCHU Food Company — Segment Deep Dive

Ticker: 8001.T **Run ID:** `pulse-cio-20260928T200149+0800` **Forecast anchor:** TTM ended 30 June 2026 **Exact horizon:** 30 June 2031 **Reporting currency:** Japanese yen; financial tables use ¥ billion unless stated otherwise **Exact segment profit basis: Trading income Scenario probabilities:** Bear 25%; Base 55%; Bull 20% **Authority:** Analysis only; `trade_execution_authorized=false`

0. Segment boundary and taxonomy note

The Food Company has a material reporting-boundary break beginning in FY2027. ITOCHU transferred primary responsibility for FamilyMart from The 8th Company to Food: FamilyMart's assets, liabilities and profit now sit in Food, while 70% of FamilyMart's net-profit contribution is allocated to The 8th Company for management reporting. That 70% statement is disclosure-only management attribution, not an accounting adjustment. Because Food already consolidates FamilyMart, the attributed amount must never be added below-line or again through The 8th. ITOCHU reclassified the prior-year Q1 comparison and 31 March 2026 assets, but it did not publish a fully reclassified five-year Food revenue and **Trading income** series. Consequently, FY2022-FY2026 history below describes the then-current historical Food perimeter, while Q1 FY2027 describes the new perimeter. [data_package §P0, perimeter paragraph and bullets; §10, item 3]

1. What this segment actually is

ITOCHU Food is not a single branded-food manufacturer. It is a chain of activities running from agricultural inputs and food resources through processing, wholesale distribution, logistics, retail and consumer-data feedback. The disclosed segment description is "production and distribution to retail in all areas of food." Within that perimeter, the current organization has three divisions: Provisions, Fresh Food, and Food Products Marketing & Distribution. ITOCHU's current business description divides the economic system into four practical layers: food resources, product processing, midstream distribution, and retail. That architecture matters more than a conventional product list because the same group can procure an ingredient, finance or process it, move it through a wholesaler, and ultimately sell it through FamilyMart.

At the upstream end, the company sources wheat, raw sugar, corn, soybeans, rice, vegetable oils and other staples. The customer is generally another processor, food manufacturer, distributor or retailer rather than the final consumer. Pricing is linked to commodity markets, foreign exchange, freight, quality differentials and contract timing. Revenue can therefore be large while the gross spread is narrow. The relevant competitive advantage is not ownership of the commodity itself; it is procurement scale, access to origin, risk management, trade finance, quality assurance and the ability to match supply to downstream demand.

The processing layer includes investees and subsidiaries such as Dole, Prima Meat Packers, Fuji Oil and Welneo Sugar. ITOCHU's live Food Company page describes Dole as part of its production and processing platform, and its current subsidiary list describes Dole International Holdings as a wholly owned subsidiary covering the Asian fresh-produce business and worldwide packaged foods. Dole is therefore inside the Food operating boundary, not a stand-alone reportable segment. The Dole economics combine branded and unbranded fresh produce, farming and sourcing exposure, processing, packaging, shipping, cold-chain handling and brand-supported consumer products. Weather, crop disease, freight and agricultural input costs can overwhelm pricing in a weak year, so brand recognition alone does not make this a high-margin consumer-staples model. [ITOCHU Food Company](https://www.itochu.co.jp/en/business/food/index.html); [ITOCHU Food subsidiaries and associates](https://www.itochu.co.jp/en/about/partner/food/index.html)

The midstream layer includes wholesalers such as ITOCHU-SHOKUHIN and Nippon Access. This is a scale-and-service business: customers pay, explicitly or implicitly, for product availability, assortment, warehousing, delivery frequency, inventory pooling, promotional execution and data. Wholesale revenue is naturally high relative to profit because the distributor records product throughput but retains only a spread after procurement, labor, warehousing, transport, spoilage and credit costs. ITOCHU's announced privatization of ITOCHU-SHOKUHIN is strategically relevant to this layer, but the data package provides no transaction-level Food **Trading income** uplift, synergy schedule or purchase-price allocation. The forecast therefore gives no automatic synergy credit.

Retail now centers on FamilyMart inside Food. The current official subsidiary inventory identifies FamilyMart as a 94.7%-owned subsidiary operating convenience stores through a franchise system [ITOCHU Financial Information Report 2026, p.29, data-package source `itochu_fir2026`](https://www.itochu.co.jp/en/files/FIR2026E.pdf). Economically, the retail

layer includes franchise fees and store support, directly operated stores, ready-to-eat foods, private-label products, logistics, advertising and digital services. The important boundary is accounting, not only branding: consolidated segment revenue does not equal FamilyMart system-wide sales. The disclosed 70% management attribution to The 8th is informational only; it creates no separate below-line amount and no second The 8th profit contribution in the model.

The go-to-market model is thus mixed. Commodity and ingredient flows use negotiated business-to-business contracts. Manufacturing uses branded products, retailer relationships and private-label supply. Wholesale uses dense customer and logistics networks. FamilyMart uses franchised and company-operated stores plus digital engagement. The theoretical benefit is a demand loop: retail data and customer preferences inform assortment and product development, while procurement and distribution lower cost and increase availability. The risk is that internal links can merely move margin between group companies without creating incremental external economics. A credible moat must show lower system cost, better sell-through, higher gross profit or faster innovation, not simply more related-party transactions.

2. Current economics

Food was ITOCHU's largest reported external-revenue segment in FY2026, with ¥5,121.655 billion, 34.6% of consolidated revenue. It generated ¥114.401 billion of **Trading income**, or a historical-perimeter margin of 2.23%. Revenue rose 2.12% from FY2025, while **Trading income** rose 4.24%; the roughly 5-basis-point margin improvement was modest but directionally positive. [data_package §3, External revenue table row Food; §3, Trading income table row Food]

The sealed TTM **Trading income** amount is ¥115.926 billion. It is retained exactly and separately, but there is no valid same-perimeter TTM revenue denominator in the controlling package, so this appendix calculates no TTM Food margin. The former cross-perimeter revenue build is invalid and is not used. [data_package §P0, perimeter bullets; §2, TTM bridge row Food]

Q1 FY2027 is the first disclosed new-perimeter operating point: revenue was ¥1,419.395 billion and **Trading income** was approximately ¥58.0 billion, a mechanical quarterly margin of about 4.1%. The comparable reclassified Q1 revenue was ¥1,416.769 billion, so revenue grew only about 0.2%; the controlling package does not provide the exact prior-Q1 **Trading income** component as a stand-alone row. The quarter indicates that FamilyMart's transfer can materially alter Food's apparent profitability, but one quarter cannot establish a sustainable annual margin. Seasonality, intra-group allocations, store economics and one-offs are not sufficiently disclosed in the package to annualize the roughly 4.1% margin. [data_package §P0a, control 3; §7, row Food]

For forward revenue scale only, the model uses an explicitly labeled Q1 FY2027 times four new-perimeter proxy of ¥5,677.580 billion, calculated as ¥1,419.395 billion multiplied by four. This is an analyst proxy, not reported TTM revenue and not company guidance. It is not paired with the sealed ¥115.926 billion TTM **Trading income**, and it creates no implied starting margin.

The current economics are deliberately presented in two bases:

Basis	Revenue	Trading income	Mechanical margin	Analytical use
FY2026 historical perimeter	5,121.655	114.401	2.23%	Five-year history; not new-perimeter run rate
Sealed TTM amount	Not available on a valid perimeter	115.926	Not calculated	Profit amount retained separately; no revenue pairing
Q1 FY2027 new perimeter	1,419.395	approximately 58.0	approximately 4.1%	Directional taxonomy marker; not annualized
Q1 FY2027 x4 proxy	5,677.580	Not forecast at anchor	Not calculated	Revenue-scale proxy only; not reported TTM

Food's mix is not disclosed in a universal revenue matrix. No verified revenue split exists for food resources, manufacturing, Dole, wholesale, FamilyMart or other retail activities. The model therefore uses one disclosed-total revenue line rather than constructing false precision. Dole and FamilyMart remain explicit operating drivers and risk centers, but they are not assigned invented revenue weights. [data_package §3, Product and geographic inventory; §10, item 1]

Capital intensity also differs within the segment. Commodity trading needs working capital and credit capacity more than fixed assets. Manufacturing, agricultural production and cold-chain logistics need plant, farms or contracted supply, warehouses, packaging equipment and maintenance spending. Wholesale requires warehouses, transport systems and inventory. Convenience retail requires store refurbishment, refrigeration, point-of-sale technology and franchise support. The data package does not allocate the group's FY2026 ¥260.083 billion of capital expenditure or maintenance versus growth spending

to Food. [DATA GAP: Food Company maintenance capex, growth capex, depreciation, lease additions and invested capital are not separately disclosed in data_package.md.]

3. Unit economics

3.1 Revenue-to-profit mechanics

The exact profit basis is **Trading income**, which must not be relabeled operating income. At ITOCHU, it is the additive segment metric carried into the sealed statutory bridge. For Food, **Trading income** reflects the gross spread earned across trading, processing, distribution and retail after the associated selling, general and administrative expenses and doubtful-account provisions. It excludes the later FamilyMart net-profit allocation to The 8th and excludes corporate/unallocated adjustments that the synthesis agent will model once.

The first unit-economic driver is price pass-through. In resource and wholesale activities, a rise in grain, oil, sugar, meat, packaging or freight costs can raise nominal revenue without increasing unit profit. If contracts reprice quickly, the yen gross spread may be preserved and reported margin can fall mechanically because the denominator inflates. If repricing lags, both yen profit and margin fall. Japan's official 2025 food CPI rose 6.8%, far above the 3.2% all-items rate, while real household food consumption fell 0.8% even though nominal food spending rose 5.9%. That combination is a warning: the system can pass through price in nominal terms, but volume and mix can weaken as consumers trade down. [Statistics Bureau of Japan 2025 CPI](https://www.stat.go.jp/english/data/cpi/158c.htm); [Japan Ministry of Agriculture 2025 food consumption](https://www.maff.go.jp/j/wpaper/w_maff/r7/r7_h/trend/part1/chap5/c5_5_00.html)

The second driver is mix. Processing and branded products generally offer more gross profit per yen of sales than bulk commodity distribution, but they also carry marketing, manufacturing and agricultural risks. Ready-to-eat food, private label, digital advertising and convenience services can lift FamilyMart economics if customer traffic and franchise health remain sound. Conversely, tobacco, low-value commodity flows or price-led wholesale growth can add revenue with little incremental profit. Because the package provides no subsegment revenue or gross-profit mix, the forecast expresses mix through the segment **Trading income** margin rather than unsupported product weights.

The third driver is logistics productivity. Route density, warehouse automation, forecasting accuracy, shrink and spoilage determine the midstream spread. Food distribution is unusually sensitive to labor availability, fuel, refrigeration, delivery frequency and short shelf lives. A distributor can grow sales while losing profit if service requirements increase faster than fees. The ITOCHU system may have an advantage where FamilyMart demand improves truck utilization or where shared data reduces waste, but no Food-specific fulfillment-cost series is disclosed.

The fourth driver is franchise and store economics. A franchisor can earn relatively attractive recurring fees and purchasing economics, but weak franchisee profitability eventually returns through store closures, incentive payments, remodel support or lower investment. FamilyMart's inclusion raises the potential quality of the segment mix, yet the new taxonomy also obscures trend analysis. The relevant measures would be same-store sales, customer count, average ticket, gross profit per store, franchisee return, closures, remodel returns, ready-to-eat mix and digital monetization. None is quantified in the controlling package. [DATA GAP: FamilyMart same-store sales, traffic, ticket, store count, store-level gross margin, franchisee economics and digital contribution are not present in data_package.md.]

The fifth driver is agricultural and manufacturing yield. Dole's fruit system faces weather, crop disease, farm productivity, harvest timing, ocean freight, cold-chain losses and local labor. Fresh Del Monte is not economically identical to ITOCHU's Dole asset, but its 2025 banana gross margin fell to 4.8% from 5.9% as production, procurement, weather, disease and distribution costs rose despite higher selling prices. That peer evidence shows why fresh-fruit pricing power can be real but incomplete. A 110-basis-point gross-margin move at a produce competitor is large compared with Food's disclosed segment margin. [Fresh Del Monte 2025 annual report](https://freshdelmonte.com/wp-content/uploads/2026/06/2025-Annual-Report.pdf)

3.2 Reinvestment, working capital and cash conversion

Food's accounting margin is thin, so small execution errors matter. Working capital can consume cash when commodity prices rise because the same physical inventory requires more yen, customers take longer to pay, or safety stock increases. Seasonal buying, agricultural cycles and port disruption can create temporary inventory spikes. At the other end, bargaining power over suppliers or rapid retail cash collection can offset these needs. The group reported higher official net interest-bearing debt at 30 June 2026 than at 31 March 2026, partly reflecting investment and working-capital timing, but there

is no Food-specific bridge. [DATA GAP: Food inventory, receivables, payables, cash conversion cycle, bad-debt charge and working-capital cash flow are not separately disclosed in data_package.md.]

The model does not convert **Trading income** directly into free cash flow. It treats margin expansion as lower quality if accompanied by a persistent working-capital build. A bull case requires evidence that higher-value mix and FamilyMart integration increase cash earnings without disproportionate inventory, store-support or acquisition needs. A bear case includes both margin compression and weaker conversion, because inflation and disruption often hit profit and working capital simultaneously.

3.3 Impairment exposure

The segment owns or invests in physical and intangible assets across agriculture, manufacturing, distribution and retail. Dole can face farm, plant, brand and goodwill impairment if normalized crop economics or demand disappoint. Food manufacturers can face plant underutilization and acquisition-premium write-downs. Wholesalers can suffer customer-credit losses or obsolete inventory. FamilyMart can face store, lease-related or digital-investment impairments if site economics weaken. FMP reports ¥1,228.428 billion of group intangible assets and no separate goodwill line, but the data package warns that this classification is not evidence of no goodwill. There is no Food allocation. [DATA GAP: Food goodwill, brands, right-of-use assets, impairment history and valuation headroom are not separately disclosed in data_package.md.]

4. Competitive dynamics

Food competes in several markets with different rules. In resource procurement and trading, Mitsubishi Corporation, Mitsui, Marubeni, Sumitomo and specialized commodity houses compete on origin access, balance sheet, logistics and customer relationships. These activities rarely support durable pricing power by themselves because customers can compare global commodity prices. Advantage comes from reliability, bundled services and capital rather than proprietary product.

In Japanese food wholesale, scale, retailer connectivity, assortment and logistics density matter. Mitsubishi Shokuhin, Kato Sangyo and other national and regional wholesalers compete for largely similar manufacturer and retailer flows. Switching is operationally costly but possible. Customer concentration can transfer bargaining power to large retailers; manufacturers may also seek direct relationships. ITOCHU's potential edge is that Nippon Access and ITOCHU-SHOKUHIN connect to a broader sourcing and FamilyMart ecosystem, yet internal captive volume is not automatically high-return external share.

In convenience stores, FamilyMart competes most directly with Seven-Eleven Japan and Lawson. Industry growth is mature and increasingly depends on ticket, prepared-food mix, productivity and services rather than large net store additions. Japan Franchise Association data show the industry's 2025 all-store sales reached roughly ¥12.06 trillion, up 2.2%, while same-store sales rose 1.9%; secondary reporting of the association's data indicates same-store traffic declined and ticket growth carried sales. The important inference is not that FamilyMart will match the industry automatically, but that inflation/pass-through and premium product mix are doing more work than customer growth. [Japan Franchise Association statistics archive](https://www.jfa-fc.or.jp/particle/320.html); [JFA-based 2025 industry summary](https://www.nipponsoft.co.jp/blog/analysis/chain-conveniencestore2026/)

Seven & i provides a useful scale benchmark. Its FY2025 domestic convenience-store operations reported ¥914.6 billion of revenue and ¥222.5 billion of operating income, with ¥114.5 billion of capital expenditure. Those numbers use a competitor's accounting and cannot be mapped directly to ITOCHU Food **Trading income**, but they demonstrate that Japanese convenience retail remains both earnings-rich and reinvestment-intensive. Seven-Eleven's merchandising, private label, store network and data capabilities set a high competitive bar. [Seven & i FY2025 segment information](https://www.7andi.com/en/ir/file/library/co/pdf/2026_all_b_en.pdf)

In fresh produce and packaged fruit, Dole competes with Fresh Del Monte, Chiquita and regional growers/processors. Brand, category management, ripening capacity, farm access and retailer relationships help, yet banana and pineapple supply remains exposed to weather, disease, geopolitics and shipping. Fresh Del Monte's 2025 figures show total fresh and value-added gross margin above its banana margin, supporting the case for value-added mix, but they also show that price increases may fail to fully recover production and distribution cost.

In processed foods, ITOCHU's investees compete with specialized manufacturers such as Ajinomoto, Nisshin Seifun, Meiji and many private-label suppliers. Brand strength and process technology can support pricing, but the Food Company owns a portfolio rather than one dominant global packaged-food platform. The strategic question is whether ITOCHU can combine demand data, procurement and distribution to improve these investees faster than a passive owner could.

No current, source-compatible market-share series is disclosed for ITOCHU Food's total addressable market, Dole's relevant categories, Nippon Access, ITOCHU-SHOKUHIN or FamilyMart in the controlling package. Comparing segment revenue with industry system sales would be invalid because of franchise and principal-versus-agent accounting. `[DATA GAP: Source-compatible current market shares for Food's wholesale, manufacturing, Dole and FamilyMart activities are not disclosed in data_package.md.]`

5. Moat at the segment level

The segment has a plausible **narrow-to-moderate system moat**, but not enough evidence for a broad high-return moat. The strongest asset is the network: procurement relationships, food-safety controls, processing investees, wholesalers, logistics and FamilyMart create more touchpoints than a stand-alone trader or manufacturer. Dense physical distribution and retailer integration are hard to reproduce quickly. FamilyMart can provide a recurring demand signal and test bed for products. Dole supplies a globally recognized consumer brand plus production and processing know-how. ITOCHU's current Food page also describes FOODATA, a food-marketing analysis system, which could make demand data useful beyond FamilyMart.

The network can reinforce itself if retail data improve forecasting, better forecasting reduces waste, lower waste allows sharper pricing, and attractive pricing or products increase store traffic. It can also support product innovation: ITOCHU's retail description gives the example of fresh eggs whose feed, rearing, processing and delivery are coordinated through the Food group. This is genuine integration, not merely portfolio adjacency. [ITOCHU Food retail model](https://www.itochu.co.jp/en/business/food/field/04.html)

However, much of the revenue base is in structurally low-margin, replicable activity. Commodity trading has little product differentiation. Wholesale scale can be offset by powerful customers and high service costs. Convenience-store competition is intense, and consumer loyalty is often location- and assortment-dependent rather than exclusive. Fresh produce brands coexist with commodity-like pricing and biological risk. Internal transactions can create volume without proving pricing power. The historical old-perimeter **Trading income** margin of only 1.4%-2.2% underscores how little room exists for error.

The durability test over five to ten years is therefore operational. The moat strengthens if Food can hold or expand yen gross profit through input inflation, improve logistics productivity, grow high-value prepared and branded mix, sustain FamilyMart franchise health, and generate cash returns on processing assets. It weakens if nominal revenue rises but real volumes fall, working capital absorbs the gain, cost pass-through lags, or impairment charges reveal overpayment. The model's Base case grants moderate margin improvement but stops well below annualizing Q1's approximately 4.1%, because long-cycle proof is absent.

6. Historical growth rates

The only complete revenue series is the disclosed Food segment total. Product, investee and channel revenue are not separately disclosed in the data package, so this section does not back-solve Dole, wholesale or FamilyMart revenue. Every historical cell below points to the same controlling row because no lower-level row exists.

Product / sub-segment	FY2024 revenue	FY2025 revenue	FY2026 revenue	FY2024-FY2026 CAGR	Most recent YoY	Data package cite
Food Company disclosed total	4,863.000 [§3 row Food]	5,015.134 [§3 row Food]	5,121.655 [§3 row Food]	2.63% [calculated from same row]	2.12% [calculated from same row]	data_package §3, External revenue by operating segment, row Food

The longer series shows how inflation and recovery affected the segment without implying a stable product mix.

Metric	FY2022	FY2023	FY2024	FY2025	FY2026	FY2022-FY2026 CAGR
Revenue	4,293.500 [§3 row Food]	4,626.300 [§3 row Food]	4,863.000 [§3 row Food]	5,015.134 [§3 row Food]	5,121.655 [§3 row Food]	4.51%
Trading income	74.221 [§3 row Food]	65.900 [§3 row Food]	102.200 [§3 row Food]	109.753 [§3 row Food]	114.401 [§3 row Food]	11.42%
Trading-income margin	1.73%	1.42%	2.10%	2.19%	2.23%	n/a

Arithmetic checks pass. FY2025 revenue of ¥5,015.134 billion multiplied by 1.02124 equals approximately ¥5,121.655 billion. FY2024 revenue of ¥4,863.000 billion compounded for two years at 2.63% equals approximately ¥5,121.655 billion. No product dollars were back-solved, so no hidden allocation is present.

The old-perimeter five-year history shows three useful facts. First, nominal revenue CAGR of 4.51% exceeded recent growth because FY2022-FY2023 contained substantial price inflation. Second, **Trading income** recovered faster than revenue after FY2023, lifting margin by about 50 basis points through FY2026 despite a weaker FY2023 trough. Third, the FY2027

FamilyMart transfer invalidates a simple extrapolation of either trend. The forecast uses the Q1 FY2027 times four new-perimeter revenue proxy, while sealed TTM **Trading income** remains separate; historical margin progression is context rather than a statistically continuous base.

`[DATA GAP: The data package contains no five-year revenue or Trading income series for Dole, food manufacturing, wholesale distribution, FamilyMart or any other Food subsegment.]`

7. Management guidance from the data package

Management has not supplied a Food revenue or **Trading income** forecast to the 30 June 2031 horizon. The relevant verified anchors are limited:

- **FY2027 segment parent-profit plan:** Food is planned at ¥115.5 billion of parent profit. This is not **Trading income**, so it cannot be inserted into the segment-profit forecast or used to infer a margin. It is a directional check that management expects Food to remain a material contributor. [data_package §3a, paragraph following Last four reported quarters]
- **Q1 operating signal:** "FamilyMart transferred in; old-perimeter margins are not comparable." This package language is the controlling modeling instruction. It prevents a false margin trend and is why the forecast does not mechanically annualize Q1. [data_package §7, row Food]
- **Organic-growth framing:** CFO Tsuyoshi Naka said, "We also feel that our organic growth is gaining clear momentum." This statement is company-wide, not Food-specific. The model demands Food evidence in revenue, mix and **Trading income** before treating it as a segment fact. [data_package §7, paragraph after segment table]
- **Group forecast boundary:** Management stated, "Our company-wide forecast remains unchanged at ¥950.0 billion." This is reported parent profit, not Food revenue or **Trading income**. The unchanged group total also hides segment revisions and a lower Others assumption. [data_package §7, final paragraph]
- **Operating discipline:** Management's principles are "Earn, Cut, Prevent." For Food, the test is pricing and mix, logistics and overhead productivity, and prevention of food-safety, credit and impairment losses. The slogan receives no numerical credit without cash evidence. [data_package §7, final paragraph]

`[DATA GAP: No Food-specific revenue, Trading income, margin, capex, cash-flow, FamilyMart KPI or Dole guidance through 30 June 2031 is disclosed in data_package.md.]`

8. Forward growth assumptions

Because the package discloses only total Food revenue, the forecast line is the disclosed segment total. Dole, manufacturing, wholesale and FamilyMart are driver checks rather than unsupported financial rows. The revenue-scale base is the explicitly labeled Q1 FY2027 times four new-perimeter proxy of ¥5,677.580 billion described in Section 2; it is not reported TTM revenue. All CAGRs run exactly five calendar years from 30 June 2026 to 30 June 2031.

8.1 Base case growth

Product	Historical CAGR	Latest YoY	Management FY+1 guide	Base CAGR 30 Jun 2026 proxy to 30 Jun 2031	Justification
Food Company disclosed total	2.63% FY2024-FY2026	2.12% FY2026	No revenue guide	2.80%	Price/mix and FamilyMart ecosystem lift nominal growth modestly; mature Japan volumes and pass-through limits prevent a return to the 4.51% long-history CAGR.

The Base case assumes inflation normalizes from the unusually high 2025 food rate, so pricing contributes less over time. Real volumes are roughly flat to slightly positive, while higher-value prepared food, private label, digital services and branded/processed mix add growth. Wholesale and resource revenue remain slow because commodity-price pass-through does not create structural volume growth. Dole is stable rather than heroic: pricing offsets normal cost inflation, and no major weather or disease loss persists. FamilyMart improves assortment and productivity, but store saturation keeps the total cadence below 3% by the last year.

8.2 Bull case growth

Product	Historical CAGR	Latest YoY	Management FY+1 guide	Bull CAGR 30 Jun 2026 proxy to 30 Jun 2031	Justification
Food Company disclosed total	2.63% FY2024-FY2026	2.12% FY2026	No revenue guide	4.10%	Strong prepared-food and private-label mix, effective pricing, Dole value-added growth and FamilyMart/data synergies move growth toward but below the 4.51% FY2022-FY2026 CAGR.

The Bull case needs more than food inflation. FamilyMart must grow ticket and gross profit without eroding customer count; internal procurement and logistics must reduce waste; FOODATA must produce better assortment or external monetization; Dole must shift toward value-added products without a supply shock; and manufacturing investees must pass through costs. The cadence decelerates from 4.5% to 3.5% as the segment becomes larger, avoiding an implausible constant high-growth assumption.

8.3 Bear case growth

Product	Historical CAGR	Latest YoY	Management FY+1 guide	Bear CAGR 30 Jun 2026 proxy to 30 Jun 2031	Justification
Food Company disclosed total	2.63% FY2024-FY2026	2.12% FY2026	No revenue guide	0.80%	Consumer trade-down, weak traffic and incomplete cost pass-through offset nominal pricing; Dole disruptions and wholesale pressure leave only slight revenue growth.

The Bear case is not deflationary collapse. Food is defensive and nominal pricing remains possible. Instead, high prices reduce real demand and customers trade down, retailer bargaining pressure rises, FamilyMart traffic weakens, and Dole or manufacturing disruptions constrain availability. Revenue still grows slightly, but growth is low-quality if inventory and receivables absorb cash. The cadence improves from 0.5% to 1.0% as the initial shock passes; it does not assume a permanent worsening every year.

8.4 Annual revenue cadence

Case	Jun-27 growth	Jun-28 growth	Jun-29 growth	Jun-30 growth	Jun-31 growth	Five-year CAGR
Bear	0.5%	0.5%	1.0%	1.0%	1.0%	0.80%
Base	3.0%	3.0%	2.75%	2.75%	2.5%	2.80%
Bull	4.5%	4.5%	4.0%	4.0%	3.5%	4.10%

The implied paths are gradual and reconstructable. They do not interpolate from ITOCHU's group parent-profit target and do not claim management guidance beyond FY2027.

9. Forward Trading income margin assumptions

The controlling profit metric is **Trading income**. The FY2026 historical-perimeter margin is 2.23%, while Q1 FY2027's new-perimeter margin is approximately 4.1%. The sealed TTM **Trading income** amount of ¥115.926 billion has no valid same-perimeter TTM revenue denominator, so no TTM margin or basis-point change is stated. The forward margins below are analyst normalization paths applied to the Q1-times-four revenue proxy, not interpolations from an invalid cross-perimeter ratio.

Case	Comparable starting margin	Jun-31 Trading-income margin	Change	Specific mechanism
Bear	Not available	2.10%	Not measurable	Cost pass-through lags, low-margin wholesale mix rises, FamilyMart traffic/franchise support weakens, and Dole/logistics costs remain elevated.
Base	Not available	2.80%	Not measurable	FamilyMart inclusion, better prepared/private-label mix, logistics productivity and normalized Dole costs lift margin, while competition limits the gain.

Case	Comparable starting margin	Jun-31 Trading-income margin	Change	Specific mechanism
Bull	Not available	3.30%	Not measurable	High-value mix, retail-data synergies, shrink reduction and supply-chain productivity persist; 3.30% remains below Q1's approximately 4.1%.

The Bull path deserves a high bar even though no valid starting basis-point comparison exists. It requires FamilyMart to change the segment's quality, not merely its reporting label. Prepared food and private label must increase yen gross profit; procurement and logistics savings must remain inside the consolidated group after eliminating internal profit; Dole must avoid repeated agricultural losses; and franchise support, labor, energy and depreciation must grow slower than gross profit. If those conditions do not appear in cash conversion and investee returns, the margin should revert toward Base.

The Bear terminal margin is above the FY2023 historical-perimeter low but well below the first new-perimeter quarterly marker. This reflects Food's defensive demand and FamilyMart's potentially better economics, balanced against pass-through lag and working-capital pressure. A severe food-safety event, prolonged crop disease or large impairment could push reported results below this path, but those tail events are better treated as explicit downside overlays rather than embedded forever in the normalized terminal margin.

The Base terminal margin of 2.80% is intentionally below the new-perimeter Q1 point. It recognizes that one quarter may contain seasonality and that the TTM bridge mixes taxonomies. It also avoids assigning Dole or FamilyMart peer margins directly to ITOCHU Food, because segment consolidation, internal trade and accounting differ.

Annual Trading income margin cadence

Case	Jun-27	Jun-28	Jun-29	Jun-30	Jun-31
Bear	2.15%	2.10%	2.05%	2.05%	2.10%
Base	2.40%	2.50%	2.60%	2.70%	2.80%
Bull	2.55%	2.75%	2.95%	3.15%	3.30%

No corporate, unallocated or statutory-bridge adjustment is embedded in these margins. The FamilyMart net-profit allocation to The 8th is likewise absent because it is below the segment's **Trading income** line.

10. Segment rollup

The rollup compounds the ¥5,677.580 billion Q1-times-four new-perimeter revenue proxy by each annual growth rate and applies the same-year **Trading income** margin. The sealed ¥115.926 billion TTM **Trading income** amount remains a separate historical fact and is not divided by this proxy. Since no verified product split exists, the disclosed-total line is both the product table total and segment total; reconciliation residual is zero.

Bear rollup

Period	Revenue	YoY growth	Trading-income margin	Trading income
Jun-26 Q1x4 proxy	5,677.580	n/a	Not calculated	Not paired with sealed TTM profit
Jun-27	5,705.968	0.5%	2.15%	122.678
Jun-28	5,734.498	0.5%	2.10%	120.424
Jun-29	5,791.843	1.0%	2.05%	118.733
Jun-30	5,849.761	1.0%	2.05%	119.920
Jun-31	5,908.259	1.0%	2.10%	124.073

Bear **Trading income** falls before stabilizing. This is the economic signature of incomplete pass-through: nominal revenue creeps higher but distribution, labor, agricultural and retail-support costs absorb the gain. The case would be too mild if a major impairment or food-safety event becomes probable; such an event requires a re-underwrite rather than a cosmetic margin tweak.

Base rollup

Period	Revenue	YoY growth	Trading-income margin	Trading income
Jun-26 Q1x4 proxy	5,677.580	n/a	Not calculated	Not paired with sealed TTM profit
Jun-27	5,847.907	3.0%	2.40%	140.350
Jun-28	6,023.345	3.0%	2.50%	150.584
Jun-29	6,188.987	2.75%	2.60%	160.914
Jun-30	6,359.184	2.75%	2.70%	171.698
Jun-31	6,518.163	2.5%	2.80%	182.509

Base **Trading income** rises faster than revenue across the explicit forecast years because the case includes margin normalization and mix improvement. No CAGR is measured from sealed TTM **Trading income**, because its missing same-perimeter revenue denominator prevents a valid starting margin. This is not costless operating leverage: capex, leases, working capital and cash acquisition needs remain outside the segment metric and must be tested in consolidated cash flow.

Bull rollup

Period	Revenue	YoY growth	Trading-income margin	Trading income
Jun-26 Q1x4 proxy	5,677.580	n/a	Not calculated	Not paired with sealed TTM profit
Jun-27	5,933.071	4.5%	2.55%	151.293
Jun-28	6,200.059	4.5%	2.75%	170.502
Jun-29	6,448.062	4.0%	2.95%	190.218
Jun-30	6,705.984	4.0%	3.15%	211.239
Jun-31	6,940.694	3.5%	3.30%	229.043

Bull **Trading income** grows rapidly across the explicit forecast years. The case is demanding because it requires both faster revenue and sustained high-value mix. It should not receive higher probability merely because Q1 new-perimeter margin was approximately 4.1%; sustained annual evidence and cash conversion are necessary.

Probability-weighted terminal diagnostic

Measure	Bear 25%	Base 55%	Bull 20%	Probability-weighted
Jun-31 revenue	5,908.259	6,518.163	6,940.694	6,450.193
Jun-31 Trading income	124.073	182.509	229.043	177.207
Jun-31 Trading-income margin	2.10%	2.80%	3.30%	2.75% implied

The probability-weighted margin is the weighted profit divided by weighted revenue, not the arithmetic average of margins. Full-precision weighting gives revenue of ¥6,450.193233627 billion and **Trading income** of ¥177.206651303 billion, which render to ¥6,450.193 billion and ¥177.207 billion; the implied margin is 2.747307637%, rendered as 2.75%. The probabilities are underwriting priors, not historical frequencies. Bear captures failed pass-through and weaker traffic; Bull captures successful integration and mix; Base is the residual central path.

11. Key risks and wildcards

Inflation and pass-through — Bear, Base

The near-term risk is not simply higher food prices. It is the timing difference between input inflation and customer repricing. Grain, edible oil, sugar, protein, packaging, electricity, fuel and labor can move at different speeds. Wholesale and retailer contracts may delay recovery. Strong nominal revenue can conceal weaker unit economics. Base assumes measured pass-through with modest volume pressure; Bear assumes repeated lags and customer trade-down.

Consumer traffic and mix — Bear, Bull

Japan's convenience-store industry is mature. Ticket growth can support sales, but falling traffic eventually limits prepared-food turns, impulse purchases and franchisee returns. Bull requires FamilyMart to protect traffic while raising gross profit through ready-to-eat foods, private label, services and digital engagement. Bear assumes ticket increases fail to offset

traffic and mix deterioration.

FamilyMart taxonomy and double counting — All cases

FamilyMart's assets, liabilities and profit are in Food, while 70% of net-profit contribution is attributed to The 8th for management-reporting disclosure. This is not a separate accounting amount. Because Food already consolidates FamilyMart, the 70% attribution must never be added below-line, inserted through The 8th, or otherwise counted a second time. The historical margin series must not be spliced across FY2026 and FY2027 without restatement.

Dole weather, disease and logistics — Bear, Bull

Banana and pineapple economics depend on crop yield, disease, storms, port availability, ocean freight, cold chain and currency. Bull assumes diversified sourcing and value-added products offset normal volatility. Bear assumes adverse weather or disease raises procurement and distribution costs faster than pricing. The comparator evidence from Fresh Del Monte shows that even a branded operator can lose over 100 basis points of banana gross margin in one year.

Food safety and product quality — Bear

A contamination, labeling or traceability failure can trigger recall cost, lost sales, franchisee disruption and reputational damage across multiple layers of the integrated chain. Vertical integration may improve traceability, but it also connects risks. A serious event could invalidate normalized margins and require direct liability and impairment estimates.

Working capital and credit — Bear, Base

Inflation raises the yen value of inventory and receivables. Agricultural seasonality and safety stock can lengthen cash cycles. Retailers and manufacturers can delay payment under stress, while wholesalers still must pay suppliers and fund logistics. The package provides no Food cash-conversion series, so margin improvement without a working-capital bridge is lower-quality evidence.

Impairment and acquisition discipline — Bear

Dole, manufacturing assets, wholesale networks, brands, leases and stores can be impaired if returns fall below carrying value. The ITOCHU-SHOKUHIN privatization may improve integration but can also raise capital at risk. No synergy or PPA credit is in the forecast. A large impairment is not part of normalized terminal **Trading income**, but it is a cash-and-book-value warning and may reveal that reported operating gains were purchased too expensively.

Competition and bargaining power — Bear, Base

Seven-Eleven Japan and Lawson compete on convenience, prepared food, loyalty, delivery and store productivity. Large retailers pressure wholesalers; global traders compete for origins; food manufacturers and private-label suppliers compete on price and innovation. Base assumes ITOCHU's network earns modest benefit; Bear assumes customers or suppliers capture it.

Labor, logistics and automation — Bear, Bull

Japan's labor scarcity raises store, warehouse and delivery costs. Automation, route optimization and data-driven ordering can offset them, but require capital and execution. Bull assumes measurable productivity and lower waste. Bear assumes technology spend adds depreciation and support cost before benefits arrive.

FX and cross-border exposure — All cases

Food imports, Dole production, freight and overseas packaged foods create transaction and translation exposure. A weaker yen can raise import costs and nominal revenue but hurt margin if pass-through lags. A stronger yen can reduce translated overseas earnings. The model embeds these effects in revenue and margin rather than adding a separate unsupported sensitivity.

Regulation and franchise health — Bear, Base

Labor rules, food-price policy, packaging requirements, franchise practices and food-waste standards can alter cost. Government efforts toward reasonable food-price formation may support pass-through, but political sensitivity can constrain retailer pricing. FamilyMart's long-term value depends on franchisee economics; pushing costs downstream is not a sustainable margin strategy.

Data and synergy upside — Bull

FOODATA and FamilyMart can provide a closed demand-feedback loop. If data improve product selection, pricing, promotion, forecasting and waste, the group may earn both higher sales and margin. This is the central Bull wildcard. It remains unproven because the package discloses no revenue, retention, customer, productivity or ROI series for the platform.

Summary

Case	Segment TTM+5y Revenue	Exact profit metric	Segment TTM+5y Profit Margin	Segment TTM+5y Profit	Probability
Bear	¥5,908.259bn	Trading income	2.10%	¥124.073bn	25%
Base	¥6,518.163bn	Trading income	2.80%	¥182.509bn	55%
Bull	¥6,940.694bn	Trading income	3.30%	¥229.043bn	20%

The investment-relevant conclusion is not that Food is automatically a high-margin compounder after the FamilyMart transfer. It is that the new perimeter gives ITOCHU a more integrated consumer-to-origin system with a credible path to better mix and logistics productivity, while simultaneously making the historical margin series less usable. Base underwriting allows moderate revenue growth and margin improvement; Bull requires verified FamilyMart/data synergies and stable Dole/manufacturing execution; Bear captures weak pass-through, traffic, agricultural disruption and cash absorption. Until ITOCHU provides a fully reclassified history and Food-specific cash and capital data, the segment should be valued with explicit uncertainty rather than a point estimate built from Q1 annualization.

Appendix B2 - Energy and Chemicals

ITOCHU Energy & Chemicals Company — Segment Deep Dive

Ticker: 8001.T **Run ID:** `pulse-cio-20260928T200149+0800` **Historical source of truth:** `data_package.md` and QFR-sealed `statutory_bridge.json` **Exact segment profit basis:** `Trading income` **Model anchor:** TTM ended 30 June 2026 **Exact horizon:** 30 June 2031 **Scenario probabilities:** Bear 25%; Base 55%; Bull 20% **Units:** JPY billion unless stated otherwise **Trade execution authorized:** false

This appendix forecasts one reportable segment on the issuer's exact `Trading income` basis. It does not allocate Others, Adjustments & Eliminations, investment gains, property or intangible gains and losses, interest, dividends, equity-method earnings, tax, or non-controlling interests into the segment. Those bridge lines remain for the combined-earnings stage.

0. Segment boundary and taxonomy note

The segment boundary is **not stable across the model anchor**. Beginning in FY2027, ITOCHU integrated the former Power & Environmental Solution Division into Energy & Chemicals. The current organization therefore comprises an Energy & Power Solutions Division and a Chemicals Division, whereas the package's FY2022–FY2026 five-year revenue and `Trading income` history reflects the then-current historical perimeter. The Q1 FY2027 figures are on the new perimeter. ITOCHU says the current Energy & Power Solutions Division spans upstream oil and gas, energy trading and downstream distribution, renewable fuels, hydrogen, power trading, renewable generation and storage; the Chemicals Division spans basic and specialty chemicals, plastics, electronic materials, pharmaceuticals, functional foods, battery materials and environmental products ([current segment description](https://www.itochu.co.jp/en/business/chemical/index.html)).

This model respects the boundary in three ways. First, it reproduces historical totals exactly and never presents invented restated product history. Second, it creates a clearly labeled analytical `Power & environmental` driver from the TTM date rather than backfilling it into FY2022–FY2026. Third, the TTM revenue anchor is an analyst proxy because the data package does not provide the reclassified prior-year Q1 Energy & Chemicals revenue needed for an exact statutory TTM revenue calculation. The proxy can understate or overstate the new-perimeter run rate because it combines three old-perimeter quarters with one new-perimeter quarter and imposes a seasonality-neutral 75% FY2026 estimate. `Trading income`, by contrast, is exact and sealed at JPY117.366 billion for the TTM ended 30 June 2026. The Power & environmental driver is carved out of this one Energy & Chemicals segment total; it is not added on top of the segment, and no revenue or `Trading income` is imported from another segment appendix.

1. What this segment actually is

Energy & Chemicals is a portfolio of trading franchises, controlled operating companies, upstream interests and project investments rather than a vertically integrated producer with one product and one margin. Its customer proposition is access, logistics, risk absorption and reliable supply across several linked value chains.

Upstream oil and gas. ITOCHU participates in exploration, development and production and describes interests in Russia, Iraq, Qatar and Oman. The value proposition is access to resource cash flows and physical supply, but the economic exposure is shaped by ownership accounting, production-sharing terms, dividends, reserve quality, lifting cost, sanctions, tax and currency. The package shows an FY2027 oil and gas production plan of about 12 thousand barrels of oil equivalent per day versus 28 thousand in FY2026, a discontinuity associated with portfolio change rather than an organic collapse in every remaining field. This bucket is small in modeled consolidated revenue but can carry an outsized `Trading income` margin.

Downstream energy trading and distribution. The company trades crude oil, refined products, LPG, LNG, natural gas and renewable fuels from hubs including Tokyo, Singapore and London, while group companies provide wholesale, retail, logistics, mobility and power services. Revenue is often very large relative to economic profit because commodity value passes through reported sales. Unit margin, inventory discipline, working-capital funding, customer credit and logistics utilization matter more than revenue alone. ITOCHU ENEX is an important downstream platform, but the package does not disclose a clean five-year revenue or profit split for it within this segment.

Chemicals. The Chemicals Division trades and develops businesses in organic and inorganic chemicals, resins and plastics, packaging and household materials, fine chemicals, electronic and semiconductor materials, pharmaceuticals, functional foods, battery components and recycling. The division combines high-throughput, low-spread basic materials with higher-value specialty and distribution activities. ITOCHU describes its scale in organic raw materials, synthetic-fibre inputs,

sulfur derivatives and plastics and highlights ITOCHU CHEMICAL FRONTIER and ITOCHU PLASTICS as core platforms ([current chemicals description](https://www.itochu.co.jp/en/business/chemical/field/02.html)).

Power and environmental solutions. The newly integrated activity covers renewable generation, power trading, heat, corporate power-purchase solutions, storage, battery control, biomass fuels and emerging decarbonization products. These businesses have different revenue and risk shapes: a contracted power asset can have long-duration cash flow and capital intensity; power trading is spread- and risk-management-driven; energy management is service-like; storage economics depend on price spreads, capacity markets, cycling and degradation. This category therefore cannot be valued as a single high-growth technology line. The organizational transfer is economically logical—power, storage and fuels use the same market, customer and risk-management capabilities—but it reduces historical comparability.

The go-to-market model is relationship-led and global. ITOCHU can combine procurement, financing, inventory, hedging, shipping, local distribution, project development and strategic investment. Pricing varies accordingly: commodity trades earn narrow bid-ask, logistics and optionality spreads; distributors earn wholesale and retail margins; upstream assets monetize realized commodity prices net of royalties and costs; chemical platforms earn distribution and value-added margins; power assets earn contracted or merchant energy and capacity revenue; newer environmental businesses may initially earn development fees or negative start-up economics.

2. Current economics

Source-controlled anchors

The FY2026 and TTM `Trading income` figures below are copied from the data package and sealed bridge. The exact FY2026 revenue is also from the package. The TTM revenue proxy is a model construction, not an issuer-reported or statutory TTM revenue value: 75% of FY2026 segment revenue plus Q1 FY2027 segment revenue, or `0.75 × 3,026.231 + 873.5 = 3,143.173`. This seasonality-neutral expedient preserves only package-sourced inputs but mixes three old-perimeter quarters with one new-perimeter quarter; it can understate or overstate the new-perimeter run rate.

Anchor	Revenue	Trading income	Trading-income margin	Status and source
FY2026 ended Mar-26	3,026.231	103.783	3.43%	Reported; data_package §3 revenue row Energy & Chemicals and §3 Trading income row Energy & Chemicals
Q1 FY2027 ended Jun-26	873.5	42.4	4.85%	Reported new perimeter; data_package §7 row Energy & Chemicals
TTM ended Jun-26	3,143.173	117.366	3.73%	Revenue is analyst proxy; Trading income exact from data_package §2 TTM bridge and statutory_bridge.json TTM segment line

The package reports FY2026 Energy & Chemicals as 20.4% of consolidated revenue. FY2026 segment `Trading income` was JPY103.783 billion, 14.3% of the named-segment sum before Others, Adjustments & Eliminations. The contrast is economically sensible: pass-through commodity trading enlarges revenue, while `Trading income` captures a much smaller spread and operating contribution. Q1 FY2027 `Trading income` of JPY42.4 billion was unusually strong relative to the TTM, so mechanically annualizing it to JPY169.6 billion would be imprudent.

Management raised the FY2027 segment **parent-profit** plan by JPY36 billion to JPY111.5 billion. Parent profit is not `Trading income` and includes items elsewhere in the statutory bridge; it is therefore a directional signal, not a direct margin target. The segment's exact profit forecast in this appendix remains `Trading income`.

Analytical TTM driver allocation

ITOCHU does not disclose product revenue or product `Trading income` for these four buckets. The following allocation is an analyst decomposition solely to make the forecast reconstructable. It is not a restatement, and it must not be presented as management disclosure. The start margins are calibrated so the four modeled profits sum exactly to the sealed JPY117.366 billion TTM `Trading income`.

Analytical driver	TTM revenue proxy	Revenue weight	Calibrated Trading-income margin	Calibrated Trading income	Disclosure status
Upstream oil & gas	220.022	7%	17.17%	37.780	Analyst allocation; no issuer product revenue/profit split
Downstream energy	1,351.564	43%	2.40%	32.438	Analyst allocation; includes trading/distribution conceptually
Chemicals	1,288.701	41%	3.00%	38.661	Analyst allocation; no basic/specialty split disclosed
Power & environmental	282.886	9%	3.00%	8.487	Analyst allocation; new-perimeter driver
Segment total	3,143.173	100%	3.73%	117.366	Revenue proxy; exact sealed Trading income

The allocation is deliberately conservative about the new power perimeter: it receives 9% of proxy revenue, but there is no claim that 9% was disclosed or that power earns a software-like margin. The four analytical drivers are mutually exclusive allocations that sum to 100% of the single segment proxy and exactly JPY117.366 billion of sealed `Trading income`; Power & environmental is not incremental to those totals and is not also forecast in another segment. Upstream receives only 7% of revenue yet about 32% of calibrated `Trading income`, reflecting the revenue/profit asymmetry of resource interests. Forecast conclusions should be judged principally at the segment total, not from false precision in these internal buckets.

3. Unit economics

How revenue becomes Trading income

For downstream energy and basic chemicals, reported revenue is driven by volume multiplied by commodity or feedstock price. A higher price can increase revenue without improving economics if purchase cost rises concurrently. `Trading income` is closer to gross spread less personnel, logistics, storage, credit, hedging, systems, depreciation and other segment expenses. A useful mental model is therefore:

```
Trading income = throughput × net spread + asset/distribution contribution + project contribution − fixed costs − credit/inventory losses − depreciation and operating charges recognized in the metric.
```

The segment's FY2026 implied cost and pass-through burden was JPY2,922.448 billion, or 96.57% of revenue, calculated as reported revenue less exact `Trading income`. On the TTM revenue proxy it is JPY3,025.807 billion, or 96.27%. These are not cost of goods sold disclosures; they are residuals demonstrating that small changes in realized spread can create large percentage swings in profit. A 50 basis-point improvement on the chemicals proxy revenue, if fully retained, would add roughly JPY6.4 billion, while a 50 basis-point deterioration would remove the same amount.

Upstream economics. Production, realized oil and gas price, royalty and tax terms, lifting cost, uptime, transportation and hedge position drive cash margin. Reserve life and development cost determine whether current production is harvesting a depleting asset or funding a durable platform. The planned decline from 28 to 12 thousand boe/day means production growth cannot be the Base case without asset-level evidence. Conversely, the data-package oil sensitivity has fallen to about JPY0.07 billion per US$1, from JPY0.40 billion in FY2022, showing a much smaller disclosed perimeter sensitivity. That sensitivity is useful but not a substitute for field-level economics.

Downstream energy economics. Throughput, retail/wholesale mix, refinery and terminal access, freight, inventory timing, basis spreads and counterparty credit matter. LNG and LPG profitability can improve when trading optionality is valuable even if benchmark prices fall; it can also compress when supply abundance narrows regional spreads. The IEA expects an unprecedented LNG supply wave through 2030, which should improve availability but can pressure merchant spreads and asset utilization depending on contract position ([IEA Gas 2025](https://www.iea.org/reports/gas-2025)).

Chemicals economics. Basic petrochemical distribution is cyclical and exposed to overcapacity, feedstock costs and industrial demand. Specialty, pharmaceutical, electronic-material and value-added distribution lines can earn better margins through qualification, formulation, regulatory know-how and embedded customer relationships. IEA's Oil 2025 work expects petrochemicals to become the dominant source of global oil-demand growth from 2026, but also expects NGL supply and new Asian capacity to rise; volume growth therefore does not guarantee better spreads ([IEA Oil 2025 executive summary](https://www.iea.org/reports/oil-2025/executive-summary)).

Power economics. Contracted generation and corporate PPAs trade merchant volatility for development, financing and counterparty risks. Storage earns from arbitrage, balancing and capacity services but incurs degradation and replacement cost. Power trading can be attractive when volatility is high and risk limits are sound; it can lose money rapidly when position, collateral and liquidity are mismanaged. IEA projects renewables to meet more than 90% of global electricity-demand growth through 2030, with rising integration and curtailment challenges—conditions supportive of storage and optimization but not of indiscriminate project returns ([IEA Renewables 2025](https://www.iea.org/reports/renewables-2025/renewable-electricity)).

Reinvestment, reserves and capital intensity

Item	What is disclosed in the package	Model treatment	Critical missing evidence
Oil/gas production	FY2026 28 kboe/day; FY2027 plan 12 kboe/day	Base gives no production-led revenue growth; Bull requires uptime/project gains	[DATA GAP: no field reserves, reserve life, reserve-replacement ratio, lifting cost or development capex]
Oil price sensitivity	About JPY0.07bn per US$1 in current plan	Used only as a diagnostic, not a full upstream profit model	Metric/perimeter detail and hedge/lag behavior are incomplete
Segment capex	Not separately disclosed	Scenario cash-reinvestment proxy shown in §9; excluded from Trading income arithmetic except through future depreciation	[DATA GAP: no segment maintenance/growth capex history or depreciation schedule]
Power project capacity	No complete current-perimeter schedule in the package	Growth modeled through revenue CAGR and margin, not MW multiplication	[DATA GAP: no complete owned/attributable MW, contract tenor, load factor, tariff or battery-cycle ledger]
Chemical volume/spread	No universal product matrix	Revenue CAGR and retained-margin assumptions	[DATA GAP: no tonnes, utilization, basic/specialty mix or gross-spread history]

The absence of reserves and segment capex is not a harmless footnote. It means the Base case cannot assume that upstream output is sustainably replaced, and it means power growth cannot be converted automatically into free cash flow. The combined model should treat the cash-reinvestment proxies below as sensitivities until asset-level disclosure emerges.

4. Competitive dynamics

Competition occurs at multiple layers. Japanese sogo shosha peers—Mitsubishi Corporation, Mitsui, Marubeni, Sumitomo Corporation and Sojitz—compete for resource interests, offtake, customers, infrastructure projects and specialist talent. Global commodity merchants such as Vitol, Trafigura, Mercuria and Gunvor compete in physical energy trading. Integrated oil and gas companies compete upstream and across LNG. ENEOS, Idemitsu Kosan, Cosmo and local distributors compete in Japan's downstream channels. Chemical manufacturers and distributors compete on price, qualification, logistics and specialty know-how. Utilities, developers, aggregators and battery specialists compete in power and storage.

Marubeni's current Energy & Chemicals organization, for example, explicitly combines LNG, upstream oil and gas, petroleum/LPG distribution, next-generation fuels and chemical trading, showing that ITOCHU's claimed breadth is not unique ([Marubeni business description](https://www.marubeni.com/en/business/energy_chemicals/)). Mitsui describes chemical platforms spanning gas chemicals, basic chemicals, terminals and low-carbon ammonia, again demonstrating direct capability overlap ([Mitsui Basic Materials](https://www.mitsui.com/jp/en/company/business/units/bm/index.html)). Competition is therefore less about owning a category label and more about cost of capital, risk controls, customer access, asset quality and execution.

ITOCHU can have pricing power where it controls scarce logistics, has qualified specialty products, provides an integrated solution or uses customer data and distribution density to lower service cost. It has little durable pricing power in a transparent, liquid commodity trade where counterparties can switch. Higher volatility may expand gross opportunity but also raises collateral, inventory and credit risk. In chemicals, switching costs are higher for regulated pharmaceuticals, electronic materials or tightly specified products than for undifferentiated resins and feedstocks. In power, long-term contracts can protect revenue, but competitive auctions can transfer most project value to customers.

The most credible entry barriers are relationship networks, licenses and safety records, working-capital capacity, credit standing, logistics assets, local market knowledge, risk systems and the ability to bundle physical supply with finance and downstream access. These barriers are real but not impregnable. Digital marketplaces can compress brokerage spreads; national oil companies can sell directly; chemical producers can internalize distribution; customers can aggregate procurement; and renewable developers can bid away returns.

The external demand picture is mixed rather than uniformly favorable. IEA projects global oil demand to plateau around 105.5 million barrels per day by 2030 while supply capacity rises faster, creating downside pressure for unprotected upstream and refining economics. Petrochemical feedstock demand grows, but new capacity concentrates in China, the United States and the Middle East. Global renewables and storage grow rapidly, but grid constraints, curtailment, permitting and financing create execution risk. Battery-material demand grows, while supply surges have already demonstrated severe price compression. ITOCHU's diversified portfolio can rotate among these pools, but diversification does not abolish cycles.

5. Moat at the segment level

The segment has a **moderate network and execution moat**, not a commodity-price moat. Its defensibility comes from combining global origination, Japanese demand relationships, Asian downstream platforms, credit access, logistics, project development and portfolio recycling. A customer may value certainty of delivery, finance, hedging and compliance more than the lowest spot quote. The Chemicals Division can deepen this moat in qualified specialty materials and regulated channels; downstream energy can deepen it through dense local distribution and integrated service.

The moat is weaker in upstream resource ownership because the asset, fiscal regime and cost curve dominate. It is also weak in basic commodity broking, where capital and information are widely available. Power development can build repeatable capabilities, but contracted returns are exposed to auction discipline and equipment/input inflation. Storage and AI-enabled energy management may create data advantages, yet software and hardware vendors can compete unless ITOCHU controls customer access or dispatchable assets.

Over five to ten years, three tests determine durability:

- **Spread stability.** Chemicals and downstream energy should preserve or improve `Trading income` per unit despite transparent pricing and digital competition. Revenue growth without spread stability is low-quality growth.
- **Capital productivity.** Power and transition investments must earn above the cost of capital after development delays, degradation, curtailment and decommissioning. Announced capacity is not proof of value.
- **Portfolio renewal.** Upstream cash must be harvested without assuming perpetual reserves, while new low-carbon businesses must mature before legacy earnings fade. Impairments or repeated project cancellations would show that the transition is consuming rather than compounding capital.

The Base case does not award a widening moat. It assumes steady downstream spreads, modest chemical mix improvement, and power scale sufficient to offset some upstream stagnation. Bull requires evidence that higher-value chemical and power activities improve the blended `Trading income` margin. Bear represents simultaneous commodity normalization, spread compression and transition capital drag.

6. Historical growth rates — reproduced from the data package

Segment revenue

All revenue cells are copied from the official series reproduced in data_package §3, external revenue table, row `Energy & Chemicals`, from ITOCHU's [downloadable financial data](https://www.itochu.co.jp/en/ir/finance/financial_data/index.html). FY2022 `Trading income` is backfilled from the [FY2022 statutory segment note](https://www.itochu.co.jp/en/ir/financial_statements/2022/__icsFiles/afieldfile/2022/08/04/22_ended_03_e.pdf), as documented in the package; FY2023–FY2026 come from the same official financial-data series. No product-level revenue history was disclosed. The CAGR from FY2022 to FY2026 is 1.38%; the more recent FY2024–FY2026 CAGR is negative 0.30%.

Product / sub-segment	FY2022 rev	FY2023 rev	FY2024 rev	FY2025 rev	FY2026 rev	FY22–26 CAGR	Latest YoY	Data-package cite
Energy & Chemicals segment	2,864.1	3,389.0	3,044.5	3,129.473	3,026.231	1.38%	-3.30%	data_package §3 external-revenue table, Energy & Chemicals row
Upstream oil & gas	n/d	n/d	n/d	n/d	n/d	n/d	n/d	data_package §3 product inventory says no universal product-revenue matrix

Product / sub-segment	FY2022 rev	FY2023 rev	FY2024 rev	FY2025 rev	FY2026 rev	FY22–26 CAGR	Latest YoY	Data-package cite
Downstream energy	n/d	n/d	n/d	n/d	n/d	n/d	n/d	data_package §3 product inventory says no universal product-revenue matrix
Chemicals	n/d	n/d	n/d	n/d	n/d	n/d	n/d	data_package §3 product inventory says no universal product-revenue matrix
Power & environmental	n/d	n/d	n/d	n/d	n/d	n/d	n/d	data_package §P0 and §10: integrated from FY2027; no restated history supplied

Arithmetic checks: `2,864.1 × 1.18333 = 3,389.0`; `3,389.0 × 0.89835 = 3,044.5`; `3,044.5 × 1.02791 = 3,129.473`; and `3,129.473 × 0.96701 = 3,026.231`. Each tie is within 0.01%, well inside the 2% requirement. No product history was back-solved.

Trading income and margin history

Metric	FY2022	FY2023	FY2024	FY2025	FY2026	TTM Jun-26
Revenue	2,864.1	3,389.0	3,044.5	3,129.473	3,026.231	3,143.173 proxy
Trading income	100.020	153.1	102.6	99.816	103.783	117.366
Trading-income margin	3.49%	4.52%	3.37%	3.19%	3.43%	3.73% proxy
Source	data_package §3 rows	data_package §3 rows	data_package §3 rows	data_package §3 rows	data_package §3 rows	Revenue proxy; data_package §2 TTM bridge exact profit

The margin series is cyclical: FY2023 was the peak in both segment revenue and margin, followed by normalization. FY2026 improved only 24 basis points despite lower revenue, indicating that mix and spread mattered. The TTM proxy margin improved further because exact TTM `Trading income` rose to JPY117.366 billion, but the denominator is estimated and the strong Q1 should not be annualized.

Operating KPIs relevant to this segment

KPI	FY2022	FY2023	FY2024	FY2025	FY2026	Current signal / plan	Data-package cite
Oil and gas production, kboe/day	37	26	25	23	28	FY2027 plan 12	data_package §4 resource KPI table
Brent reference/average, US$/bbl	79.92	95.07	82.08	78.21	69.02	Q1 FY2027 96.68	data_package §4 resource KPI table
Oil sensitivity, JPYbn per US$1	0.40	0.27	0.27	0.13	0.08	FY2027 0.07	data_package §4 resource KPI table
Segment capex	n/d	n/d	n/d	n/d	n/d	n/d	data_package §10 capital-intensity gap
Proved/probable reserves	n/d	n/d	n/d	n/d	n/d	n/d	[DATA GAP: not in data package]

Production fell from 37 kboe/day in FY2022 to 12 kboe/day in the FY2027 plan on a changed portfolio. The disclosed oil-price sensitivity simultaneously fell by more than 80%. These series support a smaller upstream revenue weight and a wide upstream margin range, not a smooth extrapolation.

7. Management guidance and package-sourced commentary

The package contains limited segment-specific long-range guidance. The following are all relevant Energy & Chemicals anchors found in the package; quote marks are preserved only where the package supplied a verbatim management quotation.

Package row / source	Guidance or quote	Interpretation for this appendix
data_package §3a; [Q1 FY2027 results, 6 Aug 2026](https://www.itochu.co.jp/en/ir/financial_statements/2027/__icsFiles/afieldfile/2026/08/06/27_1st_01_e.pdf)	FY2027 segment parent-profit plan JPY111.5bn, revised up JPY36.0bn	Strong near-term signal, but parent profit is not Trading income and cannot set segment margin directly
data_package §7; [Q1 FY2027 results, 6 Aug 2026](https://www.itochu.co.jp/en/ir/financial_statements/2027/__icsFiles/afieldfile/2026/08/06/27_1st_01_e.pdf)	Q1 revenue JPY873.5bn; Trading income JPY42.4bn; guidance raised JPY36bn; oil price, trading and new perimeter matter	Confirms the three main near-term drivers and warns against old-perimeter comparison
data_package §3a; [Q1 FY2027 result summary, 7 Aug 2026](https://www.itochu.co.jp/en/ir/financial_statements/2027/__icsFiles/afieldfile/2026/08/07/27_1st_02_e.pdf)	Resource core parent profit JPY153bn groupwide; Energy & Chemicals oil/gas plan 12 kboe/day	Production discontinuity limits a volume-growth thesis; core profit is non-IFRS and not segment Trading income
data_package §7; [Q1 FY2027 Q&A, 5 Aug 2026, CFO Tsuyoshi Naka](https://www.itochu.co.jp/en/ir/financial_statements/2027/__icsFiles/afieldfile/2026/08/05/27_1st_03_e_2.pdf)	“We also feel that our organic growth is gaining clear momentum.”	Groupwide management opinion; requires verification at segment and product level
data_package §7; [Q1 FY2027 script, 5 Aug 2026](https://www.itochu.co.jp/en/ir/financial_statements/2027/__icsFiles/afieldfile/2026/08/05/27_1st_04_e_2.pdf)	“Our company-wide forecast remains unchanged at JPY950.0 billion.”	Segment upgrade was offset elsewhere; unchanged group guidance does not remove segment risk
data_package §6; [ITOCHU DAY 2026 Q&A](https://www.itochu.co.jp/en/files/IRDay2026_E_qaAll.pdf)	“As a general rule, investments that meet any of these criteria are subject to exit consideration.”	Capital recycling is relevant to resource and transition projects, but criteria do not prove realized returns
data_package §6; [ITOCHU DAY 2026 Q&A](https://www.itochu.co.jp/en/files/IRDay2026_E_qaAll.pdf)	“We believe proactive asset replacement is necessary even before a business formally breaches our exit criteria.”	Supports portfolio renewal; Base still requires evidence of cash-on-cash returns and impairment discipline

[DATA GAP: ITOCHU has not disclosed Energy & Chemicals revenue, `Trading income`, product volume, margin, reserves or capex guidance through 30 June 2031.] The Base, Bear and Bull forecasts below are therefore analyst scenarios rather than an interpolation of company guidance.

8. Forward growth assumptions

8A. Forecast starting allocation

The product revenue lines are not disclosed history. They are the analytical allocation from §2, tied to the JPY3,143.173 billion TTM proxy. Historical CAGR and latest YoY columns are `n/d` at the product level; the only reliable historical growth comparator is the segment's 1.38% FY2022–FY2026 CAGR and negative 3.30% FY2026 YoY.

Product / analytical driver	TTM revenue proxy	Disclosed product history	Primary growth variables to 2031
Upstream oil & gas	220.022	n/d; production KPI only	Production, realized price, uptime, asset replacement and sanctions/fiscal terms
Downstream energy	1,351.564	n/d	Throughput, commodity pass-through, regional spreads, retail mix, logistics and renewable fuels
Chemicals	1,288.701	n/d	Industrial demand, feedstock pass-through, basic/specialty mix, electronic and battery materials, recycling
Power & environmental	282.886	n/d; new perimeter	Renewable generation, corporate PPAs, storage, power trading, curtailment and project commissioning
Segment total	3,143.173	FY22–26 CAGR 1.38%; FY26 YoY -3.30%	Weighted result of the four drivers

8B. Bear growth case

Product	4-year historical CAGR	Latest YoY	Mgmt FY+1 guide	Bear CAGR TTM→TTM+5y	Justification
Upstream oil & gas	n/d	n/d	Production plan 12 kboe/day	-3.0%	Portfolio depletion and lower price realization dominate; no reserve-growth credit because reserves and capex are undisclosed
Downstream energy	n/d	n/d	Segment parent-profit guide only	-1.0%	Oil product demand matures, LNG supply narrows optionality and pass-through prices soften; throughput resilience prevents a steeper decline

Product	4-year historical CAGR	Latest YoY	Mgmt FY+1 guide	Bear CAGR TTM→TTM+5y	Justification
Chemicals	n/d	n/d	None	0.0%	Petrochemical feedstock volume grows, but Asian overcapacity, weak basic-chemical spreads and recycling substitution offset nominal growth
Power & environmental	n/d	n/d	None	2.0%	Projects add revenue, but permitting, curtailment, battery degradation and price competition sharply limit monetization
Segment total	1.38%	-3.30%	No Trading-income guide	-0.44%	Bottom-up weighted result; weaker than history but not a collapse because distribution and chemicals remain essential

Bear is not a single oil-price shock. It assumes low fossil-price pass-through, sustained pressure on chemical spreads, weak power-project returns and a cost base that cannot adjust quickly. The modest revenue decline hides a much larger profit decline because margins compress.

8C. Base growth case

Product	4-year historical CAGR	Latest YoY	Mgmt FY+1 guide	Base CAGR TTM→TTM+5y	Justification
Upstream oil & gas	n/d	n/d	Production plan 12 kboe/day	0.0%	Lower production perimeter is offset by asset optimization and nominal pricing; no reserve-led volume growth is assumed
Downstream energy	n/d	n/d	Segment parent-profit guide only	1.0%	Asian LPG/LNG and service demand offset mature oil products; abundant LNG limits price-led revenue growth and trading spread expansion
Chemicals	n/d	n/d	None	2.5%	Slightly above segment history from specialty, electronic, healthcare and circular-material mix, tempered by basic-chemical overcapacity
Power & environmental	n/d	n/d	None	7.0%	Renewable generation, corporate PPAs, storage and energy management scale from a small base; below global deployment growth to reflect Japan execution constraints
Segment total	1.38%	-3.30%	No Trading-income guide	2.15%	Bottom-up weighted result; acceleration comes from mix rather than commodity inflation

The Base case deliberately avoids extrapolating Q1. Downstream and upstream together still represent half the proxy revenue and grow slowly. Power compounds fastest but adds only JPY113.9 billion of horizon revenue, insufficient by itself to transform the segment.

8D. Bull growth case

Product	4-year historical CAGR	Latest YoY	Mgmt FY+1 guide	Bull CAGR TTM→TTM+5y	Justification
Upstream oil & gas	n/d	n/d	Production plan 12 kboe/day	2.0%	Strong uptime, favorable asset replacement and firm realizations offset the smaller production perimeter
Downstream energy	n/d	n/d	Segment parent-profit guide only	3.0%	Asian distribution, renewable fuels and logistics gain share while risk controls preserve trading throughput
Chemicals	n/d	n/d	None	4.5%	Specialty, semiconductor, pharmaceutical and battery-material channels outgrow basic products; recycling creates additional service revenue

Product	4-year historical CAGR	Latest YoY	Mgmt FY+1 guide	Bull CAGR TTM→TTM+5y	Justification
Power & environmental	n/d	n/d	None	11.0%	Storage, corporate PPAs, trading and renewable assets scale with high execution and limited curtailment; still subject to capital discipline
Segment total	1.38%	-3.30%	No Trading-income guide	4.37%	Bottom-up result; requires simultaneous volume, mix and project execution success

Bull does not assume unconstrained energy-transition economics. IEA's renewable outlook is strong, but project competition, grid constraints and financing remain real. The 11% power CAGR is justified only if ITOCHU converts pipeline into operating or contracted revenue and demonstrates that growth is not purchased at sub-hurdle returns.

9. Forward Trading-income margin assumptions

9A. Product margins at the exact horizon

Product / analytical driver	TTM calibrated Trading-income margin	Bear Jun-31 margin	Base Jun-31 margin	Bull Jun-31 margin	Mechanism
Upstream oil & gas	17.17%	7.00%	14.00%	20.00%	Price, uptime, field mix and cost; wide range reflects missing reserves/lifting-cost evidence
Downstream energy	2.40%	1.60%	2.70%	3.50%	Commodity spread, logistics utilization, retail/service mix, inventory and credit losses
Chemicals	3.00%	2.00%	3.40%	4.20%	Basic/specialty mix, feedstock pass-through, qualification and supply-chain value-add
Power & environmental	3.00%	1.00%	4.50%	7.00%	Commissioning, contracted/merchant mix, storage optimization, curtailment and depreciation
Segment blended	3.73%	2.04%	3.91%	5.25%	Revenue-weighted average; reconstructable in §10

Every case moves more than 100 basis points in at least one product line, so the mechanism matters. Bear upstream compresses by more than 1,000 basis points because a small revenue pool can suffer sharply lower economic rent even if physical supply continues. Bear chemicals and downstream lose spread, while power start-up cost and curtailment overwhelm growth. Base upstream normalizes below the calibrated TTM margin; mix improvement in chemicals and power more than offsets that decline. Bull requires higher-value chemical products, good energy-trading execution and mature power/storage assets; it is not merely a higher commodity-price case.

9B. Volumes, prices, costs, reserves and capex assumptions

Driver	Bear	Base	Bull	Evidence boundary
Oil/gas volume	Declines 3% CAGR in revenue proxy; outages/depletion	Flat revenue; no reserve-growth credit	2% revenue CAGR from uptime/asset replacement	Package production plan 12 kboe/day; reserves not disclosed
Oil price	Downside consistent with supply-capacity surplus	Mid-cycle; no sustained Q1 spike	Firm realizations but no permanent scarcity premium	Package oil sensitivity JPY0.07bn per US$1; IEA sees 2030 supply capacity above demand growth
LNG/LPG throughput	Resilient volume, weak spreads	Asian volume offsets spread normalization	High utilization and profitable optionality	Package says oil price, trading and new perimeter matter; product throughput not disclosed
Chemical volume	Basic demand flat; specialty slows	Low-single-digit mix-led growth	Strong specialty/electronic/battery channels	No product tonnes or mix disclosed
Cost inflation	Freight, labor, credit and maintenance not fully recovered	Pass-through broadly works; productivity offsets wage inflation	Scale and mix provide leverage	No segment cost ledger disclosed

Driver	Bear	Base	Bull	Evidence boundary
Reserve replacement	Below 100% implied by no credit; not measured	No assumption of replacement above production	Successful replacement/asset rotation	[DATA GAP: reserve life and replacement ratio]
Gross cash reinvestment proxy	2.5% of horizon revenue, JPY76.9bn	2.0%, JPY69.9bn	2.5%, JPY97.3bn	Analyst cash proxy; not deducted from Trading income; no segment capex disclosed
Transition mix	Fossil decline precedes new-profit maturity	Power/chemicals offset slow fossil growth	New power, storage and circular products scale profitably	New perimeter and external market outlook; no issuer 2031 target

The cash-reinvestment proxy is a downstream free-cash-flow diagnostic, not an accounting input to `Trading income`. Bear reinvestment remains elevated despite declining revenue because maintenance, remediation and transition commitments may be sticky. Bull requires the most absolute capital because power and storage scale. Synthesis should not convert the segment's `Trading income` into cash flow without these reinvestment and working-capital needs.

9C. Transition, impairment and FX sensitivities

Sensitivity	Diagnostic change	Approximate effect	Where it belongs
Oil price	US$20/bbl below or above plan	About –/+JPY1.4bn using package sensitivity of JPY0.07bn per US$1	Profit diagnostic; exact metric/perimeter not fully specified, so do not force into Trading income
JPY/USD	JPY10 strengthening or weakening	Groupwide about –/+JPY24bn using package Q2–Q4 sensitivity of JPY2.4bn per JPY1	Group synthesis, not allocated to this segment
Chemical retained spread	50bp lower or higher on TTM chemical proxy revenue	About –/+JPY6.4bn Trading income before tax	Segment Trading income sensitivity
Downstream retained spread	10bp lower or higher on TTM downstream proxy revenue	About –/+JPY1.4bn Trading income before tax	Segment Trading income sensitivity
Power margin	200bp lower or higher on TTM power proxy revenue	About –/+JPY5.7bn Trading income before tax	Segment Trading income sensitivity
Upstream/power impairment	10% asset write-down	Not quantifiable; asset base not disclosed	Statutory bridge shows property/intangible gains and losses below Trading income; model separately
Carbon cost	US$50/tCO2e on uncovered emissions	Not quantifiable; emissions, free allowances and pass-through not disclosed	Transition sensitivity outside segment forecast until data exist
Reserve downgrade	20% reduction in economic reserves	Not quantifiable; reserves absent	Would affect asset value, depletion and possible impairment, not just annual revenue

The FX sensitivity is especially easy to misuse. The package's JPY2.4 billion per JPY1/US$ is a group-level Q2–Q4 measure, not an Energy & Chemicals `Trading income` sensitivity. It must remain at group synthesis unless ITOCHU discloses a segment allocation. Similarly, impairments should not be hidden in segment margin: the sealed bridge classifies gains and losses on property, plant, equipment and intangible assets below consolidated `Trading income`.

10. Segment rollup and annual cadence

10A. Bear product rollup

Product	TTM revenue proxy	Jun-31 revenue	Jun-31 Trading-income margin	Jun-31 Trading income
Upstream oil & gas	220.022	188.940	7.00%	13.226
Downstream energy	1,351.564	1,285.324	1.60%	20.565
Chemicals	1,288.701	1,288.701	2.00%	25.774
Power & environmental	282.886	312.329	1.00%	3.123
Segment total	3,143.173	3,075.294	2.04%	62.688

The Bear case produces a negative 0.44% revenue CAGR but a 11.8% annual decline in `Trading income`. That operating asymmetry is the central risk: revenue can appear stable while retained spread and resource rent collapse.

10B. Base product rollup

Product	TTM revenue proxy	Jun-31 revenue	Jun-31 Trading-income margin	Jun-31 Trading income
Upstream oil & gas	220.022	220.022	14.00%	30.803
Downstream energy	1,351.564	1,420.508	2.70%	38.354
Chemicals	1,288.701	1,458.047	3.40%	49.574
Power & environmental	282.886	396.762	4.50%	17.854
Segment total	3,143.173	3,495.339	3.91%	136.585

Base `Trading income` compounds at about 3.1% from the sealed TTM figure. Revenue grows 2.15%. The spread between those rates is modest and derives from chemicals/power mix, not from a heroic margin assumption. Base horizon margin is below the FY2023 historical peak of 4.52% and well below the Bull case.

10C. Bull product rollup

Product	TTM revenue proxy	Jun-31 revenue	Jun-31 Trading-income margin	Jun-31 Trading income
Upstream oil & gas	220.022	242.922	20.00%	48.584
Downstream energy	1,351.564	1,566.834	3.50%	54.839
Chemicals	1,288.701	1,605.956	4.20%	67.450
Power & environmental	282.886	476.679	7.00%	33.368
Segment total	3,143.173	3,892.391	5.25%	204.241

Bull `Trading income` compounds at roughly 11.7%. The case requires four successes at once: upstream asset quality, downstream trading execution, chemical mix improvement and power/storage scaling. The 5.25% horizon margin is above the five-year historical peak and therefore deserves only 20% probability.

10D. Annual cadence by scenario

Margins move linearly from the calibrated TTM product margins to each horizon product margin; revenue follows each product CAGR. The total margin is always the revenue-weighted result, not a top-down plug.

Date	Bear revenue	Bear Trading-income margin	Bear Trading income	Base revenue	Base Trading-income margin	Base Trading income	Bull revenue	Bull Trading-income margin	Bull Trading income
Jun-26 TTM	3,143.173	3.73%	117.366	3,143.173	3.73%	117.366	3,143.173	3.73%	117.366
Jun-27	3,128.715	3.38%	105.864	3,208.708	3.76%	120.639	3,277.230	4.02%	131.844
Jun-28	3,114.702	3.04%	94.660	3,276.570	3.79%	124.178	3,418.623	4.32%	147.626
Jun-29	3,101.131	2.70%	83.738	3,346.877	3.82%	128.001	3,567.885	4.62%	164.848
Jun-30	3,087.997	2.37%	73.086	3,419.756	3.86%	132.129	3,725.597	4.93%	183.662
Jun-31	3,075.294	2.04%	62.688	3,495.339	3.91%	136.585	3,892.391	5.25%	204.241

The cadence should not be read as quarterly precision. It is a transparent annual path to the exact horizon. Real commodity and trading earnings will be lumpier. Any future synthesis update should replace the smooth path with disclosed production, project-commissioning, power-contract and spread data when available.

10E. Probability-weighted diagnostic

At 25% Bear, 55% Base and 20% Bull, probability-weighted horizon revenue is JPY3,469.738 billion and probability-weighted `Trading income` is JPY131.642 billion. The implied weighted margin is 3.79%, calculated from weighted profit divided by weighted revenue rather than from a simple average of scenario margins. This diagnostic is slightly below Base because Bear's severe margin compression carries more probability than Bull's upside.

11. Key risks and wildcards

- **Taxonomy and denominator risk [Bear/Base].** The historical series predates the power integration, while Q1 is new-perimeter. If power revenue is larger or lower-margin than the analytical allocation, both TTM proxy and forecast mix change. The first fully comparable annual disclosure should trigger a model rebuild.
- **Commodity price and spread risk [Bear/Bull].** Oil price, LNG/LPG regional spreads, freight and inventory timing can swing earnings differently. The disclosed oil sensitivity is small and perimeter-specific; it does not capture all trading optionality, dividends or working-capital effects.
- **Reserve and depletion risk [Bear].** No reserves, reserve life or replacement ratio are in the package. Production could decline faster than modeled, or replacement could require capital that lowers cash return even if `Trading income` holds.
- **Sanctions and sovereign risk [Bear].** Upstream interests in Russia, Iraq and other jurisdictions face sanctions, fiscal, transfer, security and recoverability risks. A legal ownership interest is not the same as freely distributable cash.
- **Chemical overcapacity [Bear].** New capacity in China, the Middle East and the United States can support volume while crushing spreads. Basic chemicals can therefore post flat or rising revenue with lower `Trading income`.
- **Specialty execution [Bull/Base].** Electronic, pharmaceutical, functional-food and battery materials can improve mix only if ITOCHU controls qualification, formulation, distribution or customer access. Merely relabeling basic products as specialty does not create a moat.
- **Power project returns [Bear/Base].** Permitting, grid connection, curtailment, equipment inflation, merchant price exposure and financing can make renewable and storage growth capital-destructive. Contract quality and cash yield matter more than announced capacity.
- **Battery technology and price risk [Bear/Bull].** Rapid storage growth is favorable for deployment, but cell-price declines, chemistry shifts and Chinese scale can compress equipment and material margins. The IEA notes both strong critical-mineral demand and severe supply-driven price pressure ([IEA Critical Minerals 2025](https://www.iea.org/reports/global-critical-minerals-outlook-2025/executive-summary)).
- **Transition timing mismatch [Bear].** Fossil cash flow may fade before SAF, hydrogen, ammonia, CCS, storage and power platforms earn mature returns. Demonstration projects can consume expense and capex for years without commercial margins.
- **Impairment classification [Bear].** Upstream, chemical plant or power-asset impairments may be recognized below `Trading income` under the sealed bridge. A stable segment margin could therefore coexist with economic capital loss; synthesis must model the line separately.
- **FX translation and transaction risk [Bear/Bull].** Yen moves affect translated earnings, commodity costs, deposits and hedges. The package's groupwide sensitivity cannot be assigned mechanically to this segment.
- **Credit and liquidity risk [Bear].** Large gross trading flows create receivable, collateral and working-capital demands. Commodity volatility can increase funding needs even when eventual spreads are positive.
- **Regulatory and carbon cost [Bear/Base].** Fuel standards, plastics rules, carbon pricing, methane controls and recycling mandates can raise compliance cost. They can also create opportunities in renewable fuels and circular materials, but pass-through must be demonstrated.
- **Capital allocation [Bear/Bull].** ITOCHU's exit discipline can protect returns if enforced early. Conversely, acquiring transition growth at high prices or retaining impaired legacy assets can reduce value while reported revenue expands.

Summary

Case	Segment TTM+5y Revenue	Exact profit metric	Segment TTM+5y Profit Margin	Segment TTM+5y Profit	Probability
Bear	JPY3,075.294bn	Trading income	2.04%	JPY62.688bn	25%
Base	JPY3,495.339bn	Trading income	3.91%	JPY136.585bn	55%
Bull	JPY3,892.391bn	Trading income	5.25%	JPY204.241bn	20%

The segment is a resilient but low-spread trading and operating portfolio with cyclical resource rent and a potentially attractive power/chemicals transition. The five-year underwriting does not assume that energy-transition revenue automatically creates

value. Base requires only modest revenue acceleration and a small margin gain; Bull requires demonstrable specialty mix, contracted power economics, disciplined risk-taking and successful asset renewal. Bear shows why stable revenue is inadequate protection when retained spreads, upstream rent and project returns compress simultaneously.

Appendix B3 - General Products and Realty

General Products & Realty Company — Segment Deep Dive

Company: ITOCHU Corporation **Ticker:** 8001.T **Exact forecast profit basis:** Trading income **TTM anchor:** 30 June 2026 **Revenue anchor:** FY2026 revenue proxy because a verified TTM segment-revenue denominator is unavailable **TTM+5-year horizon:** 30 June 2031 **Reporting currency:** Japanese yen; financial amounts are ¥ billion unless stated otherwise **Scenario probabilities:** Bear 25%; Base 55%; Bull 20% **Trade execution authorized:** false

This appendix forecasts only ITOCHU's General Products & Realty Company and uses `Trading income` exactly as defined in the QFR-sealed statutory bridge. ITOCHU historical figures, historical growth rates, and management quotations come only from the verified `data_package.md` and `statutory_bridge.json`. Fresh external sources are used solely for competitive and industry context. Corporate/unallocated items, gains and losses on investments, gains and losses on property, plant, equipment and intangible assets, interest, tax, equity-method income, and non-controlling interests remain outside this segment forecast and are handled once in synthesis.

0. Segment boundary and taxonomy note

General Products & Realty was one of ITOCHU's eight reportable operating segments throughout FY2022–FY2026, and the verified package provides a continuous five-year revenue and Trading-income history for it. The FY2027 organizational changes described in the package concern the former Power & Environmental Solution Division and FamilyMart; neither is identified as a General Products & Realty perimeter change. The historical segment total is therefore treated as comparable. The current business boundary comprises two divisions: Forest Products, General Merchandise & Logistics, and Construction & Real Estate. ITOCHU describes the first as Japanese and North American building materials, pulp, goods and materials, automotive aftermarket services, 3PL, and international transportation; the second covers construction infrastructure, real estate development, and property management and operation. This composition is confirmed by ITOCHU's current [segment page](https://www.itochu.co.jp/en/business/general/index.html), but no external ITOCHU dollar history is imported into the model.

The main taxonomy limitation is internal. The verified package does not disclose a historical revenue or Trading-income split between the two divisions or among forest products, construction/realty, logistics, and automotive aftermarket activities. Section 6 therefore reproduces only disclosed segment history. Sections 8–10 use an explicitly analyst-estimated modeling allocation to expose the requested drivers and produce a reconstructable rollup. Those allocations are scenario mechanics, not historical disclosure.

1. What this segment actually is

General Products & Realty is a portfolio of connected but economically different businesses. It earns spreads and fees from trading and distributing forest products and building materials; manufacturing and operating profit from controlled or affiliated materials businesses; development and recurring management income from residential, logistics, and other property; contractor economics from construction and infrastructure interests; and service income from 3PL, international transport, and automotive aftermarket activities. It is not a clean-play timber producer or a conventional property developer. It is a network of supply-chain positions and investments linked by housing, construction, materials, and logistics demand.

The forest-products and general-merchandise side reaches from upstream pulp, wood chips, timber, and engineered wood to downstream building-material distribution, domestic construction materials, North American housing products, paper and pulp, and automotive aftermarket services. Customers include homebuilders, contractors, wholesalers, manufacturers, retailers, and logistics users. Pricing ranges from pass-through commodity formulas to negotiated distributor margins and value-added processing or service fees. The closer a business sits to raw pulp, lumber, rubber, or freight, the more cyclical its gross profit and working capital. The closer it sits to specialized distribution, engineered materials, installed products, aftermarket service, or logistics management, the more defensible the margin can be.

The construction and real-estate side owns or partners with businesses in detached housing, general construction, civil engineering, bridges, food-factory construction, building materials, residential development, logistics facilities, property management, REIT management, and overseas real estate. ITOCHU's current [Construction & Real Estate description](https://www.itochu.co.jp/en/business/general/field/02.html) identifies ITOHPIA HOME, CHUSETSU Engineering, Nishimatsu Construction, ORIENTAL SHIRAISHI, ITOCHU KENZAI, and DAIKEN as important elements. It also identifies residential and logistics-focused REIT and private-REIT management, plus overseas industrial and residential assets. The

economic model therefore mixes project revenue, recurring management fees, development gains, and asset-holding exposure. Equity-accounted earnings from certain interests may sit below Trading income in the statutory bridge and must not be double counted.

Logistics has two roles. First, 3PL and international transportation generate service revenue tied to freight volumes, warehouse utilization, labor productivity, and fuel. Second, logistics-property development and management generate development, leasing, and fee economics tied to land costs, construction costs, rent, vacancy, cap rates, and financing. These roles can partially hedge each other: demand for modern logistics space supports realty and management income, while weak trade or rising labor and fuel costs squeeze the operating layer.

The customer proposition is breadth and coordination rather than a patented product. ITOCHU can source materials, finance inventory, distribute components, develop facilities, place tenants, manage assets, and connect group operating companies. The risk is that conglomerate breadth can hide weak subsidiaries, capital trapped in cyclical assets, and profits dependent on valuation gains or exits. A credible forecast must separate organic Trading income from below-line gains and impairments.

2. Current economics at the FY2026 and TTM anchors

FY2026 segment revenue was ¥1,528.334 billion, 10.3% of ITOCHU consolidated revenue, and FY2026 Trading income was ¥76.448 billion, implying a 5.00% margin (data package §3, rows 136 and 155). The QFR-sealed TTM Trading-income figure for the twelve months ended 30 June 2026 is ¥76.303 billion (data package §2, row 101; sealed bridge). The package discloses Q1 FY2027 segment revenue of ¥394.5 billion and Trading income of ¥19.5 billion (data package §7, row 299), but it does not disclose prior-year Q1 revenue needed for a verified TTM segment-revenue figure. This appendix therefore uses FY2026 revenue of ¥1,528.334 billion as a labeled TTM revenue proxy. It is a period-mismatched denominator, not a measured TTM revenue value; using it avoids fabricating the missing prior-quarter revenue. TTM Trading income divided by that proxy produces a 4.99% indicative current margin.

Revenue grew 10.18% annually from FY2022 to FY2026, but Trading income grew only 3.88%; both are calculated from the data-package five-year series (§3, rows 136 and 155). Margin fell from 6.33% to 5.00%. In FY2025 and FY2026 revenue grew 10.09% and 0.54%, while Trading income declined 3.52% and 7.97%. Top-line growth can be low quality when commodity spreads, housing-material profitability, asset mix, or subsidiary performance weaken.

Q1 FY2027 did not establish a turnaround. The package says General Products & Realty had "slow progress due to the weak performance of North American construction-materials business" (data package §7, row 299). Q1 revenue annualizes above FY2026, but the appendix does not annualize one quarter. Q1 Trading income of ¥19.5 billion represents a 4.94% margin on the cited ¥394.5 billion Q1 revenue, near the recent annual level but below FY2022–FY2024. Base therefore assumes stabilization around 5%, not an automatic return to 6%.

Capital intensity is mixed and higher than a pure trading spread suggests. Trading and 3PL consume inventory and receivables. Pulp, engineered wood, construction materials, and automotive aftermarket operations need fixed assets and maintenance capital. Property development ties capital up in land, work in progress, and construction before monetization. Construction interests require bonding capacity and project working capital. Property and REIT management are more capital-light only if seed assets and development inventory are recycled.

Economic block	Main revenue mechanism	Main capital need	Principal margin swing factor	Asset-intensity classification
Forest products and building materials	Commodity spread, distribution margin, manufacturing profit	Inventory, receivables, mills and processing assets	Lumber/pulp prices, housing volume, procurement and freight	Medium to high
Construction and infrastructure	Contract revenue and project margin	Working capital, guarantees, equipment and stakes	Bid discipline, wage/material inflation, delays and claims	Medium
Real estate development	Sales, leasing, development gains, management fees	Land, work in progress, debt and seed assets	Absorption, cap rates, rent, financing cost and timing	High for development; low for management
Logistics operations	3PL and international transport fees	Warehouses, systems, working capital and leased capacity	Volume, labor, fuel, utilization and repricing	Medium
Automotive aftermarket and other merchandise	Product margin and service revenue	Inventory, outlets and service assets	Miles driven, raw-material costs, consumer demand	Medium

[DATA GAP: General Products & Realty maintenance capex, growth capex, invested capital, and ROIC are not separately disclosed in the verified data package.] The forecast uses margin and cash-risk discipline rather than a fabricated segment ROIC.

3. Unit economics: how revenue becomes Trading income

Forest products, building materials, pulp, and merchandise

The basic equation is volume multiplied by price, less procurement, freight, conversion, labor, and overhead. Revenue can rise with lumber or pulp prices even if unit spreads do not. Lower commodity prices can reduce revenue while distribution gross profit holds if contractual spreads and inventory management are sound. The most dangerous interval is a sudden price decline after high-cost inventory is purchased: revenue, margin, and working-capital realization can deteriorate together.

North American housing demand is a core volume driver for structural wood, engineered products, and construction materials. The latest [U.S. Census release](https://www.census.gov/construction/nrc/current/) showed August 2026 housing starts at 1.275 million seasonally adjusted annualized, down 1.2% year over year; single-family starts were 918,000 and permits were 1.394 million. That is not a collapse but is consistent with pressure on suppliers exposed to new-home construction. The [Federal Reserve](https://www.federalreserve.gov/newsevents/pressreleases/monetary20260916a.htm) raised its target to 3.75%–4.00% on 16 September 2026, keeping mortgage affordability restrictive. These conditions support the package's weak North American materials signal and argue against a rapid base-case rebound.

Input prices are volatile. The [National Association of Home Builders](https://www.nahb.org/blog/2026/08/july-material-prices) reported U.S. softwood lumber prices up 17.3% year over year in July 2026 and building-material prices excluding energy up 5%. It also reported sawmill capacity contraction despite soft housing demand. For a distributor, higher lumber prices can increase nominal sales but hurt customers and working capital; for a producer, they help only if logs, labor, energy, and freight do not rise as quickly. Bull therefore needs demand recovery and spread retention; bear combines lower volume with inventory and procurement pressure.

Pulp has a different cycle. Fastmarkets described a [fragile and uneven 2026 recovery](https://www.fastmarkets.com/uploads/2026/03/pulp_outlook_2026_v2.pdf), with supply disruptions and higher woodchip costs supporting hardwood pulp while weak seasonal demand and inventories threatened pricing. Softwood and hardwood grades can diverge, so one pulp-price assumption is false precision. Base assumes mid-cycle economics with no windfall. Bull allows disciplined supply and tight fiber availability to improve spreads. Bear assumes weak demand, excess inventory, and higher energy or freight costs.

Construction, realty, and logistics

Construction Trading income depends on contract selection, cost-escalation clauses, execution, and labor productivity. Japan's [Ministry of Land, Infrastructure, Transport and Tourism](https://www.mlit.go.jp/toukeijouhou/chojou/rodo.htm) reported a 1.2% shortage across eight construction trades in July 2026, with shortages in all but one category. Tight labor can support pricing but creates schedule and wage risk. Newer contracts may reset at higher prices; old fixed-price projects can absorb overruns. Base assumes procurement and bid discipline gradually offset inflation; bear assumes lagged repricing and provisions.

Residential real estate is exposed to Japanese and U.S. rates. The [Bank of Japan](https://www.boj.or.jp/en/mopo/mpmdeci/mpr_2026/k260918a.pdf) raised the overnight call-rate target to around 1.25% effective 24 September 2026 and said housing investment had been declining. Japan Housing Finance Agency's [September 2026 Flat 35 rate](https://www.simulation.jhf.go.jp/flat35/kinri/index.php/rates/top) for 21–35-year loans at 90% or lower LTV was most commonly 3.46%. Higher mortgage and cap rates compress affordability and raise development hurdle rates. Developers can slow launches, reduce land bids, or emphasize rental and fee businesses, but existing inventory and financing remain exposed.

Logistics property has a better demand backdrop but is not risk-free. [CBRE](https://cms.cbre.co.jp/insights/figures/japan-logistics-marketview-q2-2026) reported Greater Tokyo large multi-tenant logistics vacancy of 7.8% in Q2 2026, down 1.4 points quarter over quarter, with rents up 1.5%. Greater Osaka vacancy was 2.4%, while Nagoya and Fukuoka were 15.9% and 11.4%. [JLL](https://research.jllapsites.com/appd-market-report/q2-2026-logistics-industrial-tokyo/) reported Tokyo vacancy of 7.7%, rent growth, and gradual capital-value gains because higher rates partly offset rent. These data support selective development in strong nodes, not a blanket logistics bull case. Location, specification, tenant credit, and exit cap rate matter.

Margin mechanics and the 100-basis-point rule

Current indicative Trading-income margin is 4.99%. A move above 6% requires more than revenue growth: North American materials must normalize, weak subsidiaries must stop consuming profit, construction contracts must reprice, property must

generate returns without valuation gains, and logistics utilization must hold. A fall to 3.2% requires combined housing weakness, pulp/lumber spread compression, overruns, inventory losses, and insufficient cost reduction. These are explicit mechanisms.

The forecast excludes corporate and statutory-bridge adjustments from product margins. It also excludes below-line investment gains and asset impairments from Trading income. Recurring performance cannot be rescued by asset sales.

4. Competitive dynamics

Forest products and North American construction materials

Competition comes from large building-products distributors such as Builders FirstSource, specialty distributors, engineered-wood producers, integrated forest-products companies, regional lumber yards, and direct manufacturer channels. The market rewards local density, procurement scale, availability, credit discipline, and prefabrication or value-added services. ITOCHU's network and capital help, but scale alone is not a moat when products are substitutable.

[Builders FirstSource's filing](https://www.sec.gov/Archives/edgar/data/1316835/000119312526054643/bldr-20251231.htm) frames the same cycle: housing-linked demand can fall while large suppliers seek share and higher-value services. Large builders also have purchasing leverage. NAHB's 2026 survey found smaller builders reporting larger material-cost increases than builders with more than 100 starts, suggesting scale buyers negotiate better. ITOCHU can protect procurement through distribution scale, but concentrated builder customers can pressure selling margins.

In pulp, competitors include integrated Nordic, Brazilian, Asian, and North American producers with different fiber costs and currencies. Low-cost plantations and efficient mills set the downside floor over a cycle. ITOCHU can add value through sourcing, finance, logistics, and customer access but cannot dictate global prices. Supply disruption can help temporarily; capacity or weak paper demand can erase it.

Japan construction and real estate

Construction peers include major Japanese general contractors and specialist engineering firms. Barriers include track record, safety, bidding credentials, engineers, subcontractors, and bonding capacity. Competition is destructive when backlog is bought at insufficient margins. ITOCHU's partnerships depend on governance and bid discipline, not order growth alone.

In real estate, ITOCHU competes with Mitsui Fudosan, Mitsubishi Estate, Sumitomo Realty & Development, Tokyu Land, Nomura Real Estate, Daiwa House, Sekisui House, and specialist logistics developers. Many peers have deeper land banks, stronger consumer brands, or larger rental portfolios. ITOCHU's advantage is cross-segment information and the ability to combine materials, logistics, tenants, financing, and group relationships. Its disadvantage is that real estate competes for capital with every ITOCHU segment and may be monetized for portfolio reasons.

In logistics facilities, Prologis, GLP, ESR, Goodman, large Japanese developers, and REIT sponsors compete for land and tenants. High construction costs and rates can reduce supply, supporting rent, but also reduce development spreads. An outer-submarket asset with high vacancy is not protected by strong Tokyo Bay demand.

Logistics operations and automotive aftermarket

3PL and forwarding compete on network breadth, technology, service reliability, warehouse density, customs capability, and price. Global forwarders, Japanese logistics groups, and digital platforms pressure margins. Switching costs are moderate where systems and warehouse processes are embedded, but low on commoditized lanes. Labor and fuel can be repriced only with a lag.

Automotive aftermarket service is less tied to housing but remains exposed to consumer income, miles driven, tire and rubber costs, and service-center execution. Scale, brand, location, and fleet relationships support pricing. It diversifies the segment, but the package does not disclose its revenue or profit, so the model does not claim a quantitative offset.

5. Moat at the segment level

The segment has local advantages rather than one impregnable moat. The strongest candidates are distribution density, supplier/customer relationships, know-how in engineered materials, integrated sourcing, construction credentials, tenant and land networks, and recurring property-management relationships. These can lower procurement cost, improve origination, and make revenue stickier.

The forest-products moat is conditional. A coordinated chain from fiber to distribution can reduce friction and improve information. Commodity products remain market-priced, and high-cost fixed assets can destroy value. The moat is widest in engineered products, value-added processing, and dense distribution; it is narrowest in undifferentiated trading.

The real-estate moat is also conditional. Group tenant relationships and the ability to combine development, materials, logistics, and management can improve projects. Land is still competitively bid and financing is available to large peers. Durable advantage comes from site selection, pre-leasing, construction control, and fees, not cap-rate marks.

Construction credentials create barriers, but returns depend on contracts. Backlog is not a moat if it embeds unrecoverable inflation. Logistics contracts can be sticky where ITOCHU runs embedded systems and facilities, but forwarding remains price competitive.

Over five to ten years, the segment can defend roughly 5% Trading-income margin if it replaces weak assets, grows recurring management and value-added distribution, and refuses low-return development. It does not deserve automatic margin expansion. The decline from 6.33% to 5.00% shows the moat has not prevented adverse mix and execution. Base treats 5% as a steady state. Bull requires observable materials recovery and better construction/realty returns; bear assumes breadth spreads rather than absorbs shocks.

6. Historical growth rates and annual earnings quality

All ITOCHU figures below are reproduced from the verified package. The package does not disclose product historical dollars, so the segment total is the only numeric line. Every n/d is deliberate.

Product / sub-segment	FY2024 revenue	FY2025 revenue	FY2026 revenue	FY2022–FY2026 CAGR	Most recent YoY	Data-package cite
General Products & Realty total	1,380.800 [§3 row 136]	1,520.195 [§3 row 136]	1,528.334 [§3 row 136]	10.18% [row 136]	0.54% [row 136]	data_package §3 external-revenue table, row 136
Forest products and building materials	n/d [§3 rows 163–169]	n/d [§3 rows 163–169]	n/d [§3 rows 163–169]	n/d	n/d	data_package §3 states no product-revenue matrix
Construction and real estate	n/d [§3 rows 163–169]	n/d [§3 rows 163–169]	n/d [§3 rows 163–169]	n/d	n/d	data_package §3 states no product split
Logistics, auto aftermarket and other merchandise	n/d [§3 rows 163–169]	n/d [§3 rows 163–169]	n/d [§3 rows 163–169]	n/d	n/d	data_package §3 states no product split

Arithmetic tie-outs: ¥1,380.800 billion multiplied by 1.10095 equals approximately ¥1,520.195 billion; ¥1,520.195 billion multiplied by 1.00535 equals approximately ¥1,528.334 billion. Both are within 2%. No subsegment figures were back-solved.

Historical year	Revenue	Trading income	Trading-income margin	Revenue YoY	Trading-income YoY
FY2022	1,037.000 [§3 row 136]	65.651 [§3 row 155]	6.33%	n/a	n/a
FY2023	1,263.500 [§3 row 136]	79.900 [§3 row 155]	6.32%	21.84%	21.70%
FY2024	1,380.800 [§3 row 136]	86.100 [§3 row 155]	6.24%	9.28%	7.76%
FY2025	1,520.195 [§3 row 136]	83.072 [§3 row 155]	5.46%	10.09%	-3.52%
FY2026	1,528.334 [§3 row 136]	76.448 [§3 row 155]	5.00%	0.54%	-7.97%
TTM ended 30 Jun 2026	1,528.334 proxy [data gap]	76.303 [§2 row 101]	4.99% indicative	n/m	-0.19% vs FY2026

[DATA GAP: prior-year Q1 segment revenue is absent, so precise TTM segment revenue and margin are unavailable. FY2026 revenue is only a labeled proxy.]

Valuation gains, disposal gains, and impairments

The sealed bridge classifies gains and losses on investments and gains and losses on property, plant, equipment and intangible assets below Trading income. They must not be embedded in segment margin. The package provides consolidated, not segment-attributed, values for FY2026 and TTM and no five-year GPR one-off ledger. The correct treatment is to show the gap, assume no recurring operating gain, and send any explicit below-line stress to synthesis.

Period	GPR-specific investment gains	GPR-specific asset gains / impairments	Consolidated investment gains	Consolidated asset gains / impairments	Treatment
FY2022	n/d	n/d	n/d	n/d	No segment one-off assumed

Period	GPR-specific investment gains	GPR-specific asset gains / impairments	Consolidated investment gains	Consolidated asset gains / impairments	Treatment
FY2023	n/d	n/d	n/d	n/d	No segment one-off assumed
FY2024	n/d	n/d	n/d	n/d	No segment one-off assumed
FY2025	n/d	n/d	n/d	n/d	No segment one-off assumed
FY2026	n/d	n/d	175.214 [§2 row 80]	-12.831 [§2 row 81]	Consolidated context; excluded from Trading income
TTM to 30 Jun 2026	n/d	n/d	82.814 [§2 row 107]	-11.391 [§2 row 108]	Consolidated context; excluded from Trading income

The decline in consolidated investment gains from FY2026 to TTM helps explain why attributable profit did not rise in line with Trading income. It is not evidence that General Products & Realty had the same decline. `[DATA GAP: segment-attributed disposal gains, fair-value gains, restructuring charges, and impairments by year are absent from the verified package.]`

7. Management guidance and evidence anchors

The package contains no segment revenue or Trading-income forecast to 30 June 2031. It provides an FY2027 General Products & Realty parent-profit plan of ¥63.0 billion, but parent profit is not the sealed Trading-income basis and can include equity-method and below-line items. It is a directional checkpoint, not a margin input.

- **Q1 operating signal.** Data package §7 row 299: "Slow progress due to the weak performance of North American construction-materials business." The main near-term downside is operating, not merely accounting. Base requires gradual recovery, not a one-quarter snapback; bear keeps weakness persistent.

- **Segment plan.** Data package §3a row 186: FY2027 General Products & Realty parent-profit plan is ¥63.0 billion. This cannot be mapped one-for-one to Trading income. The model does not force Trading income to equal the plan and leaves below-line reconciliation to synthesis.

- **Organic-growth claim.** Data package §7 row 303: "We also feel that our organic growth is gaining clear momentum." This is company-wide framing. The segment evidence is weaker because Q1 construction materials was slow. The segment receives no organic-growth premium until revenue and Trading income improve together.

- **Exit discipline.** Data package §6 row 284: "As a general rule, investments that meet any of these criteria are subject to exit consideration." Management also said, "We believe proactive asset replacement is necessary even before a business formally breaches our exit criteria." Asset recycling can improve returns, but disposal gains are not recurring Trading income. The forecast credits better mix only through margins and sets below-line gain cadence to zero unless separately evidenced.

- **Horizon gap.** Data package §3a rows 190 and 206: no company forecast exists through 30 June 2031. Every five-year CAGR and margin here is an analyst scenario, not guidance.

8. Forward growth assumptions by product and annual cadence

Because subsegment historical revenue is not disclosed, the model uses three broad operating buckets. The starting allocation in section 10 is an analyst device to make the rollup auditable; it is not reconstructed history. Historical CAGR and latest YoY show the disclosed segment total where relevant and `n/d` for individual businesses.

Base case growth assumptions

Product / sub-segment	3-year historical CAGR	Latest YoY	Management FY+1 guide	Base CAGR TTM–TTM+5y	Justification
Forest products, building materials and auto aftermarket	n/d; disclosed segment FY2023–FY2026 6.55%	n/d; segment 0.54%	No revenue guide; Q1 North American materials weak	1.5%	Soft U.S. housing and high rates limit volume; modest pricing and value-added distribution offset weakness
Construction and real estate	n/d	n/d	Segment parent-profit plan is not a revenue guide	4.0%	Construction repricing, selective residential/logistics development, and management fees support growth without cap-rate gains
Logistics operations and other services	n/d	n/d	No separate guide	3.5%	3PL demand and modern logistics-space utilization grow, partly offset by labor, fuel, and competition
Segment total	6.55% FY2023–FY2026	0.54%	No Trading-income or revenue guide	2.55% implied	Lower than history because recent margin and North American evidence argue for normalization

Base assumes U.S. housing remains subdued near term and recovers gradually as rates normalize, not that one month's start increase becomes a straight line. Japanese residential investment remains pressured by mortgage rates, while logistics development and management offset some weakness. Forest products receive modest nominal pricing but no supercycle.

Bull case growth assumptions

Product / sub-segment	3-year historical CAGR	Latest YoY	Management FY+1 guide	Bull CAGR TTM–TTM+5y	Justification
Forest products, building materials and auto aftermarket	n/d; disclosed segment FY2023–FY2026 6.55%	n/d; segment 0.54%	No revenue guide; Q1 North American materials weak	4.0%	U.S. housing recovers, engineered products gain share, and pulp/lumber spreads normalize without inventory loss
Construction and real estate	n/d	n/d	Segment parent-profit plan is not a revenue guide	8.0%	High-quality backlog, logistics rents, successful developments, and partner contributions drive operations rather than valuation gains
Logistics operations and other services	n/d	n/d	No separate guide	6.0%	Strong 3PL demand, automation, repricing, and tenant expansion improve volume and utilization
Segment total	6.55% FY2023–FY2026	0.54%	No Trading-income or revenue guide	5.45% implied	Below the three-year historical growth and requires concurrent cyclical and execution improvement

Bull is not a return to pandemic timber pricing. It requires better housing volume, disciplined inventory, strong construction execution, and logistics rent or service growth. Revenue growth caused only by commodity inflation without margin improvement does not qualify.

Bear case growth assumptions

Product / sub-segment	3-year historical CAGR	Latest YoY	Management FY+1 guide	Bear CAGR TTM–TTM+5y	Justification
Forest products, building materials and auto aftermarket	n/d; disclosed segment FY2023–FY2026 6.55%	n/d; segment 0.54%	No revenue guide; Q1 North American materials weak	-2.0%	Restrictive U.S. rates, lower starts, inventory losses, pulp oversupply, and weak pricing reduce volume and spread
Construction and real estate	n/d	n/d	Segment parent-profit plan is not a revenue guide	-1.0%	Higher Japanese rates, slower absorption, cost overruns, and cautious project starts outweigh fees
Logistics operations and other services	n/d	n/d	No separate guide	1.0%	Essential logistics volume remains positive, but labor, fuel, and pricing pressure limit growth
Segment total	6.55% FY2023–FY2026	0.54%	No Trading-income or revenue guide	-1.13% implied	Persistent rather than catastrophic housing and construction weakness

Bear assumes weak North American construction materials is not fixed quickly. It assumes Japan rate normalization raises cap rates and mortgage costs before rents and contract pricing adjust. Logistics is the most resilient bucket, preventing a steeper decline.

Year-by-year revenue cadence from the TTM proxy

Scenario	30 Jun 2026 proxy	30 Jun 2027	30 Jun 2028	30 Jun 2029	30 Jun 2030	30 Jun 2031
Bear revenue	1,528.3	1,510.8	1,493.6	1,476.8	1,460.4	1,444.4
Base revenue	1,528.3	1,566.9	1,606.7	1,647.7	1,689.9	1,733.4
Bull revenue	1,528.3	1,610.9	1,698.3	1,790.9	1,889.1	1,993.2

The cadence compounds each bucket at its scenario CAGR rather than applying one rounded segment rate. The implied segment CAGR can differ slightly from a simple displayed rate.

9. Forward Trading-income margin assumptions and one-off cadence

The exact profit basis is `Trading income`. Current indicative margin is 4.99%, based on TTM Trading income and the FY2026 revenue proxy. Product current margins are not disclosed; horizon margins are analyst assumptions that reconcile to the segment.

Scenario	Current indicative margin	TTM+5y Trading-income margin	Change	Mechanism
Bear	4.99%	3.20%	-179 bps	Materials spread compression, inventory losses, construction overruns, weak property absorption and incomplete cost pass-through
Base	4.99%	4.98%	-1 bp	North American materials stabilize; construction and logistics repricing offset mix and rate pressure
Bull	4.99%	6.15%	+116 bps	Housing recovery, value-added mix, construction repricing, logistics utilization and recurring fee growth

The bull increase exceeds 100 basis points and requires specific evidence: two consecutive quarters of Trading-income growth faster than revenue; normalized North American materials; no material development or construction provision; and rising recurring property/logistics fees. Without those signals, bull should not be central.

Scenario and bucket	TTM+5y revenue	TTM+5y Trading-income margin	TTM+5y Trading income	Margin rationale
Bear forest products / materials / auto	759.8	2.00%	15.2	Weak housing, pulp/lumber spread pressure and inventory drag
Bear construction / real estate	363.4	5.00%	18.2	Existing projects and fees cushion decline, but cost and rate pressure remain
Bear logistics / other services	321.3	4.00%	12.9	Positive volume, offset by labor, fuel and repricing lag
Base forest products / materials / auto	905.5	4.00%	36.2	Mid-cycle spreads and gradual North American recovery
Base construction / real estate	464.9	6.50%	30.2	Better contracts, selective development and recurring fees
Base logistics / other services	363.0	5.50%	20.0	Stable utilization and moderate repricing
Bull forest products / materials / auto	1,022.7	5.00%	51.1	Housing recovery and value-added mix without commodity windfall
Bull construction / real estate	561.4	8.00%	44.9	Project execution, rent growth and capital-light fees
Bull logistics / other services	409.1	6.50%	26.6	Dense network, automation and high utilization

Annual Trading-income cadence

Scenario	30 Jun 2026 TTM	30 Jun 2027	30 Jun 2028	30 Jun 2029	30 Jun 2030	30 Jun 2031
Bear margin	4.99%	4.50%	4.00%	3.50%	3.20%	3.20%
Bear Trading income	76.3	68.0	59.7	51.7	46.7	46.2
Base margin	4.99%	4.80%	4.80%	4.90%	5.00%	4.98%
Base Trading income	76.3	75.2	77.1	80.7	84.5	86.4
Bull margin	4.99%	5.10%	5.30%	5.60%	5.90%	6.15%
Bull Trading income	76.3	82.2	90.0	100.3	111.5	122.6

Base dips in year one despite revenue growth because North American weakness and contract repricing take time. Bull margin expands gradually. Bear reaches a trough by year four and stabilizes, recognizing that management can exit weak assets and reprice some business.

Valuation gains and impairment cadence outside Trading income

This is a synthesis handoff, not segment Trading income. Positive values are potential below-line gains; negative values are potential impairments or disposal losses attributable to this segment. Because no segment one-off ledger exists, base and bull assume zero net one-offs, while bear includes a bounded stress.

Scenario	30 Jun 2027	30 Jun 2028	30 Jun 2029	30 Jun 2030	30 Jun 2031	Five-year net	Trading-income treatment
Bear	0.0	-5.0	-3.0	0.0	0.0	-8.0	Excluded; synthesis may place below line
Base	0.0	0.0	0.0	0.0	0.0	0.0	No recurring gains credited
Bull	0.0	0.0	0.0	0.0	0.0	0.0	No disposal-gain uplift credited

The bear impairment is an analyst stress for weak building-material or development assets, not guidance. It should be revisited if carrying values, goodwill, development inventory, or property disclosures emerge. The model assumes no annual fair-value gains because the bridge places investment and asset gains below Trading income and the package says gains are lumpy.

10. Segment rollup and reconciliation

Starting modeling allocation

To make the forecast reconstructable, the FY2026 revenue proxy is allocated 55% to forest products, building materials, and automotive aftermarket; 25% to construction and real estate; and 20% to logistics and other services. These weights are analytical, not historical claims. They reflect the breadth on ITOCHU's segment page and keep logistics visible.

Modeling bucket	TTM revenue proxy allocation	Allocation weight	Disclosure status
Forest products, building materials and auto aftermarket	840.6	55%	Analyst allocation; company dollar split not disclosed
Construction and real estate	382.1	25%	Analyst allocation; company dollar split not disclosed
Logistics operations and other services	305.7	20%	Analyst allocation; company dollar split not disclosed
Segment total	1,528.3	100%	FY2026 revenue proxy from verified package

The bucket weights are an uncertainty device, not issuer evidence. Holding each scenario's bucket CAGRs unchanged, reallocating 10 percentage points of starting revenue from forest products/materials to construction/real estate would raise TTM+5y segment revenue by approximately ¥7.2 billion in Bear, ¥21.3 billion in Base, and ¥38.6 billion in Bull. Synthesis should therefore use the segment totals and retain this allocation sensitivity; it should not treat the bucket values as independently sourced forecasts.

Bottom-up horizon rollup

Case	Product / sub-segment	TTM+5y revenue	Trading-income margin	TTM+5y Trading income
Bear	Forest products, building materials and auto aftermarket	759.8	2.00%	15.2
Bear	Construction and real estate	363.4	5.00%	18.2
Bear	Logistics operations and other services	321.3	4.00%	12.9
Bear	Segment total	1,444.4	3.20%	46.2
Base	Forest products, building materials and auto aftermarket	905.5	4.00%	36.2
Base	Construction and real estate	464.9	6.50%	30.2
Base	Logistics operations and other services	363.0	5.50%	20.0
Base	Segment total	1,733.4	4.98%	86.4
Bull	Forest products, building materials and auto aftermarket	1,022.7	5.00%	51.1
Bull	Construction and real estate	561.4	8.00%	44.9
Bull	Logistics operations and other services	409.1	6.50%	26.6
Bull	Segment total	1,993.2	6.15%	122.6

Rounded product revenue sums to each segment total within 0.1%. Unrounded bucket calculations produce Bear/Base/Bull Trading income of ¥46.215 billion, ¥86.405 billion, and ¥122.636 billion, which round to the segment totals of ¥46.2 billion, ¥86.4 billion, and ¥122.6 billion. The displayed Bear component profits sum to ¥46.3 billion only because each bucket is rounded separately to one decimal; there is no plug. The exact Base blended margin is 4.9846%, displayed as 4.98%.

Probability-weighted horizon outputs are ¥1,713.1 billion revenue and ¥83.6 billion Trading income before corporate allocation or below-line items. These are descriptive; synthesis should retain separate scenarios. The non-uniform 25%/55%/20% Bear/Base/Bull weights put most weight on stabilization near the recent 5% margin, retain a larger Bear than Bull tail because North American materials, rates, construction costs, and opaque asset intensity are current negatives, and cap Bull at 20% because it requires several independent recoveries to occur together.

11. Key risks, wildcards, and monitoring signals

- **North American housing and rates — Bear.** High mortgage rates reduce starts and builder demand, while lumber volatility creates inventory risk. Monitor single-family permits/starts, builder incentives, lumber prices, and two quarters of segment margin. Revenue recovery without margin recovery is insufficient.

- **Timber, pulp, and commodity exposure — Bear and Bull.** Pulp grades and lumber can diverge. High prices lift revenue but can hurt working capital and demand; low prices cause write-downs and impairment. Monitor inventories, capacity closures, woodchip/energy costs, freight, and restructuring. Bull requires spread improvement, not nominal inflation.

- **Construction inflation and labor shortage — Bear.** Wages, subcontractor availability, materials, and delays can turn backlog into losses. Monitor new-order margins, old-cost projects, provisions, claims, and working capital. Cut the model if growth is low-margin backlog.

- **Japan rates and housing affordability — Bear.** BOJ tightening raises financing costs and cap rates; Flat 35 rates pressure buyers. Monitor mortgage applications, starts, absorption, land prices, and interest expense. Base requires rent and price growth to cover capital cost.

- **Logistics-property location — Bear and Base.** Tokyo and Osaka are constructive, but Nagoya and Fukuoka vacancies show national averages mislead. Monitor pre-leasing, local vacancy, rent-free periods, costs, and exit cap rates.

- **Valuation-gain and impairment opacity — Bear.** Parent profit can differ from Trading income because investments and assets are sold or impaired. Any gain belongs below line; any impairment should be tested against carrying value and repeated underperformance.

- **Asset intensity and recycling — Bear and Bull.** Development inventory, timber/pulp assets, construction stakes, and logistics facilities absorb cash. Monitor segment capex, sales, cash conversion, net investment, and exits. Bull requires recurring Trading income, not more assets.

- **Equity-method and ownership complexity — All cases.** Partner profit may sit below Trading income and ownership changes can alter consolidation. Synthesis must avoid adding economics in both segment Trading income and equity-method earnings.

- **FX and freight — Bear and Bull.** Yen depreciation may translate overseas profit but raises imported inputs. Freight spikes can lift logistics revenue while squeezing customers. Monitor transactional exposure and hedging.

- **Climate, forestry, and regulation — Bear.** Forestry concessions, certification, carbon rules, wildfire, storms, and biodiversity requirements can constrain supply or require capital. They can raise prices but also strand assets.

Monitoring scorecard

Signal	Bull confirmation	Base-consistent	Bear trigger
Segment revenue and Trading income	Profit grows faster than revenue for two quarters	Both grow at low single digits	Revenue grows while Trading income falls
North American materials	Volume and spread recover with controlled inventory	Gradual stabilization	Further weakness or write-down
Trading-income margin	Above 5.5% with recurring drivers	Around 4.8–5.2%	Below 4.0% or repeated decline
U.S. single-family housing	Sustained permits and starts recovery	Sideways activity	New downturn with restrictive rates
Japan property	Stable absorption and rent covers financing	Selective project returns	Slower sales, cap-rate expansion, impairments
Logistics property	Falling vacancy and successful pre-leasing	Location-selective demand	Prolonged vacancy in new facilities
Construction	Repriced backlog and fewer provisions	Cost pass-through offsets inflation	Cost overruns and cash outflow
Gains and impairments	No gains needed for plan	Zero net one-offs	Repeated impairments or exit losses

Summary

Case	Segment TTM+5y Revenue	Exact profit metric	Segment TTM+5y Profit Margin	Segment TTM+5y Profit	Probability
Bear	¥1,444.4bn	Trading income	3.20%	¥46.2bn	25%
Base	¥1,733.4bn	Trading income	4.98%	¥86.4bn	55%
Bull	¥1,993.2bn	Trading income	6.15%	¥122.6bn	20%

The segment is not a simple secular compounder. It can grow through value-added materials, construction partnerships, recurring property management, and logistics demand, but recent history shows revenue growth with margin compression. Base assumes 2.55% implied revenue growth and a flat 4.98% displayed Trading-income margin, producing ¥86.4 billion from the unrounded bucket rollup. Bull requires observable North American materials recovery and capital-light realty/logistics economics; bear reflects housing, rate, commodity, cost, and impairment risks. No scenario credits recurring valuation or disposal gains inside Trading income.

Appendix B4 - Machinery

ITOCHU Machinery Company — Segment Deep Dive

Ticker: 8001.T **Run ID:** `pulse-cio-20260928T200149+0800` **TTM anchor:** 30 June 2026 **Exact forecast horizon:** 30 June 2031 **Currency:** Japanese yen; monetary amounts are ¥ billion unless otherwise stated **Sealed segment profit basis:** **Trading income Scenario probabilities:** Bear 25%; Base 55%; Bull 20%

0. Segment boundary and taxonomy note

Machinery is a stable reportable segment across the FY2022–FY2026 historical series. The FY2027 organizational changes described in the data package affected Energy & Chemicals, Food and The 8th, not Machinery; therefore Machinery's historical external revenue and Trading income remain comparable at the reportable-segment level. The operating boundary spans two formal divisions: Plant Project, Marine & Aerospace; and Automobile, Construction Machinery & Industrial Machinery. The package's statutory bridge is verified and additive, and it seals **Trading income**—not segment net profit, equity-method earnings, EBITDA or operating income—as the common profit basis. Corporate/unallocated items and all below-line equity earnings remain outside this appendix's segment margin.

1. What the segment actually is

Machinery is not a manufacturer with a single product line. It is an asset-origination, distribution, project-development, financing and operating platform that connects equipment makers, project sponsors, governments, infrastructure users and end customers. ITOCHU's own [Machinery Company description](https://www.itochu.co.jp/en/business/machinery/index.html) identifies four economically distinct exposure clusters: automobiles; construction and industrial machinery; marine and aerospace; and urban environmental, power and transportation infrastructure. Those activities share relationships, financing capability and cross-border execution, but their revenue recognition, working-capital needs and cycle sensitivities differ sharply.

Mobility and automobiles. ITOCHU exports vehicles and parts, distributes and retails passenger and commercial vehicles, provides inventory support, and participates in financing and leasing. The customer can be an automaker, distributor, dealer, fleet operator or retail buyer. Revenue can be recognized on gross product sales in consolidated dealerships and distributors, while financing, leasing and associate earnings may appear through different accounting lines. Pricing is usually market-based and competitive. Gross margins are modest on new-vehicle sales, with better economics in used vehicles, parts, repair, finance, insurance and recurring fleet services. Yanase, overseas dealerships, Isuzu-related activities and parts networks make this more than simple trading: the model depends on inventory turns, credit discipline and customer lifetime value.

Construction and industrial machinery. The Company sells, rents, finances and services construction equipment, temporary materials, generators, machine tools, factory automation systems, semiconductor and battery-production equipment and other industrial systems. ITOCHU's [construction and industrial machinery page](https://www.itochu.co.jp/en/business/machinery/field/03.html) describes sales and rental platforms in Japan and North America and exposure to advanced manufacturing systems. The customer buys uptime and financing as much as hardware. New-equipment margins are cyclical; aftermarket parts, service, rental and finance improve recurring economics. The 33.4% interest in Hitachi Construction Machinery strengthens commercial coordination and finance reach, but Hitachi Construction Machinery is an associate: its revenue is not consolidated into Machinery revenue and its equity-method contribution is not Trading income.

Aerospace and marine. The platform markets defense and civil aerospace equipment, arranges and owns aircraft and engine leases, sells aftermarket parts, trades new and second-hand vessels, owns ships and arranges charters. ITOCHU says its commercial aviation business leases more than 100 aircraft and engines through its broader network and has established IC Aero as a dedicated leasing company. Aircraft and ship assets create recurring lease or charter revenue but require large, long-lived capital commitments, residual-value underwriting, maintenance reserves and funding. Distribution and aftermarket activities are less capital-intensive and often earn value from certification, installed-base relationships and scarce parts availability. Defense and government aerospace programs have long procurement cycles and high qualification barriers.

Infrastructure and power. Machinery develops, finances, constructs and operates water, waste-to-energy, renewable power, conventional power, rail, bridge, port, airport and chemical-plant projects. Revenue can come from equipment supply, EPC

coordination, operation and maintenance, availability payments, power sales or asset-management fees. ITOCHU's [Plant Project, Marine & Aerospace page](https://www.itochu.co.jp/en/business/machinery/field/01.html) describes activities from project development and project finance through operations and maintenance. The commercial model converts early development risk into long-duration contracted cash flows when projects reach operation, but timing is lumpy and exposed to permitting, construction, counterparty and refinancing risk.

The go-to-market model is relationship-led. ITOCHU uses manufacturer partnerships, local operating subsidiaries, project-finance capability, public-sector relationships and its balance sheet to enter value chains at multiple points. This can create informational advantage and recurring fees, but it also means consolidated revenue alone is an incomplete measure of economic exposure. Associates such as Tokyo Century and Hitachi Construction Machinery can matter substantially to segment net profit while sitting outside both consolidated revenue and Trading income. This appendix deliberately forecasts only the sealed revenue/Trading-income perimeter.

2. Current economics at the TTM anchor

TTM external revenue is **¥1,526.479bn**, built as FY2026 ¥1,500.536bn less Q1 FY2026 ¥344.386bn plus Q1 FY2027 ¥370.329bn. TTM **Trading income is ¥92.962bn**, built as FY2026 ¥90.949bn less Q1 FY2026 ¥18.798bn plus Q1 FY2027 ¥20.811bn. This is exactly four non-overlapping reported quarters—Q2 FY2026, Q3 FY2026, Q4 FY2026 and Q1 FY2027—ending **30 June 2026**; the forecast horizon is exactly five calendar years later, **30 June 2031**. The resulting TTM Trading-income margin is **6.09%**. The exact annual-minus-prior-Q1-plus-current-Q1 components are reproduced in quant foundation P4 and the sealed TTM Machinery Trading-income value is reproduced in data package §2 and `statutory_bridge.json`; the controlling filings are ITOCHU's [FY2026 annual results](https://www.itochu.co.jp/en/ir/financial_statements/2026/__icsFiles/afieldfile/2026/05/01/26_ended_01_e.pdf) and [Q1 FY2027 results](https://www.itochu.co.jp/en/ir/financial_statements/2027/__icsFiles/afieldfile/2026/08/06/27_1st_01_e.pdf). FY2026 revenue declined 1.9%, but Trading income rose 3.3%, lifting margin from 5.76% to 6.06% [data package §3, Machinery rows]. The TTM update then added 1.7% to FY2026 revenue and 2.2% to FY2026 Trading income, indicating modest operating resilience rather than a step-change.

The data package does not disclose external revenue, Trading income, unit volumes or capital expenditure for the four exposure clusters. To meet the required bottom-up forecast without fabricating historical product sales, the model makes an explicit **analyst allocation—not an issuer disclosure**—of TTM revenue: 35% mobility/auto, 25% construction and industrial machinery, 20% aerospace/marine, and 20% infrastructure/power. These weights are scenario-construction devices only; they are not historical facts and must be replaced if ITOCHU publishes divisional figures. The current bucket margins are also analyst balancing assumptions. Using unrounded allocated revenues and a 5.26% construction/industrial margin produces ¥92.963bn of Trading income, a ¥0.001bn rounding difference from the sealed ¥92.962bn, and a 6.09% segment margin.

Modeled exposure	Analyst TTM revenue allocation	Analyst-modeled TTM revenue	Analyst balancing Trading-income margin	Economic character
Mobility and automobiles	35%	534.3	4.50%	High revenue turnover, modest hardware margin, richer service/finance mix
Construction and industrial machinery	25%	381.6	5.26%	Cyclical equipment sales plus service, rental and factory-automation content
Aerospace and marine	20%	305.3	8.00%	Capital-intensive lease/charter assets plus higher-value aftermarket and agency revenue
Infrastructure and power	20%	305.3	8.00%	Lumpy development/EPC revenue and contracted operating platforms
Segment total	100%	1,526.5	6.09%	Ties to the sealed TTM segment totals; rounding difference is immaterial

[DATA GAP: ITOCHU does not disclose external revenue or Trading income by these four Machinery exposure buckets. The allocation above is an analyst assumption, not historical fact.]

Capital intensity varies more within Machinery than in many reportable segments. Auto and machinery distribution absorb inventory and receivables but can recycle capital quickly if turns and collections remain disciplined. Rental fleets, aircraft, engines, ships and power assets require multi-year funding, depreciation and residual-value assumptions.

Project-development businesses may be light in early-stage cash outlay but become capital-heavy when ITOCHU provides sponsor equity or guarantees. Associates can magnify economic exposure without consolidating their assets or revenue. The data package reports group FY2026 capex of ¥260.1bn, but no Machinery maintenance/growth split; allocating the group number would be false precision.

[DATA GAP: Machinery maintenance capex, growth capex, lease additions, project-equity commitments and invested capital are not separately disclosed in the data package.]

3. Unit economics: how revenue becomes Trading income

The sealed metric matters. ITOCHU defines Trading income as **gross trading profit + selling, general and administrative expenses + provision for doubtful accounts**, preserving the issuer's signed line-item convention [quant foundation P2; FY2026 annual results linked above]. It captures the spread between sales and direct cost, less operating overhead and credit provisions. The eight named segment Trading-income lines plus the separately disclosed Others, Adjustments & Eliminations line reconcile exactly to statutory operating income in both FY2026 and TTM; Machinery itself is ¥90.949bn and ¥92.962bn, respectively. Trading income does not include equity in earnings of associates and joint ventures, investment gains, interest, tax or parent-attributable profit. Consequently, associate-heavy growth can create value without lifting this appendix's revenue or Trading income, while a consolidated dealership acquisition can increase both revenue and working-capital risk.

Mobility unit economics. Vehicle distribution begins with wholesale or retail gross profit per unit, then subtracts dealer labor, facilities, advertising, logistics and inventory financing. New-vehicle front-end margins are competitive and vulnerable to incentive intensity. Parts, repair, used vehicles, insurance and finance commissions usually provide better gross profit and recur against the installed base. A higher aftersales attach rate and faster inventory turns can expand Trading-income margin without heroic vehicle-price inflation. Conversely, higher policy rates raise floor-plan financing and consumer monthly payments, lengthen days-in-inventory and increase credit losses. Currency mismatch can also hurt if vehicle purchase prices reset before local selling prices.

Construction and industrial machinery unit economics. New-equipment sales earn a distribution spread and may carry receivables or dealer inventory. Rental earns utilization-based revenue against depreciating fleets; aftermarket earns parts and labor against the installed base; finance earns a spread after funding and credit costs. Mining and large construction equipment orders are high ticket and tied to customer capex, commodity confidence and infrastructure budgets. Industrial machinery orders are tied to factory investment and often have a multi-quarter lead time. The margin breaks upward when installed-base services, rental utilization, automation systems and finance grow faster than low-margin hardware. It breaks downward when order books reverse, used-equipment prices fall, channel inventory rises or defaults increase.

Aerospace and marine unit economics. Aircraft and engine leasing converts a large upfront asset purchase into contractual lease rentals. Economic profit depends on lease rate factor, utilization, maintenance reserves, funding cost, depreciation, residual value and remarketing cost. A 100%-utilized asset can still destroy value if acquired too dearly or financed at a rate above the lease yield. Aftermarket parts and distribution can be less balance-sheet intensive and benefit from scarcity and certification barriers. Ship ownership and chartering similarly depend on purchase price, debt, charter rate, off-hire time and residual scrap/value; spot exposure adds substantial volatility. Defense representation and program support can earn durable fee streams but have long tender-to-revenue cycles.

Infrastructure and power unit economics. Development-stage economics are option-like: years of bid, engineering and permitting expense may precede financial close. EPC coordination can generate large revenue on a low spread and expose the contractor to delay and cost-overrun claims. Operational water, waste-to-energy and power projects can earn stable availability or contracted offtake revenue after commissioning. Margin improves when projects shift from bid expense and construction risk into contracted operations and maintenance. It deteriorates when interest rates raise the weighted average cost of capital, equipment costs exceed fixed-price budgets, commissioning slips, counterparties renegotiate tariffs or merchant power exposure rises.

Across the segment, rate sensitivity works through four different channels. First, retail and commercial vehicle affordability affects volumes. Second, dealer, rental and equipment finance costs affect spreads and credit. Third, aircraft, ship and infrastructure asset values discount long-duration cash flows and can face refinancing cliffs. Fourth, a higher hurdle rate slows financial close on new projects. Rate cuts are not automatically bullish: they may accompany weak demand or falling used-equipment values. The relevant indicator is the combination of customer orders, lease rates, credit spreads, asset utilization and funding cost.

Order-cycle sensitivity is similarly uneven. Vehicle orders can adjust within quarters, construction machinery follows dealer inventory and customer capex, industrial systems follow factory investment, aircraft leasing follows multi-year manufacturer delivery slots, and infrastructure projects can take several years from bid to operation. A one-year revenue decline does not necessarily mean structural share loss, while a one-quarter order surge may be only delivery timing. The annual cadence in section 10 therefore models an early downturn/recovery sequence in Bear, a gradual normalization in Base and a sustained order/upcycle in Bull rather than applying one undifferentiated growth rate.

4. Competitive dynamics

Machinery competes with several different archetypes. Other Japanese sogo shosha—Mitsubishi Corporation, Mitsui, Marubeni, Sumitomo Corporation and Sojitz—compete for infrastructure concessions, project equity, distribution rights and strategic stakes. Manufacturers and captive finance arms compete for equipment customers directly. Specialist lessors compete in aviation and ships. Engineering firms and infrastructure funds compete for projects. Local distributors can have stronger customer relationships in individual countries. The segment's advantage is therefore not lowest manufacturing cost; it is the ability to assemble partners, capital, distribution, operations and cross-border risk management around an opportunity.

Mobility competition and pricing. ITOCHU faces OEM-owned distribution, large dealer groups, independent used-car platforms and captive finance. The global demand backdrop is mature but not stagnant: OICA reported 2025 global vehicle sales of 99.8 million, up 4.7%, while emphasizing regional fragmentation, trade tensions and technology transition ([OICA 2025 industry update](https://oica.net/auto-industry-growth-shifted-east-in-2025-amid-global-repositioning/)). Pricing power resides primarily with scarce brands, strong local dealership territories and high-retention service networks. A trading intermediary without territorial rights or aftersales depth has little moat. Electrification can reduce some maintenance revenue, shift bargaining power to software/battery platforms and strand internal-combustion inventory, but it also creates new charging, fleet and financing opportunities.

Construction and industrial machinery competition. Caterpillar, Komatsu, Hitachi Construction Machinery, Deere, Volvo Construction Equipment and Chinese OEMs compete on product quality, dealer coverage, financing, uptime and total cost of ownership. Chinese equipment makers can pressure new-machine pricing in emerging markets. Dealer service density and parts availability are durable differentiators because downtime is expensive. Hitachi Construction Machinery's latest disclosed cycle commentary indicated strong North American hydraulic-excavator demand but a year-on-year decline expected in new mining machinery; this illustrates why the model separates construction/industrial orders from a single Machinery growth rate ([Hitachi Construction Machinery IR materials](https://www.hitachicm.com/global/en/ir/library/results/)). ITOCHU's higher 33.4% ownership can deepen finance and distribution cooperation, but value depends on execution and remains below Trading income if realized through equity-method earnings.

Aerospace and marine competition. Aircraft leasing is scale- and funding-sensitive. AerCap, Air Lease, Avolon and other global lessors compete for aircraft purchase slots and airline credits; banks and capital markets compete on funding. ITOCHU's proposed 50% investment in SKY-U, owner of ACG, could add scale after closing, but the data package requires entry only on the disclosed associate basis. ACG's revenue and lease margin should not be consolidated into Machinery. The structural market is attractive: Boeing's 2025 outlook forecasts 43,600 new commercial aircraft deliveries through 2044 and 4.2% annual passenger-traffic growth, with roughly half of deliveries for replacement ([Boeing Commercial Market Outlook](https://boeing.mediaroom.com/news-releases-statements?item=131556)). However, that source is an aircraft manufacturer and may be optimistic. Near-term supply scarcity helps lease rates and residual values, while eventual supply normalization, airline failures or funding stress can reverse that benefit.

Marine trading and ownership compete against large shipowners, leasing companies, brokers and other trading houses. Relationships and access to Japanese finance can help, but charter markets are commoditized and volatile. Decarbonization raises replacement demand and technical-service needs, yet it also risks premature obsolescence if fuel pathways or regulation change.

Infrastructure and power competition. Global developers, utilities, infrastructure funds, EPC companies and local state-linked firms compete on cost of capital, technical track record, bid price and regulatory access. The addressable capital pool is large: the IEA estimated 2025 global energy investment at US$3.3tn, including US$2.2tn in clean technologies, while noting grid investment around US$400bn remains behind generation needs ([IEA World Energy Investment 2025](https://www.iea.org/news/global-energy-investment-set-to-rise-to-33-trillion-in-2025-amid-economic-uncertainty-and-energy-security-concerns)). For ITOCHU this supports a long pipeline in power, grids and environment projects, but bid competition can transfer too much construction, inflation or merchant risk to sponsors. Scale is useful only if underwriting discipline survives the auction.

5. Segment-level moat

The Machinery moat is real but narrow and activity-specific. It is strongest where several capabilities must be combined: local distribution plus manufacturer trust; project origination plus financing plus operations; or aerospace relationships plus regulatory approvals plus lifecycle support. ITOCHU's [Machinery subsidiary and associate network](https://www.itochu.co.jp/en/about/partner/machinery/index.html) includes dealerships, machinery sales and rental, aerospace support, power operations and multiple strategic associates. That network creates repeat information, installed-base access and the ability to place capital across a value chain.

The moat is **moderate in mobility**. Brand rights, dealer footprints, installed-base service and customer data can support returns, but consumers can switch brands and price-shop. Electric vehicles and direct sales can weaken traditional dealer economics. The durable part is local execution and aftersales, not gross vehicle throughput.

The moat is **moderate to strong in construction and industrial machinery** where parts availability, technicians, finance and resale knowledge protect the installed base. A customer with expensive idle equipment values uptime over a small purchase-price saving. Yet new-equipment pricing remains cyclical, and the rise of competent Chinese OEMs limits complacency. The Hitachi Construction Machinery relationship increases strategic relevance but also concentrates execution around a partner whose earnings can cycle.

The moat is **moderate in aerospace** because certification, government relationships, fleet-management expertise and access to scarce assets matter. It is weaker in commodity-like aircraft funding when competitors have cheaper capital, and weak in spot ship chartering. Aftermarket distribution and defense support are more defensible than pure asset ownership. ACG may improve scale but cannot be counted as a moat before closing and operational proof.

The moat is **moderate in infrastructure/power origination and operations**. Concession track record, local partners and financing capability can win scarce projects, while operating history can lower perceived execution risk. But the project itself is often won through competitive bidding, and a low bid can destroy the very economics that appear to demonstrate market share. Long-duration contracts protect cash flow after commissioning, not necessarily return on invested capital at entry.

Over five to ten years, the segment can defend a mid-single-digit Trading-income margin if it continues shifting toward service, aftermarket, contracted operations and disciplined asset turns. It does not deserve a blanket high-moat label. Revenue growth purchased through low-return assets, aggressive project bids or inventory accumulation would weaken the moat. The true protection is capital allocation and operating networks, and both must be tested transaction by transaction.

6. Historical growth rates reproduced from the data package

ITOCHU discloses only reportable-segment revenue, not the four exposure-bucket histories used in the forward model. Therefore the finest defensible historical row is Machinery total. Every historical value below comes from the official external-revenue and Trading-income series reproduced in data package §3. The controlling sources are ITOCHU's [downloadable financial data](https://www.itochu.co.jp/en/ir/finance/financial_data/index.html), the [FY2026 annual results](https://www.itochu.co.jp/en/ir/financial_statements/2026/__icsFiles/afieldfile/2026/05/01/26_ended_01_e.pdf), and, for the TTM update, the [Q1 FY2027 results](https://www.itochu.co.jp/en/ir/financial_statements/2027/__icsFiles/afieldfile/2026/08/06/27_1st_01_e.pdf). “Three-year CAGR” uses FY2023 to FY2026, exactly three annual intervals; it is an arithmetic derivative of the cited values. “Latest YoY” uses FY2025 to FY2026.

Product / sub-segment	FY2024 revenue	FY2025 revenue	FY2026 revenue	3-year CAGR	Most recent YoY	Data package cite
Machinery reportable segment	1,478.9 [§3 revenue table, Machinery row]	1,529.969 [§3 revenue table, Machinery row]	1,500.536 [§3 revenue table, Machinery row]	2.5% from FY2023 1,393.5 [§3 revenue table, Machinery row]	-1.9% [§3 revenue table, Machinery row]	data_package.md §3, external revenue row “Machinery”
Mobility and automobiles	Not separately disclosed [§3 product inventory]	Not separately disclosed [§3 product inventory]	Not separately disclosed [§3 product inventory]	n/a	n/a	data_package.md §3, product and geographic inventory
Construction and industrial machinery	Not separately disclosed [§3 product inventory]	Not separately disclosed [§3 product inventory]	Not separately disclosed [§3 product inventory]	n/a	n/a	data_package.md §3, product and geographic inventory
Aerospace and marine	Not separately disclosed [§3 product inventory]	Not separately disclosed [§3 product inventory]	Not separately disclosed [§3 product inventory]	n/a	n/a	data_package.md §3, product and geographic inventory
Infrastructure and power	Not separately disclosed [§3 product inventory]	Not separately disclosed [§3 product inventory]	Not separately disclosed [§3 product inventory]	n/a	n/a	data_package.md §3, product and geographic inventory

The revenue arithmetic check passes: **¥1,529.969bn × (1 − 1.9238%) = ¥1,500.536bn**, exactly matching FY2026 within rounding. The FY2023-to-FY2026 check also passes: **¥1,393.5bn × (1 + 2.4975%)³ = ¥1,500.536bn**. No product dollars were back-solved because no product growth rates or anchor dollars exist in the package.

Trading income and margin show better progress than revenue:

Metric	FY2022	FY2023	FY2024	FY2025	FY2026	TTM Jun-26
Revenue	1,194.0	1,393.5	1,478.9	1,529.969	1,500.536	1,526.479
Trading income	57.254	71.7	84.9	88.084	90.949	92.962
Trading-income margin	4.80%	5.15%	5.74%	5.76%	6.06%	6.09%

Sources: ITOCHU downloadable financial data and FY2026 annual results for FY2022–FY2026; Q1 FY2027 results and the exact annual-minus-prior-Q1-plus-current-Q1 schedule in quant foundation P4 for TTM; data package §3 reproduces the controlled series. FY2023-to-FY2026 revenue CAGR was 2.5%, whereas Trading-income CAGR was 8.2%. The 125bp margin gain from FY2022 to FY2026 demonstrates mix and execution improvement, but the absence of product disclosure prevents attributing that gain to any one exposure.

[DATA GAP: No historical revenue, growth, margin, utilization, order backlog or unit-volume series is disclosed for the Machinery sub-segments in the data package.]

7. Management guidance and disclosed anchors

The following are all Machinery-relevant forward anchors present in the data package. Segment parent-profit guidance is context only; it is not substituted for Trading income.

- **FY2027 segment parent-profit plan — data package §3a, paragraph following the quarterly table.** The package states that Machinery's FY2027 parent-profit plan is **¥220.0bn, revised up ¥40.0bn**. This is not a forecast of Trading income. The upward revision reflects strong North American power and Hitachi Construction Machinery performance and includes extraordinary factors in current official materials; the appendix therefore treats it as positive operating evidence, not a margin target.

- **Q1 operating signal — data package §7, Machinery row.** Q1 FY2027 revenue was **¥370.3bn** and Trading income was **¥20.8bn**; the watch items are acquisition execution and the auto cycle. The revenue arithmetic supports the TTM anchor, while the quarter's 5.6% Trading-income margin cautions against extrapolating the full-year 6.09% TTM margin mechanically.

- **ACG underwriting priority — data package §6.** Management's current priority for the proposed SKY-U/ACG transaction is "**to enhance earnings on the existing asset base**." The planned purchase is approximately US$1.946bn for 50% of SKY-U, with associate accounting after a planned November 2026 close. Base and Bull do not consolidate ACG revenue or Trading income. Any value from ACG should enter the group model through equity-method earnings only after closing and evidence.

- **Group organic-growth framing — data package §7.** CFO Tsuyoshi Naka said, "**We also feel that our organic growth is gaining clear momentum.**" This is a group-wide statement, not a Machinery-specific long-term target. It supports testing organic progression but does not justify crediting acquisition revenue or a five-year segment CAGR.

- **Group forecast — data package §7.** Management stated, "**Our company-wide forecast remains unchanged at ¥950.0 billion.**" The data package explains that segment upgrades were offset by a lower Others plan. The unchanged group number therefore does not cap or guarantee Machinery results and is below-line parent profit, not Trading income.

[DATA GAP: ITOCHU provides no Machinery revenue, Trading-income margin, order-book, capex or 30 June 2031 guidance in the data package.]

8. Forward growth assumptions by exposure

Because historical product revenue is undisclosed, the “historical CAGR” and “latest YoY” cells for exposure buckets remain n/a rather than fabricated. The reportable-segment history—2.5% FY2023–FY2026 CAGR and -1.9% latest YoY—is the common quantitative anchor. Each case then applies explicit annual growth rates to the modeled TTM exposure allocation. The displayed CAGR is the compounded result of that cadence, not an arbitrary endpoint.

Base case growth

Product / exposure	3-year historical CAGR	Latest YoY	Mgmt FY+1 guide	Base CAGR TTM→TTM+5y	Justification
Mobility and automobiles	n/d; segment 2.5%	n/d; segment -1.9%	No revenue guide	2.9%	Mature global volumes and OICA's 2025 rebound support low-single-digit growth; service/used/finance mix offsets EV and rate pressure
Construction and industrial machinery	n/d; segment 2.5%	n/d; segment -1.9%	No revenue guide	4.4%	Early moderation gives way to installed-base service, automation and North American finance cooperation; mining orders remain cyclical
Aerospace and marine	n/d; segment 2.5%	n/d; segment -1.9%	ACG associate only after close	6.3%	Scarce aircraft, aftermarket and delivery growth support above-segment growth; ACG revenue is excluded from consolidation
Infrastructure and power	n/d; segment 2.5%	n/d; segment -1.9%	Parent-profit plan raised, not revenue	5.3%	Strong power investment and project conversion support growth; permitting and funding prevent a straight-line boom

Base assumes 2.0%, 2.5%, 3.0%, 3.5% and 3.5% annual mobility growth; 2.0%, 4.0%, 5.0%, 5.5% and 5.5% for construction/industrial; 5.0%, 6.0%, 6.5%, 7.0% and 7.0% for aerospace/marine; and 4.0%, 5.0%, 5.5%, 6.0% and 6.0% for infrastructure/power. The cadence respects long order cycles: it does not assume that Q1 strength instantly becomes a five-year run rate.

Bull case growth

Product / exposure	3-year historical CAGR	Latest YoY	Mgmt FY+1 guide	Bull CAGR TTM→TTM+5y	Justification
Mobility and automobiles	n/d; segment 2.5%	n/d; segment -1.9%	No revenue guide	5.0%	Easier credit, resilient sales and higher aftersales/used penetration lift growth above mature-market norms
Construction and industrial machinery	n/d; segment 2.5%	n/d; segment -1.9%	No revenue guide	7.0%	Broad infrastructure, mining and automation orders combine with service/finance cross-sell and strong dealer inventory discipline
Aerospace and marine	n/d; segment 2.5%	n/d; segment -1.9%	ACG associate only after close	8.6%	Aircraft scarcity, high utilization and aftermarket expansion persist while ship exposure remains disciplined; no consolidated ACG revenue assumed
Infrastructure and power	n/d; segment 2.5%	n/d; segment -1.9%	Parent-profit plan raised, not revenue	8.0%	A deeper power/grid/water pipeline reaches close and operation with limited delays and sufficient equipment supply

Bull assumes 4.0%, 5.0%, 5.0%, 5.5% and 5.5% annual mobility growth; 5.0%, 7.0%, 8.0%, 8.0% and 7.0% for construction/industrial; 8.0%, 9.0%, 9.0%, 9.0% and 8.0% for aerospace/marine; and 7.0%, 8.0%, 8.5%, 8.5% and 8.0% for infrastructure/power. This is an order-conversion case, not an acquisition-consolidation case.

Bear case growth

Product / exposure	3-year historical CAGR	Latest YoY	Mgmt FY+1 guide	Bear CAGR TTM→TTM+5y	Justification
Mobility and automobiles	n/d; segment 2.5%	n/d; segment -1.9%	No revenue guide	-0.4%	High rates, weaker affordability, EV inventory losses and trade friction cause a two-year contraction before recovery

Product / exposure	3-year historical CAGR	Latest YoY	Mgmt FY+1 guide	Bear CAGR TTM→TTM+5y	Justification
Construction and industrial machinery	n/d; segment 2.5%	n/d; segment -1.9%	No revenue guide	-0.7%	Dealer destocking and delayed mining/factory capex outweigh aftermarket resilience, followed by only partial recovery
Aerospace and marine	n/d; segment 2.5%	n/d; segment -1.9%	ACG associate only after close	2.2%	Lease demand stays positive but airline credit events, funding costs and marine volatility constrain expansion
Infrastructure and power	n/d; segment 2.5%	n/d; segment -1.9%	Parent-profit plan raised, not revenue	1.7%	Projects face delayed close, higher WACC and cost overruns; operating assets preserve modest positive growth

Bear assumes -3.0%, -2.0%, 0.0%, 1.0% and 2.0% annual mobility growth; -6.0%, -3.0%, 1.0%, 2.0% and 3.0% for construction/industrial; 1.0%, 2.0%, 2.0%, 3.0% and 3.0% for aerospace/marine; and 0.0%, 1.0%, 2.0%, 2.5% and 3.0% for infrastructure/power. The sequence is deliberately front-loaded: orders and inventories react before long-life operating assets.

9. Forward Trading-income margin assumptions

The current segment margin is the sealed **6.09% Trading-income margin**. Exposure-level current margins are analyst allocations constructed to tie to that total; they are not disclosed. Horizon margins reflect mix, operating leverage, funding, credit and depreciation within consolidated operations only. No corporate/unallocated item, associate equity earnings or investment gain is inserted.

Bear Trading-income margins

Product / exposure	Modeled TTM margin	TTM+5y Trading-income margin	Change	TTM+5y revenue	TTM+5y Trading income	Mechanism
Mobility and automobiles	4.50%	3.00%	-150bp	523.2	15.7	Discounting, slower turns, higher floor-plan cost and credit losses overwhelm aftersales
Construction and industrial machinery	5.26%	3.80%	-146bp	369.2	14.0	Dealer destocking, rental under-utilization and weaker used values reduce absorption
Aerospace and marine	8.00%	6.80%	-120bp	340.3	23.1	Funding and depreciation rise; airline credit/off-hire and ship volatility reduce spread
Infrastructure and power	8.00%	6.00%	-200bp	332.0	19.9	Delays and fixed-price overruns dominate while bid and development expenses continue
Segment total	6.09%	4.65%	-144bp	1,564.8	72.8	Revenue-weighted result

Every Bear decline exceeds 100bp because the scenario couples a demand/order shock with balance-sheet stress. The segment margin falls below FY2022's 4.80% to 4.65%, but not to a crisis trough: recurring service, contracted assets and aftermarkets still provide a floor. A more severe credit or residual-value event would require a separate tail case.

Base Trading-income margins

Product / exposure	Modeled TTM margin	TTM+5y Trading-income margin	Change	TTM+5y revenue	TTM+5y Trading income	Mechanism
Mobility and automobiles	4.50%	4.80%	+30bp	616.3	29.6	Aftersales, used and service mix modestly exceed competitive hardware pricing pressure
Construction and industrial machinery	5.26%	5.70%	+44bp	473.1	27.0	Installed-base service, rental utilization and automation mix create limited leverage

Product / exposure	Modeled TTM margin	TTM+5y Trading-income margin	Change	TTM+5y revenue	TTM+5y Trading income	Mechanism
Aerospace and marine	8.00%	8.80%	+80bp	414.3	36.5	Higher lease utilization and aftermarket mix offset normalized funding and depreciation
Infrastructure and power	8.00%	8.50%	+50bp	395.2	33.6	More operating/O&M revenue follows project commissioning; no aggressive bid-margin assumption
Segment total	6.09%	6.67%	+58bp	1,898.9	126.6	Revenue-weighted result

Base margin expansion is only 58bp despite faster mix growth in aerospace and infrastructure. This acknowledges that capital-intensive assets bring depreciation and financing pressure, and that the historical 129bp FY2022-to-TTM expansion should not be extrapolated indefinitely. The ¥126.6bn horizon Trading income is reconstructed from exposure revenue multiplied by exposure margin.

Bull Trading-income margins

Product / exposure	Modeled TTM margin	TTM+5y Trading-income margin	Change	TTM+5y revenue	TTM+5y Trading income	Mechanism
Mobility and automobiles	4.50%	5.70%	+120bp	681.8	38.9	Strong turns, service/finance attachment and benign credit create scale leverage
Construction and industrial machinery	5.26%	6.80%	+154bp	535.1	36.4	Parts, service, rental and automation grow faster than hardware with high utilization
Aerospace and marine	8.00%	10.00%	+200bp	461.2	46.1	Tight asset supply, aftermarket scale and lease utilization outweigh funding normalization
Infrastructure and power	8.00%	9.80%	+180bp	448.6	44.0	Successful commissioning shifts mix to recurring O&M and contracted operating revenue
Segment total	6.09%	7.77%	+168bp	2,126.6	165.3	Revenue-weighted result

Bull's greater-than-100bp expansion requires specific mechanisms: high utilization, asset scarcity, project commissioning without overruns, and a mix shift toward service and contracted operations. It is not justified by acquisition accounting. At 7.77%, the segment would stand materially above its recent history; this is why Bull receives only 20% probability.

10. Segment rollup and annual cadence

The model starts from the sealed TTM total and the disclosed analytical allocation. Each row compounds the annual growth sequence in section 8. Totals equal the sum of the four exposure buckets; horizon Trading income equals the sum of exposure revenue multiplied by the section 9 margins. Figures may differ by 0.1 from displayed subtotals because of rounding.

Bear revenue cadence

Product / exposure	TTM Jun-26	Jun-27	Jun-28	Jun-29	Jun-30	Jun-31
Mobility and automobiles	534.3	518.2	507.9	507.9	513.0	523.2
Construction and industrial machinery	381.6	358.7	348.0	351.4	358.5	369.2
Aerospace and marine	305.3	308.3	314.5	320.8	330.4	340.3
Infrastructure and power	305.3	305.3	308.3	314.5	322.4	332.0
Segment revenue	1,526.5	1,490.6	1,478.7	1,494.6	1,524.2	1,564.8

Bear produces a 0.5% segment CAGR. The first two years absorb vehicle affordability, equipment destocking and delayed project closes. Aerospace and operating infrastructure keep total revenue from collapsing. Horizon Trading income is ¥72.8bn at a 4.65% margin.

Base revenue cadence

Product / exposure	TTM Jun-26	Jun-27	Jun-28	Jun-29	Jun-30	Jun-31
Mobility and automobiles	534.3	545.0	558.6	575.3	595.5	616.3
Construction and industrial machinery	381.6	389.3	404.8	425.1	448.4	473.1
Aerospace and marine	305.3	320.6	339.8	361.9	387.2	414.3
Infrastructure and power	305.3	317.5	333.4	351.7	372.8	395.2
Segment revenue	1,526.5	1,572.3	1,636.6	1,714.0	1,803.9	1,898.9

Base produces a 4.5% segment CAGR, above the 2.5% FY2023–FY2026 historical CAGR but consistent with a shift toward structurally faster aerospace, aftermarket and infrastructure exposures. It assumes neither consolidated ACG revenue nor indefinite Q1 acceleration. Horizon Trading income is ¥126.6bn at a 6.67% margin.

Bull revenue cadence

Product / exposure	TTM Jun-26	Jun-27	Jun-28	Jun-29	Jun-30	Jun-31
Mobility and automobiles	534.3	555.6	583.4	612.6	646.3	681.8
Construction and industrial machinery	381.6	400.7	428.7	463.0	500.1	535.1
Aerospace and marine	305.3	329.7	359.4	391.7	427.0	461.2
Infrastructure and power	305.3	326.7	352.8	382.8	415.3	448.6
Segment revenue	1,526.5	1,612.7	1,724.4	1,850.2	1,988.7	2,126.6

Bull produces a 6.9% segment CAGR. It requires broad order conversion rather than one favorable business: auto service, construction/industrial orders, aircraft utilization and infrastructure commissioning all contribute. Horizon Trading income is ¥165.3bn at a 7.77% margin.

Horizon arithmetic reconciliation

Case	Mobility revenue	Construction/industrial revenue	Aerospace/marine revenue	Infrastructure/power revenue	Segment revenue	Trading income	Trading-income margin	Reconciliation
Bear	523.2	369.2	340.3	332.0	1,564.8	72.8	4.65%	Exposure sum equals segment within rounding
Base	616.3	473.1	414.3	395.2	1,898.9	126.6	6.67%	Exposure sum equals segment within rounding
Bull	681.8	535.1	461.2	448.6	2,126.6	165.3	7.77%	Exposure sum equals segment within rounding

Probability-weighted horizon revenue is approximately **¥1,860.9bn** and probability-weighted Trading income approximately **¥120.9bn**. These are expected values across scenarios, not a fourth operating case. The weighted figures inherit the product-mix data gap and should not be presented with more precision than the scenarios.

The **25% Bear / 55% Base / 20% Bull** probabilities are deliberately non-uniform. Base receives the majority weight because the exact TTM bridge shows modest operating resilience and Q1 FY2027 was positive without establishing a new five-year run rate. Bear receives more weight than Bull because funding, credit, residual-value and project-execution risks are correlated across several Machinery activities and disclosure below the reportable segment is thin. Bull is limited to 20% because it requires concurrent success in auto services, equipment orders, aerospace utilization and infrastructure commissioning rather than one isolated upside lever.

11. Key risks and wildcards

- **Interest-rate and credit shock — Bear.** Higher policy rates and credit spreads simultaneously depress auto affordability, dealer inventory economics, equipment finance, aircraft lease economics and project finance. The correlation across

activities makes this more dangerous than a single-business slowdown. Watch vehicle inventory days, credit losses, refinancing maturities and project financial-close delays.

- **Order-cycle reversal — Bear.** Construction, mining and industrial machinery orders can reverse before reported revenue as customers delay capex. Long lead times can initially mask weakness, then create abrupt under-absorption when backlog clears. Dealer and used-equipment inventories are leading signals.

- **Residual-value and utilization risk — Bear.** Aircraft, engines, ships, rental fleets and vehicles can lose value faster than accounting depreciation assumes. Technology transition, airline failure or shipping overcapacity can create impairment and lower lease spreads. The risk may appear below Trading income through investments or above it through depreciation and provisions, depending on ownership structure.

- **ACG closing and integration — Bear/Base.** The US$1.946bn proposed investment is large. Closing, financing, governance, purchase accounting and actual cash distributions remain incomplete. Even if strategically sound, its revenue must not be consolidated under the announced associate basis. A bull case based on ACG revenue would be an accounting error.

- **Hitachi Construction Machinery concentration — Bear/Base/Bull.** A larger 33.4% economic relationship can improve North American finance, distribution and services, but construction/mining cycles, currency, dealer execution and partner governance matter. Most direct earnings are likely below Trading income through equity accounting, creating divergence between this appendix and segment parent profit.

- **Project execution and fixed-price risk — Bear.** Infrastructure projects face permitting, political, engineering, equipment and commissioning risk. A single large overrun can erase years of fee income. Base assumes only modest margin expansion because project pipelines are not equivalent to profits.

- **Power and environmental capex super-cycle — Bull.** Global electricity, grid, water and waste investment could remain above GDP growth. If ITOCHU converts projects into contracted operations rather than low-margin EPC, revenue durability and margin can exceed Base. The wildcard is the balance between attractive scarcity and aggressive auction pricing.

- **Commercial aerospace supply scarcity — Bull/Base.** Manufacturer delivery constraints and strong travel demand support lease rates, asset values and aftermarket demand. Supply catching up late in the decade would normalize returns. Bull requires disciplined acquisition cost, not merely aircraft scarcity.

- **EV and mobility-platform disruption — Bear/Bull.** Direct sales, lower mechanical-service requirements and software-defined vehicles can compress traditional dealer economics. Conversely, fleet services, charging, batteries, used-vehicle data and commercial-vehicle relationships can create new pools. The outcome depends on business-model adaptation, not unit growth alone.

- **Geopolitics, tariffs and export controls — Bear.** Machinery crosses borders and includes defense, aerospace, vehicles and industrial systems. Export restrictions, tariffs, sanctions and localization can interrupt supply and strand inventory. Government-linked defense demand can rise at the same time, creating offsetting revenue but higher compliance risk.

- **Capital allocation discipline — all cases.** The segment can report revenue growth while destroying value if lease assets, projects or acquisitions earn below the cost of capital. Trading income alone will not reveal all associate returns. The main ER2 model should pair this appendix with invested-capital, cash-distribution, impairment and equity-method analysis.

- **Disclosure opacity — all cases.** No product revenue, margin, backlog or segment capex series is available. That makes the four-bucket model useful for scenario discipline but weak for precision. Future filings that disclose divisional revenue, orders, fleet utilization or invested capital should replace the analytical allocation immediately.

Summary

Case	Segment TTM+5y Revenue	Exact profit metric	Segment TTM+5y Profit Margin	Segment TTM+5y Profit	Probability
Bear	¥1,564.8bn	Trading income	4.65%	¥72.8bn	25%
Base	¥1,898.9bn	Trading income	6.67%	¥126.6bn	55%
Bull	¥2,126.6bn	Trading income	7.77%	¥165.3bn	20%

The central conclusion is that Machinery can plausibly outgrow its recent 2.5% revenue CAGR through aerospace, aftermarket, automation and power/infrastructure, but only modest margin expansion is underwritten in Base. The segment has useful networks and project capabilities, yet it is more rate-sensitive, capital-intensive and accounting-complex than its consolidated revenue suggests. The sealed Trading-income basis intentionally excludes associate earnings from Hitachi Construction Machinery and the proposed ACG investment; those belong in the below-line group forecast, not in this segment margin.

Data gaps carried into synthesis

- [DATA GAP: No historical revenue, growth, margin, backlog or unit-volume series is disclosed for Machinery sub-segments.]
- [DATA GAP: The four exposure weights and current exposure margins are analyst allocations constructed to tie to disclosed segment totals.]
- [DATA GAP: Machinery maintenance capex, growth capex, asset additions, project-equity commitments and invested capital are not separately disclosed.]
- [DATA GAP: No Machinery revenue, Trading-income margin, order-book or 30 June 2031 guidance is provided.]
- [DATA GAP: ACG closing, financing, purchase accounting, distribution policy and post-close contribution are not yet evidenced in the package.]

Appendix B5 - Metals and Minerals

ITOCHU Metals & Minerals Company — Segment Deep Dive

Ticker: 8001.T **Run ID:** `pulse-cio-20260928T200149+0800` **Information cutoff:** 28 September 2026 **Forecast anchor:** TTM ended 30 June 2026 **Exact horizon:** 30 June 2031, exactly five calendar years **Reporting currency:** Japanese yen; financial tables use ¥ billion unless stated otherwise **Exact segment profit basis:** `Trading income` **Scenario probabilities:** Bear 25%; Base 55%; Bull 20% **Trade execution authorized:** false

This appendix is an operating forecast, not a recommendation or an authorization to trade. ITOCHU historical figures, management guidance, accounting classifications and segment labels come only from the DR-cleared `data_package.md` and the QFR-sealed `statutory_bridge.json`. External sources are used only for contemporary commodity and competitor context. Product-level revenue is not disclosed by ITOCHU; the subsegment allocation below is an analyst model that reconciles to the segment total and is never presented as issuer history.

0. Segment boundary and taxonomy note

The Metals & Minerals Company is stable across the FY2022-FY2026 historical series used here. The FY2027 reorganization described in the data package affects Energy & Chemicals, Food and The 8th, not Metals & Minerals. Accordingly, the five-year Metals & Minerals revenue and `Trading income` series is comparable at the reportable-segment level. The operating mix inside the segment still changes through commodity prices, mine production, asset ramp-ups, disposals and trading flows; stable taxonomy does not mean stable economics. The exact common profit metric is `Trading income`, and this appendix does not relabel it operating income, EBIT, EBITDA or segment result. [data_package P0; §2; §3]

1. What this segment actually is

Metals & Minerals is a hybrid of resource ownership, commodity marketing and industrial distribution. ITOCHU holds interests in iron-ore and coal projects, principally through ITOCHU Minerals & Energy of Australia, and participates in Brazil through the large-scale iron-ore platform associated with CSN Mineração. It also trades iron ore, pellets, direct-reduced iron inputs, coking coal, coke, thermal coal, uranium and nuclear-related equipment. In non-ferrous metals it trades aluminum, alumina, rolled products, base metals and precious metals, while ITOCHU Metals adds recycling and selected downstream operations. The steel-product interface is supported through Marubeni-Itochu Steel. This broad activity set is confirmed by ITOCHU's current [Metals & Minerals business description](https://www.itochu.co.jp/en/business/metal/index.html) and [mineral-resources page](https://www.itochu.co.jp/en/business/metal/field/01.html).

The customer set spans steelmakers, smelters, fabricators, utilities, automotive and construction supply chains, and commodity counterparties. The economic relationship varies by sleeve. Resource ownership earns a residual margin after mine operating cost, freight, royalties, sustaining capital and taxes. Trading earns a much thinner spread but can generate attractive returns on capital when inventory, credit and logistics are tightly managed. Downstream aluminum and recycling add conversion, sourcing and customer-service economics. Equity-accounted resource holdings can contribute economically without appearing in consolidated segment revenue, which is why revenue is an incomplete measure of this segment's weight.

Pricing is largely market-referenced. Iron ore and coking coal are negotiated around benchmark grades, quality differentials, freight and delivery timing. Aluminum is linked to exchange prices plus regional and product premiums. Steel and recycling transactions depend on local supply-demand, scrap spreads, freight, currency and credit terms. ITOCHU cannot set the benchmark price; it tries to own low-cost supply, improve reliability, blend grades, arrange logistics, manage risk and connect suppliers with customers. The commercial moat therefore rests less on branded pricing power than on asset quality, contracts, relationships, balance-sheet capacity and information across the value chain.

The go-to-market model combines long-duration project participation with physical trading. Iron ore generated 31.1 Mt of attributable sales volume in FY2026 and had a FY2027 plan of 31.4 Mt, making it the only resource sleeve with a sufficiently complete volume series in the data package. Coking coal is currently a turnaround story: Argo, formerly Fitzroy, and Allegheny are expected to recover from weak operations. Aluminum includes UAE billet flows that management expects to be temporarily constrained by the Iran conflict. Other activities—uranium, nuclear equipment, ferrous raw materials, recycling, precious metals and specialty materials—are strategically relevant but lack product-level revenue and volume disclosure. [data_package §4-§5]

2. Current economics

FY2026 external revenue was ¥1,231.499bn, down 3.7% year on year, while FY2026 `Trading income` was ¥127.577bn, down 14.8%; the resulting FY2026 `Trading income` margin was 10.36%. On the sealed TTM basis ended 30 June 2026, `Trading income` increased to ¥137.902bn. Q1 FY2027 revenue was ¥341.3bn and `Trading income` was ¥42.9bn. Iron-ore volume was 7.6 Mt versus 7.8 Mt in the comparison quarter, while the FY2027 plan rose to 31.4 Mt from 31.1 Mt. [data_package §2 TTM bridge, Metals & Minerals row; §3 segment tables; §4 resource KPI table; §7 Metals & Minerals row]

The data package does not disclose prior-year Q1 segment revenue or a reported TTM segment-revenue value. The model therefore uses a transparent **annual-average-quarter substitution revenue proxy** rather than inventing a reported TTM number. It approximates the statutory TTM identity `FY2026 - Q1 FY2026 + Q1 FY2027` by substituting one fourth of FY2026 revenue for the unavailable Q1 FY2026 value:

`FY2026 revenue ¥1,231.499bn + Q1 FY2027 revenue ¥341.300bn − (FY2026 revenue ¥1,231.499bn / 4 = ¥307.87475bn) = ¥1,264.92425bn`, rounded to **¥1,264.924bn**.

This annual-average substitution proxy is only a forecast anchor. It is neither issuer-reported TTM revenue nor an exact TTM reconstruction, because seasonality in the unavailable prior-year Q1 is suppressed. Dividing sealed TTM `Trading income` of ¥137.902bn by the proxy produces a **modeled proxy margin** of 10.902%, displayed as 10.90%. [DATA GAP: ITOCHU TTM Metals & Minerals revenue is not separately disclosed in the data package; the ¥1,264.924bn anchor is an analyst proxy derived solely from disclosed package values.]

The segment is capital intensive where ITOCHU owns mine interests and less capital intensive in trading and distribution. The data package reports group capex of ¥260.083bn in FY2026 but does not split maintenance and growth capex by segment. Mine development, stripping, plant, rail, port, tailings, water and rehabilitation obligations all compete for capital, while trading requires working capital, credit limits and liquidity rather than the same fixed-asset intensity. [DATA GAP: segment maintenance capex, growth capex, depreciation, reserve replacement and rehabilitation provisions are not disclosed in a forecast-ready Metals & Minerals schedule.]

The following allocation is a modeling scaffold, not issuer disclosure. It assigns 56% of the annual-average substitution revenue anchor to iron ore, 16% to coking coal, 12% to aluminum and non-ferrous, 8% to steel products and trading, and 8% to other minerals, nuclear and recycling. Those weights sum to 100% and enable explicit price-volume-cost scenario checks. They are deliberately less granular than ITOCHU's activity list because false precision would obscure the disclosure gap.

3. Unit economics

Iron ore

Iron-ore economics begin with attributable tonnes and the realized price. Revenue is approximately volume multiplied by benchmark price, adjusted for grade, moisture, freight, timing, provisional pricing and the consolidation perimeter. Cash generation then subtracts mining, processing, royalties, logistics, sustaining capital and tax. A producer with low strip ratios, reliable plant, rail and port access, high-quality ore and a long reserve life remains profitable deeper into a downturn. ITOCHU's FY2026 average/reference iron-ore price was US$102/t, compared with US$105/t in FY2025, while volume rose from 26.9 Mt to 31.1 Mt. The data package gives an FY2026 sensitivity of approximately ¥1.85bn for each US$1/t price move and a Q1/FY2027 sensitivity of ¥1.16bn. The lower sensitivity warns that ownership, hedge, tax, volume or timing perimeter can change; it is not a timeless delta. [data_package §4, Resource KPI table]

The modeled proxy margin is supported by attractive benchmark prices and rising volume, but a five-year forecast should not freeze either. Brazil and Australia remain advantaged supply regions, yet new Brazilian and Guinean tonnes increase competitive pressure. Australia's June 2026 [Resources and Energy Quarterly](https://www.industry.gov.au/publications/resources-and-energy-quarterly-june-2026) expects iron ore to remain the country's largest resource export through 2030-31 while identifying rising Brazilian and Guinean supply as a competitive force. The model therefore allows moderate volume growth in Base but normalizes price and margin.

Coking coal

Coking coal earns a mine margin tied to saleable tonnes, realized benchmark and quality premium, less mining, washing, yield loss, rail, port, royalty and sustaining capital. Operational leverage is high: poor recovery, geology, weather or downtime can reduce saleable output faster than costs. That is why the turnaround of Argo and Allegheny matters more than a generic commodity-price assumption. Management said the two projects' turnaround was progressing as planned, but the model requires demonstrated throughput, yield and unit-cost improvement before granting a Bull margin.

The external market does not justify a perpetual scarcity assumption. Australia's June 2026 official outlook expects metallurgical-coal export volumes to grow about 1.1% annually to 2030-31 and real prices to remain broadly stable as supply and demand balance. Glencore's [H1 2026 production report](https://www.glencore.com/media-and-insights/news/half-year-production-report-2026) cut the midpoint of 2026 steelmaking-coal guidance by 1 Mt and reported H1 production of 13.5 Mt, down 14%, mainly because of EVR throughput and yield. That peer evidence shows both the upside from operational recovery and the downside from execution slippage. Base assumes ITOCHU's projects normalize but does not assume structurally higher real prices.

Aluminum and non-ferrous

Aluminum trading revenue combines metal value and premium; profit depends on regional availability, financing, energy-linked supply economics, freight, inventory turns, hedging and customer mix. Downstream billet and component transactions can earn conversion and relationship margins but remain exposed to automotive and construction cycles. Management expects UAE billet volume to decline until disruption from the Iran conflict recovers, even while a low-carbon DRI project advances. [data_package §5; current official [FY2026 results briefing](https://www.itochu.co.jp/en/ir/financial_statements/2026/__icsFiles/afieldfile/2026/05/08/26_ended_04_e.pdf)]

The near-term price backdrop is strong but unusually uncertain. The World Bank's [April 2026 Commodity Markets Outlook](https://thedocs.worldbank.org/en/doc/f3138644a1e8e2bb631399ae11d6c408-0050012026/original/CMO-April-2026.pdf) projected aluminum prices to rise about 22% in 2026, citing tight supply, higher energy costs and Middle East disruption, while also noting weak construction demand. A trading company can benefit from volatility and premiums but can also suffer volume interruption, counterparty stress and inventory basis risk. Base therefore forecasts steady volume recovery and modest structural demand rather than carrying a conflict premium to 2031.

Steel products, other minerals and recycling

These activities generally earn lower `Trading income` margins than resource ownership because the gross commodity value passes through revenue. Returns depend on spreads, inventory velocity, logistics, credit loss and services. Recycling and scrap should grow with circular-economy demand, while uranium and nuclear equipment can benefit from energy-security investment. Yet disclosure is too thin to quantify volumes or separate historical profitability. The forecast uses conservative mid-single-digit terminal margins and refuses to capitalize unverified project pipelines.

Margin bridge

The segment's modeled 10.90% proxy margin is a blend, not a uniform rate. The anchor allocates 13.4% to iron ore, 10.0% to coking coal, 7.5% to aluminum/non-ferrous, 4.0% to steel products/trading and 7.225% to other minerals/nuclear/recycling. The exact identity is `¥708.35744bn × 13.40% + ¥202.38784bn × 10.00% + ¥151.79088bn × 7.50% + ¥101.19392bn × 4.00% + ¥101.19392bn × 7.225% = ¥137.902014bn`, which rounds to the sealed ¥137.902bn. The allocation itself is not issuer disclosure. It is an explicit bridge that lets reviewers change a price, volume or margin rather than hiding everything in one segment percentage.

4. Competitive dynamics

Competition occurs at three levels: mine cost and reserve quality, access to logistics and customers, and trading execution. In iron ore, the dominant global suppliers—Vale, Rio Tinto, BHP and Fortescue—have enormous scale and integrated infrastructure. ITOCHU participates through minority and joint-venture economics rather than controlling an equivalent global platform. Its advantage is access to established Australian and Brazilian assets plus Japanese and Asian customer relationships; its disadvantage is limited control over operator capital decisions and a smaller standalone marketing system than the mining majors.

CSN Mineração provides a useful Brazil comparison and, through ITOCHU's cooperation with CM, an operating context rather than a clean listed peer. CSN states that it is Brazil's second-largest iron-ore exporter and has integrated mine, rail and port access. Its official material identifies more than 2bn tonnes of certified reserves, while its current operating page describes Casa de Pedra and associated processing and logistics assets. CSN's [2026 projections](https://ri.csnmineracao.com.br/en/noticia/change-in-projections/) target 44 Mt of production and third-party purchases; later 2026 guidance cited by the issuer's materials moved toward 45-47 Mt and C1 cost of roughly US$22-23.5/t. The lesson is two-sided. Low-cost, reserve-backed infrastructure can preserve margins, but capacity expansion requires large capex, reliable commissioning and a market capable of absorbing new tonnes.

In coking coal, Glencore is a much larger owner-marketer with diversification across basins and commodities. Its 2026 guidance of 30-32 Mt of steelmaking coal dwarfs the visibility available for ITOCHU's individual projects. Scale provides marketing intelligence and portfolio optionality, but Glencore's H1 production decline demonstrates that geology, throughput and yield still override corporate scale. ITOCHU's smaller projects can create meaningful incremental profit from a low base, but they also have higher project-specific concentration.

In aluminum, competitors include integrated producers, global traders and regional specialists. ITOCHU's differentiation is not proprietary metal; it is sourcing, low-carbon product development, customer relationships, risk management and participation across raw material, billet, rolled product and recycling flows. Entry barriers are balance-sheet capacity, credit, compliance, logistics and trusted supply. Margins can still compress quickly because benchmark transparency lets customers compare offers.

Substitution risk varies. Scrap and electric-arc steelmaking can reduce demand for some virgin raw materials while increasing demand for high-grade ores, DRI feed and recycling services. Long-run decarbonization threatens thermal coal more directly than metallurgical coal, but lower-carbon steel technology can eventually change coking-coal intensity. Aluminum benefits from lightweighting and electrification but competes with steel, composites and recycled metal. Nuclear and uranium exposure benefits from energy security but carries policy, permitting and public-acceptance risk.

The segment has limited benchmark pricing power. Its defendable economics come from being on the left side of the cost curve, having reserve life and infrastructure, and turning physical networks faster and more safely than rivals. The principal competitive threat is therefore not a new branded entrant; it is a lower-cost tonne, better grade, cheaper logistics, a customer bypassing the trader, or an operator spending too much to replace reserves.

5. Segment-level moat

The moat is real but cyclical and shared with partners. ITOCHU's strongest protection is access to long-life iron-ore resources and associated infrastructure in Australia and Brazil. Mines, rail, ports, approvals and customer qualification take years and billions of dollars to replicate. The second protection is relational: Japanese steel and industrial networks, global counterparties, financing capacity and a record of arranging long-duration supply. The third is portfolio breadth. Information from mines, customers, shipping, steel products and non-ferrous markets can improve risk decisions and uncover cross-selling.

These advantages do not create consumer-like pricing power. The benchmark price is external, and minority ownership means part of the moat belongs to the operator. Commodity windfalls can disguise poor reinvestment; low prices can expose stripping, grade decline, inflation and deferred maintenance. The segment's five-year `Trading income` fell from ¥162.126bn in FY2022 to ¥127.577bn in FY2026 despite revenue growing from ¥1,043.1bn to ¥1,231.499bn. That divergence is direct evidence that network breadth cannot neutralize the cycle. [data_package §3]

The moat is most durable where four conditions coexist: a low cost curve, high-quality reserve, integrated logistics and disciplined sustaining capital. It is weakest in pure pass-through trading, where relationships matter but switching costs are limited. Recycling and low-carbon materials may deepen customer integration, yet those initiatives remain too early and too sparsely disclosed to warrant a higher terminal margin today.

Over five to ten years, the segment should remain economically relevant because steel, infrastructure, electrification and energy security require physical materials. Its earnings mix may shift: iron ore stays central; coking coal becomes more dependent on high-grade steelmaking demand and project execution; aluminum and recycling gain strategic weight; nuclear and uranium remain policy-sensitive options. A durable moat verdict requires reserve replacement and capex returns to be disclosed alongside production. [DATA GAP: the package does not provide a consolidated ITOCHU-attributable reserve-life table, depletion schedule or five-year reserve-replacement ratio.]

6. Historical growth rates — reproduced from the data package

The official five-year series shows a commodity peak and normalization, not smooth compounding. Every historical value below is reproduced from the data package. No product revenue has been back-solved because ITOCHU does not disclose a universal product-revenue series.

Product / sub-segment	FY2024	FY2025	FY2026	FY2024→FY2026 CAGR (2y)	Most recent YoY	Data package cite
Metals & Minerals external revenue	¥1,212.6bn [§3 revenue row]	¥1,278.771bn [§3 revenue row]	¥1,231.499bn [§3 revenue row]	0.78% [calculated from same row]	-3.70% [calculated from same row]	data_package §3, External revenue table, Metals & Minerals row

Product / sub-segment	FY2024	FY2025	FY2026	FY2024→FY2026 CAGR (2y)	Most recent YoY	Data package cite
Metals & Minerals `Trading income`	¥174.7bn [§3 profit row]	¥149.770bn [§3 profit row]	¥127.577bn [§3 profit row]	-14.54% [calculated from same row]	-14.82% [calculated from same row]	data_package §3, Trading income table, Metals & Minerals row
Iron-ore sales volume, Mt	25.6 Mt [§4 KPI row]	26.9 Mt [§4 KPI row]	31.1 Mt [§4 KPI row]	10.22% [calculated from same row]	15.61% [calculated from same row]	data_package §4, Resource KPI table, Iron-ore sales volume row
Iron-ore reference/average price	US$119/t [§4 KPI row]	US$105/t [§4 KPI row]	US$102/t [§4 KPI row]	-7.42% [calculated from same row]	-2.86% [calculated from same row]	data_package §4, Resource KPI table, Iron-ore price row
Coking coal revenue	not separately disclosed [§3 product inventory]	not separately disclosed [§3 product inventory]	not separately disclosed [§3 product inventory]	n/a	n/a	data_package §3, Product and geographic inventory
Aluminum/non-ferrous revenue	not separately disclosed [§3 product inventory]	not separately disclosed [§3 product inventory]	not separately disclosed [§3 product inventory]	n/a	n/a	data_package §3, Product and geographic inventory

Specific source chain for the table: segment revenue comes from ITOCHU's [downloadable financial-data workbooks](https://www.itochu.co.jp/en/ir/finance/financial_data/index.html), while segment `Trading income` is in the same official workbooks and the [FY2026 annual results](https://www.itochu.co.jp/en/ir/financial_statements/2026/__icsFiles/afieldfile/2026/05/01/26_ended_01_e.pdf); the resource KPI observations come from ITOCHU's official [FY2024](https://www.itochu.co.jp/en/ir/financial_statements/2024/__icsFiles/afieldfile/2024/06/06/24_ended_02_e.pdf), [FY2025](https://www.itochu.co.jp/en/ir/financial_statements/2025/__icsFiles/afieldfile/2026/02/09/25_ended_02_e.pdf) and [FY2026](https://www.itochu.co.jp/en/ir/financial_statements/2026/__icsFiles/afieldfile/2026/05/14/26_ended_02_e_1.pdf) result summaries, as catalogued in `data_package.md` §3-§4. The inline section references identify the exact rows used.

The longer FY2022-FY2026 record reinforces the cyclicality. This is a five-observation fiscal-year series spanning four compounding intervals, not a five-year CAGR. External revenue grew at a 4.24% four-year CAGR from ¥1,043.1bn to ¥1,231.499bn, while `Trading income` declined at a 5.81% four-year CAGR from ¥162.126bn to ¥127.577bn. FY2023 was the peak in this series at ¥202.2bn of `Trading income`, followed by ¥174.7bn, ¥149.770bn and ¥127.577bn. The segment recovered on the TTM basis to ¥137.902bn as the coking-coal turnaround and commodity/FX conditions improved, but that improvement is one observation, not a five-year trend. [data_package §2-§3]

Arithmetic checks pass: ¥1,278.771bn × (1 – 3.697%) = ¥1,231.499bn; ¥149.770bn × (1 – 14.817%) = ¥127.577bn; 26.9 Mt × (1 + 15.613%) = 31.1 Mt. Rounding differences are below 0.1%, well inside the 2% tolerance.

[DATA GAP: FY2022 iron-ore volume was not located in the data package, and no five-year product-revenue history exists for iron ore, coking coal, aluminum, steel products or other minerals.]

7. Management guidance from the data package

Management has not provided segment `Trading income`, revenue, capex or reserve guidance to 30 June 2031. The FY2027 anchor is parent profit, a different measure from `Trading income`, so it informs direction but cannot be inserted into the segment-profit model.

- **Iron ore:** In its ITOCHU DAY 2026 script, management expressed the view that iron-ore downside was limited. [data_package §5, ITOCHU DAY 2026 script] This is management's market view, not a contractual floor. Base uses a normalized US$90/t long-run reference; Bear uses US$75/t and explicitly rejects the claimed downside limit.
- **Iron-ore volume:** FY2027 plan is 31.4 Mt versus 31.1 Mt in FY2026; Q1 was 7.6 Mt versus 7.8 Mt. [data_package §4, Resource KPI and ad hoc checklist] This supports stable near-term volume, not an aggressive five-year ramp.
- **Coking coal:** management said the turnaround of the two coking-coal projects was progressing as planned. [data_package §5] Base assumes staged operational normalization; Bull requires sustained throughput and unit-cost evidence; Bear assumes one or both projects remain subscale.
- **FY2027 parent profit:** Metals & Minerals full-year plan is ¥172.0bn, unchanged, with Q1 progress of 27%. [data_package §3a; §5] Because this is parent profit and can include equity-method and below-`Trading income` items, it is not relabeled or used as `Trading income`.

- **Aluminum:** UAE billet transactions are expected to decrease until conflict-related disruption recovers, while the UAE low-carbon DRI project progresses. [data_package §5; official FY2026 results briefing cited there] Base assumes recovery but no permanent conflict premium.

[DATA GAP: no management forecast exists for Metals & Minerals revenue, `Trading income`, margin, coking-coal volume, aluminum volume, segment capex or reserve replacement through 30 June 2031.]

8. Forward growth assumptions — explicit by modeled sleeve

The annual-average-quarter substitution revenue proxy of ¥1,264.924bn is allocated to five modeled sleeves solely to make the forecast reconstructable: iron ore ¥708.358bn; coking coal ¥202.388bn; aluminum/non-ferrous ¥151.791bn; steel products/trading ¥101.194bn; other minerals/nuclear/recycling ¥101.194bn. These are analyst estimates, not historical disclosure. Each scenario compounds exactly five years from 30 June 2026 to 30 June 2031.

Base case growth

Product	FY2024→FY2026 CAGR (2y)	Latest YoY	Mgmt FY+1 guide	Base CAGR proxy anchor→+5y	Justification
Iron ore	Revenue n/d; volume 10.22%	Volume +15.61% FY2026; Q1 volume down slightly	31.4 Mt versus 31.1 Mt	1.0%	Volume settles near plan and grows modestly; price normalizes toward US$90/t despite logistics and grade value.
Coking coal	Revenue n/d	n/d	Two projects turning around	3.0%	Operational recovery offsets broadly stable real prices; no perpetual scarcity premium.
Aluminum/non-ferrous	Revenue n/d	n/d	UAE billet disruption, then recovery	4.0%	Volume normalizes and electrification supports demand; 2026 price shock fades.
Steel products/trading	Revenue n/d	n/d	No quantified guide	2.0%	Nominal industrial growth and services offset transparent benchmark pricing.
Other minerals/nuclear/recycling	Revenue n/d	n/d	Strengthen nuclear/uranium and recycling	4.0%	Energy security and circularity expand from a small base without credit for uncontracted projects.

Base deliberately decouples iron-ore volume from the recent 10.22% two-year CAGR. FY2026 volume benefited from a ramp to 31.1 Mt; management's FY2027 plan is only 31.4 Mt. The annual modeled revenue path—¥715.4bn, ¥722.6bn, ¥729.8bn, ¥737.1bn and ¥744.5bn—therefore reflects maturity and lower long-run price, not a sudden operational collapse. Coking coal grows faster because it begins from depressed project performance.

Bull case growth

Product	FY2024→FY2026 CAGR (2y)	Latest YoY	Mgmt FY+1 guide	Bull CAGR proxy anchor→+5y	Justification
Iron ore	Revenue n/d; volume 10.22%	Volume +15.61% FY2026	31.4 Mt plan	4.0%	CM cooperation, reliable Australian output and firm high-grade demand lift volume/mix; US$115/t terminal reference.
Coking coal	Revenue n/d	n/d	Turnaround progressing	7.0%	Both projects reach stable throughput, yield and cost; steelmaking-coal balance remains supportive.
Aluminum/non-ferrous	Revenue n/d	n/d	Billet recovery expected	7.0%	Middle East flows normalize, low-carbon products gain share and electrification demand stays firm.
Steel products/trading	Revenue n/d	n/d	No quantified guide	5.0%	Higher activity, logistics value and customer penetration lift nominal turnover.
Other minerals/nuclear/recycling	Revenue n/d	n/d	Nuclear/uranium strengthening	7.0%	Energy-security programs and recycling scale convert pipeline into repeat business.

Bull is not simply a higher commodity-price case. It requires simultaneous operating evidence: iron-ore volume above the 31.4 Mt FY2027 plan without cost inflation, full coking-coal turnaround, restored aluminum logistics and successful commercialization of recycling/nuclear initiatives. The external Glencore comparison shows coal recovery is possible but not automatic; CSN's capacity ambitions show Brazil can add supply, which caps unconstrained price optimism.

Bear case growth

Product	FY2024→FY2026 CAGR (2y)	Latest YoY	Mgmt FY+1 guide	Bear CAGR proxy anchor→+5y	Justification
Iron ore	Revenue n/d; volume 10.22%	Volume +15.61% FY2026	31.4 Mt plan	-3.0%	US$75/t terminal reference, weaker China steel demand, new supply and grade/cost pressure overwhelm modest volume.
Coking coal	Revenue n/d	n/d	Turnaround progressing	-5.0%	One or both projects miss throughput/yield, while steel demand and price disappoint.
Aluminum/non-ferrous	Revenue n/d	n/d	UAE disruption expected to recover	0.0%	Price support is offset by disrupted volumes, weak construction and customer destocking.
Steel products/trading	Revenue n/d	n/d	No quantified guide	-2.0%	Spread compression, lower activity and credit caution reduce turnover.
Other minerals/nuclear/recycling	Revenue n/d	n/d	No quantified horizon guide	1.0%	Strategic demand persists but project timing slips and capital stays selective.

Bear explicitly rejects extrapolation from Q1. A resource business can report better profit while the forward curve and reserve economics deteriorate. Lower price also magnifies cost inflation because labor, diesel, explosives, royalties and sustaining capital do not fall one-for-one.

Annual bottom-up revenue cadence

Date	Bear revenue	Base revenue	Bull revenue	Key change from prior year
2026-06-30 anchor	¥1,264.9bn	¥1,264.9bn	¥1,264.9bn	Annual-average substitution proxy; not issuer-reported TTM revenue
2027-06-30	¥1,232.5bn	¥1,290.2bn	¥1,330.2bn	Coal turnaround divergence and initial price normalization
2028-06-30	¥1,201.4bn	¥1,316.2bn	¥1,399.1bn	Supply response and aluminum-logistics outcomes become visible
2029-06-30	¥1,171.3bn	¥1,342.9bn	¥1,471.8bn	Reserve/capex delivery begins to separate cases
2030-06-30	¥1,142.4bn	¥1,370.4bn	¥1,548.6bn	Low-carbon and recycling initiatives either scale or disappoint
2031-06-30	¥1,114.5bn	¥1,398.6bn	¥1,629.7bn	Exact five-year horizon

9. Forward `Trading income` margin assumptions

Product margins are analyst allocations designed to reproduce the segment's sealed TTM `Trading income`. They must never be mistaken for disclosed product margins. Base margin falls from 10.90% to 9.11% even as revenue grows because current iron-ore and coking-coal economics are above conservative mid-cycle assumptions. Bull expands to 12.25% through better prices, volume and cost execution. Bear falls to 6.02% under adverse price, project and cost conditions.

Product	Modeled TTM revenue	Modeled TTM `Trading income` margin	Bear 2031 margin	Base 2031 margin	Bull 2031 margin	Mechanism
Iron ore	¥708.4bn	13.40%	7.50%	10.50%	13.50%	Price/grade differential, volume, cost inflation, logistics and reserve-quality mix
Coking coal	¥202.4bn	10.00%	3.50%	9.50%	15.00%	Argo/Allegheny throughput, yield, price and sustaining cost

Product	Modeled TTM revenue	Modeled TTM `Trading income` margin	Bear 2031 margin	Base 2031 margin	Bull 2031 margin	Mechanism
Aluminum/non-ferrous	¥151.8bn	7.50%	5.50%	7.50%	9.50%	UAE volume, regional premium, energy/freight and inventory basis
Steel products/trading	¥101.2bn	4.00%	2.50%	4.00%	6.00%	Spread, inventory turn, credit loss and service mix
Other minerals/nuclear/recycling	¥101.2bn	7.225%	5.00%	7.00%	9.00%	Project mix, recycling scale, uranium/nuclear timing and compliance cost
Segment total	¥1,264.9bn	10.90%	6.02%	9.11%	12.25%	Revenue-weighted average; corporate items excluded

The Base decline of 179 bps is driven mainly by iron ore normalizing from a modeled 13.4% to 10.5% margin and by coking coal settling just below its modeled anchor margin after turnaround benefits. It is not an arbitrary haircut. The current data package shows FY2026 iron ore at US$102/t and Q1 FY2027 at US$106/t; Base uses a lower terminal reference. Bear's 488-bp decline layers a US$75/t iron-ore reference, weak coking-coal project economics, cost inflation and lower trading spreads. Bull's 135-bp expansion requires execution and does not follow from price alone.

Annual `Trading income` **cadence**

Date	Bear margin	Bear `Trading income`	Base margin	Base `Trading income`	Bull margin	Bull `Trading income`
2026-06-30 anchor	10.90%	¥137.9bn	10.90%	¥137.9bn	10.90%	¥137.9bn
2027-06-30	9.90%	¥122.1bn	10.53%	¥135.9bn	11.16%	¥148.4bn
2028-06-30	8.92%	¥107.1bn	10.17%	¥133.8bn	11.42%	¥159.8bn
2029-06-30	7.94%	¥93.0bn	9.81%	¥131.7bn	11.69%	¥172.0bn
2030-06-30	6.97%	¥79.6bn	9.46%	¥129.6bn	11.97%	¥185.3bn
2031-06-30	6.02%	¥67.1bn	9.11%	¥127.4bn	12.25%	¥199.7bn

Resource volume-price-cost-reserve and capex sensitivity

Driver	Bear 2031	Base 2031	Bull 2031	Operating interpretation / perimeter caveat
Iron-ore attributable sales volume	29.0 Mt	33.5 Mt	36.5 Mt	Volume change affects revenue and fixed-cost absorption; paths bracket the 31.4 Mt FY2027 plan.
Iron-ore reference price	US$75/t	US$90/t	US$115/t	The package's Q1 sensitivity implies about ¥11.6bn per US$10/t, but it is not identified as segment `Trading income` and is not added to this rollup.
Iron-ore unit-cost index, 2026=100	125	112	103	Labor, diesel, stripping, royalties, freight and sustaining work determine conversion of price to margin.
Coking-coal saleable-volume index, 2026=100	85	116	140	No issuer tonne series; index isolates turnaround success without inventing tonnes.
Coking-coal realized-price index, 2026=100	75	95	120	Official external outlook supports stable real Base pricing, not structural escalation.
Aluminum/non-ferrous volume index, 2026=100	90	120	140	Bear assumes persistent UAE/logistics disruption; Base recovery; Bull low-carbon/customer growth.
Reserve-life and grade	Declining grade / delayed replacement	Stable economic inventory	Successful extension and high-grade mix	No consolidated attributable reserve schedule is disclosed; this remains a monitored condition, not a quantified asset.

Driver	Bear 2031	Base 2031	Bull 2031	Operating interpretation / perimeter caveat
Sustaining and growth capex	130 index / poor returns	115 index / disciplined	125 index / productive growth	Higher capex helps only if it sustains volume, lowers cost or extends reserves; otherwise free cash flow falls.

The iron-ore sensitivity is the only disclosed commodity sensitivity relevant to this segment. Applying the Q1/FY2027 figure mechanically, a US$10/t move changes the package's stated profit measure by about ¥11.6bn. The FY2026 sensitivity was ¥1.85bn per US$1/t, which would imply ¥18.5bn for the same move. The data package does not bind either sensitivity to segment `Trading income`; associate ownership, tax, hedging, volume and timing can all affect it. The model therefore uses the sensitivity only as a parent-profit risk range check and does not add it to the product-margin rollup.

The package also gives an approximately ¥2.4bn group profit sensitivity for each ¥1/US$ across Q2-Q4. That is company-wide and cannot be allocated wholly to Metals & Minerals. A ¥10 weaker yen could imply roughly ¥24bn at group level before hedging and offsets, but assigning that amount to this segment would be fabrication. [DATA GAP: segment-specific FX sensitivity and hedging profile are not disclosed.]

Capex requires similar discipline. If annual segment capex were ¥20bn above Base for five years with no incremental production or cost reduction, cumulative pre-tax cash generation would be ¥100bn lower even if `Trading income` were unchanged. Conversely, cutting sustaining capex can temporarily raise free cash flow while harming availability, grade access and reserve life. Because segment capex is undisclosed, the forecast does not force capex through `Trading income`; it flags the free-cash-flow consequence for synthesis and valuation.

The price, volume and cost rows are scenario diagnostics rather than a false `price × volume = reported revenue` identity. The package does not disclose which mines are consolidated, proportionately reflected, or equity-accounted at product level, nor the grade, freight, provisional-pricing, FX and trading-throughput bridge needed to map benchmark tonnes into external revenue. Accordingly, sleeve revenue is compounded from the explicit analyst proxy, while the commodity deck challenges the reasonableness of the terminal margin. Multiplying the rows together and adding the disclosed parent-profit sensitivity would double count and mix accounting perimeters.

Accounting-perimeter control for synthesis

Item	Included in this segment rollup?	Correct downstream treatment
Segment `Trading income`	Yes	Forecast once from the five modeled sleeves; exact TTM identity is ¥137.902bn.
Equity in earnings of associates and joint ventures	No	Forecast below `Trading income` at group level; sealed TTM bridge line is ¥371.269bn across ITOCHU.
Corporate / unallocated adjustments	No	Forecast once at group level; sealed TTM bridge line is -¥25.993bn.
Non-controlling interests	No	Deduct after tax at group level; sealed TTM bridge line is -¥38.718bn.
Investment and PP&E / intangible gains or losses, including applicable impairments	No unless already recorded in the issuer's `Trading income` line	Preserve the sealed below-line classifications; do not bury them in product margins or add a blanket impairment haircut.
Provision for doubtful accounts embedded in issuer `Trading income`	Yes, when captured in the reported segment metric	Do not deduct it again below the segment rollup.

This control is especially important for minority and jointly controlled mining interests. Economic exposure, the commodity sensitivity and segment parent-profit guidance may include effects that the sealed bridge locates below `Trading income`; none is imported into this operating rollup without a disclosed additive bridge.

10. Segment rollup — bottoms-up and reconciled

Horizon product rollup

Case	Product	2031 revenue	2031 `Trading income` margin	2031 `Trading income`
Bear	Iron ore	¥608.3bn	7.50%	¥45.6bn
Bear	Coking coal	¥156.6bn	3.50%	¥5.5bn

Case	Product	2031 revenue	2031 `Trading income` margin	2031 `Trading income`
Bear	Aluminum/non-ferrous	¥151.8bn	5.50%	¥8.3bn
Bear	Steel products/trading	¥91.5bn	2.50%	¥2.3bn
Bear	Other minerals/nuclear/recycling	¥106.4bn	5.00%	¥5.3bn
Bear	Segment total	¥1,114.5bn	6.02%	¥67.1bn
Base	Iron ore	¥744.5bn	10.50%	¥78.2bn
Base	Coking coal	¥234.6bn	9.50%	¥22.3bn
Base	Aluminum/non-ferrous	¥184.7bn	7.50%	¥13.9bn
Base	Steel products/trading	¥111.7bn	4.00%	¥4.5bn
Base	Other minerals/nuclear/recycling	¥123.1bn	7.00%	¥8.6bn
Base	Segment total	¥1,398.6bn	9.11%	¥127.4bn
Bull	Iron ore	¥861.8bn	13.50%	¥116.3bn
Bull	Coking coal	¥283.9bn	15.00%	¥42.6bn
Bull	Aluminum/non-ferrous	¥212.9bn	9.50%	¥20.2bn
Bull	Steel products/trading	¥129.2bn	6.00%	¥7.7bn
Bull	Other minerals/nuclear/recycling	¥141.9bn	9.00%	¥12.8bn
Bull	Segment total	¥1,629.7bn	12.25%	¥199.7bn

The product rows reconcile to each segment total within rounding. Bear revenue sums to ¥1,114.6bn using displayed one-decimal rows versus ¥1,114.5bn on unrounded values; Base sums to ¥1,398.6bn; Bull sums to ¥1,629.7bn. `Trading income` sums to ¥67.0bn, ¥127.5bn and ¥199.6bn on displayed rows versus ¥67.1bn, ¥127.4bn and ¥199.7bn on unrounded calculations. All differences are below 0.1% and are rounding, not plugs.

Probability-weighted operating view

Metric	Bear 25%	Base 55%	Bull 20%	Probability-weighted
2031 revenue	¥1,114.5bn	¥1,398.6bn	¥1,629.7bn	¥1,373.8bn
2031 `Trading income`	¥67.1bn	¥127.4bn	¥199.7bn	¥126.8bn
Implied weighted margin	6.02%	9.11%	12.25%	9.23%

The probability-weighted result is not a fourth scenario. It simply shows that expected 2031 `Trading income` of about ¥126.8bn is below the current TTM ¥137.902bn despite higher weighted revenue. That is the central underwriting message: Metals & Minerals can remain strategically valuable and volume-resilient without compounding profit from today's favorable base. The Base case itself produces 2031 `Trading income` of ¥127.4bn, almost exactly FY2026's ¥127.577bn and below TTM. This conservatism reflects price normalization and missing reserve/capex evidence rather than a claim of structural decline.

No corporate/unallocated item is inserted here. The sealed bridge treats Others, Adjustments & Eliminations separately, and synthesis must forecast that line once at group level. Likewise, segment parent-profit guidance of ¥172bn is not mixed with `Trading income` because it can include equity-method and below-line effects.

The exact sealed TTM identity is: eight segment `Trading income` lines sum to ¥762.601bn; `Others, Adjustments & Eliminations` of -¥25.993bn brings consolidated `Trading income` and statutory operating income to ¥736.608bn. Metals & Minerals contributes ¥137.902bn to the ¥762.601bn named-segment sum. Associate/JV earnings, investment gains or losses, PP&E/intangible gains or losses, interest, dividends, tax and NCI remain outside this segment rollup and are bridged separately.

11. Key risks and wildcards

[Bear] Iron-ore price and China steel demand. Iron ore is the largest modeled sleeve. New supply from Brazil and Guinea, weak property demand, scrap substitution or lower steel intensity could move the benchmark toward the US$75/t Bear deck.

The package's Q1 sensitivity maps a US$25/t move from Base toward Bear to roughly ¥29bn on its stated profit measure before nonlinearities; it is not an incremental `Trading income` adjustment in this model.

[Bear/Base] Cost-curve slippage. Diesel, labor, explosives, stripping, royalties, freight and rehabilitation can rise while benchmark prices fall. A nominally low-cost asset can migrate rightward on the cost curve through grade decline or underinvestment. The absence of an attributable cost and reserve schedule increases uncertainty.

[Bear] Coking-coal turnaround failure. Argo and Allegheny may miss throughput, yield or unit-cost targets. Glencore's 2026 experience shows that even established steelmaking-coal systems can suffer material throughput and yield shortfalls. A weak turnaround reduces both revenue and margin because fixed costs remain.

[Bear/Bull] Aluminum and Middle East logistics. Conflict has supported prices but reduced UAE billet volume. A rapid resolution can lower price premiums while a prolonged disruption can impair volume and working capital. The best outcome is restored physical flow with durable low-carbon demand, not permanently high conflict pricing.

[Bear] Impairment and provisioning. A lower long-run commodity deck, reserve revision, higher rehabilitation obligation or persistent project underperformance can reduce recoverable value. ITOCHU's Q1 disclosure already included a ¥0.5bn provision in an overseas business within Marubeni-Itochu Steel. Small current provisions do not cap future downside. Provisions for doubtful accounts can be embedded in issuer `Trading income`, while investment and PP&E/intangible gains or losses sit on separate below-line bridge rows and associate/JV earnings are also below `Trading income`. Synthesis must preserve those exact classifications and avoid either hiding below-line impairments in product margins or deducting embedded provisions twice. [data_package §2, §5; `statutory_bridge.json`]

[Bear/Base] FX translation and hedging. A weaker yen often lifts translated resource profit, but transaction currency, local costs, debt and hedges can offset the benefit. The group sensitivity of ¥2.4bn per ¥1/US$ is not a segment allocation. A stronger yen is a plausible headwind; a weaker yen can coincide with higher imported costs and working capital.

[Bear] Reserve and grade risk. The model has no ITOCHU-attributable reserve-life table. Depletion, grade decline, geotechnical issues, tailings constraints or permitting delays can convert apparently low-cost volume into capital-intensive replacement. CSN's large reserve base is reassuring context but does not substitute for ITOCHU ownership-adjusted economic reserves.

[Bear/Base] Capex overrun and minority governance. ITOCHU may fund expansions or sustaining work without controlling operator timing, budget or dividend policy. CSN's multi-year expansion plan illustrates the scale of capital needed to add tonnes. Minority economics can be attractive, but governance and cash remittance matter as much as accounting earnings.

[Bear] Counterparty, country and sanction risk. The group has material exposure in China and resource jurisdictions. Capital controls, sanctions, sovereign intervention, tax/royalty changes or customer credit deterioration can impair cash conversion. Trading inventory can amplify liquidity needs during price spikes.

[Base/Bull] DRI, high-grade ore and low-carbon products. Steel decarbonization may reward high-grade ore, DRI feed, green aluminum and recycling. These opportunities justify optionality, not forecast certainty. Bull requires signed customers, funded projects and demonstrated returns.

[Bull] Nuclear, uranium and energy security. Policy support and reactor life extensions can expand demand for uranium and nuclear-related equipment. Upside is lumpy and policy-dependent, so it stays within the small other-minerals sleeve.

[All cases] Classification risk. Segment `Trading income` does not capture every equity-method gain, impairment, disposal, interest or tax item. Forecasting parent profit directly from segment margin would double count or omit items. The correct sequence is this segment model, separate corporate/unallocated and below-line forecasts, then statutory reconciliation.

Summary

Case	Segment TTM+5y Revenue	Exact profit metric	Segment TTM+5y Profit Margin	Segment TTM+5y Profit	Probability
Bear	¥1,114.5bn	`Trading income`	6.02%	¥67.1bn	25%
Base	¥1,398.6bn	`Trading income`	9.11%	¥127.4bn	55%
Bull	¥1,629.7bn	`Trading income`	12.25%	¥199.7bn	20%

The segment has valuable assets and credible operating recovery, but it is not a clean compounder. Iron-ore volume growth has partly offset lower prices, and coking-coal turnaround can lift earnings, yet historical `Trading income` remains below its FY2023 peak. Base therefore assumes modest revenue growth and margin normalization, leaving 2031 `Trading income` near FY2026 rather than above TTM. A Bull outcome needs verified reserve, cost and capex execution across iron ore, full coal recovery, restored aluminum flows and monetized low-carbon initiatives. A Bear outcome does not require catastrophe: a normal commodity down-cycle plus cost inflation and one failed project is enough to halve `Trading income` from the current TTM anchor.

Data gaps carried forward

- [DATA GAP: reported TTM Metals & Minerals revenue is absent; ¥1,264.924bn is an explicit package-derived annual-average-quarter substitution proxy, not an exact TTM reconstruction.]
- [DATA GAP: no issuer product-revenue history for iron ore, coking coal, aluminum, steel products or other minerals.]
- [DATA GAP: no segment-specific capex, depreciation, maintenance/growth split or rehabilitation schedule.]
- [DATA GAP: no consolidated ITOCHU-attributable reserve-life, grade or reserve-replacement schedule.]
- [DATA GAP: no disclosed segment-specific FX sensitivity or hedge schedule.]
- [DATA GAP: no coking-coal or aluminum five-year volume and unit-cost series.]
- [DATA GAP: no management revenue, `Trading income` or margin guidance through the exact 30 June 2031 horizon.]

Appendix B6 - ICT and Financial Business

ITOCHU ICT & Financial Business Company — Segment Deep Dive

Ticker: 8001.T **Reporting currency:** Japanese yen **Exact segment profit basis: Trading income Forecast anchor:** TTM ended 30 June 2026 **Exact horizon:** 30 June 2031, five calendar years after the TTM anchor **Scenario weights:** Bear 25%; Base 55%; Bull 20% **Authority:** This appendix is analytical work only. It has no trade authority.

This appendix uses `data_package.md` and `statutory_bridge.json` as the sole authorities for ITOCHU historical financials, management quotations and accounting classifications. The data package carries the exact `STATUTORY_BRIDGE_STATUS: VERIFIED — CLEARED FOR FORECASTING` token, and `gate_manifest.json` binds the QFR/DR clearance to the statutory bridge's exact SHA-256 (`97d763c7c2b858f45dec2262263e347e013c2bf636d8161d7563cb3882a16317`). It does not re-fetch or overwrite ITOCHU history. Fresh outside evidence is used only to frame competition, regulation and market risk. The distinction matters here because the segment combines consolidated operating businesses with equity-method investments. The model forecasts only **Trading income**, the common segment metric in the sealed bridge. Equity in earnings of associates, investment gains, interest and tax remain below Trading income and must be handled by the synthesis stage.

0. Segment boundary and taxonomy note

The ICT & Financial Business Company remains one of ITOCHU's eight named operating segments through the June 2026 TTM period. The data package identifies no recent restatement of this segment comparable to the FY2027 Food/The 8th or Energy & Chemicals perimeter breaks. Its broad composition is nevertheless heterogeneous: enterprise IT services and BPO; mobile communications and circular-device activities; media, satellite, healthcare and other ICT investments; lending, payments and asset-management activities; and insurance distribution, brokerage, reinsurance and credit-guarantee activities. ITOCHU's current organization describes two divisions—ICT and Financial & Insurance—and the model preserves that broad boundary while splitting it into five decision-useful driver buckets. These buckets are analyst modeling constructs, not issuer-reported subsegments.

The governing accounting warning is equally important. CTC and other controlled businesses can contribute revenue and Trading income through consolidation. An associate such as the proposed 38.22% Dentsu Soken investment would normally contribute through equity-method earnings rather than segment Trading income. The announced acquisition therefore cannot be inserted into the Trading-income forecast merely because management presents it as strategically part of this segment. That accounting separation prevents double counting in the combined model.

1. What this segment actually is

The segment is best understood as a portfolio of service businesses connected by enterprise relationships, consumer distribution and data. It is not a pure-play software company and not a regulated bank or insurer. Each activity earns differently, bears different capital needs and responds differently to AI.

IT services and BPO. The core is enterprise technology implementation, software development, systems integration, infrastructure, cloud migration, cybersecurity, data and analytics, managed operations, and customer-support/BPO. CTC is the anchor operating platform. Customers are large Japanese enterprises, public-sector entities, financial institutions, telecommunications companies and other organizations that need complex systems to work across vendors. Pricing can be project-based, time-and-materials, fixed-price, subscription-like managed service, consumption-based cloud resale or multi-year operation and maintenance. BPO adds labor-intensive contact-center and workflow execution economics. The sales motion is relationship-led and technically consultative; delivery quality and the ability to integrate several vendors are more important than owning a single software product.

Telecom and circular mobile. The segment participates in mobile-device services rather than operating a nationwide telecom network. Activities include handset-related services, mobile insurance, used-device procurement, refurbishment and distribution. Revenue can be transactional and working-capital intensive, with spreads determined by device acquisition cost, grading accuracy, repair yield, inventory turns, residual values and channel terms. Contract economics can change abruptly. The data package explicitly instructs the model to separate recurring service growth from large-contract timing. This is a weaker moat than enterprise integration because carrier and marketplace counterparties have bargaining power.

Media, space, healthcare and other ICT. This bucket covers digital marketing, retail media, content/IP, satellite and geospatial exposure, healthcare-development services and venture investments. The underlying models range from high-margin data and advertising services to project businesses and capital-intensive infrastructure held through affiliates. Retail media seeks to combine purchase data with advertising inventory; media economics depend on audience reach, consented data, measurement credibility and advertiser return on spend. Satellite and content investments can provide differentiated assets, but much of their economic contribution may sit below Trading income when ownership is through associates.

Finance and credit. Domestic and overseas activities include cards and payments, auto finance, consumer credit, asset management, FX platforms and next-generation financial services. Revenue arises from interest spreads, fees, interchange, brokerage and investment-management income. The key economic variables are funding cost, approval rate, risk-adjusted yield, vintage performance, delinquency, net charge-offs, recoveries, fraud and regulatory conduct costs. Unlike IT services, growth consumes balance-sheet capacity and can look strongest just before loss recognition worsens. The model therefore treats credit growth without asset-quality evidence as a risk, not an unqualified positive.

Insurance and intermediation. This includes retail insurance shops, corporate brokerage, embedded or product-linked insurance, reinsurance and credit guarantees. Agency and brokerage income is mostly commission-driven and relatively capital-light; underwriting, reinsurance or guarantee exposure is capital- and risk-intensive. Retail distribution has a human-advice component and can compare products across carriers, but online direct channels and AI-assisted advice are structural competitors. The model separates commission resilience from risk-bearing insurance economics rather than assigning the entire bucket a single “insurance” multiple.

The cross-segment rationale is credible but unproven. Enterprise IT can improve financial underwriting, fraud controls and customer servicing; BPO can operate those workflows; retail media can monetize data from group consumer touchpoints; insurance and payments can be embedded into ITOCHU distribution. The risk is that “synergy” becomes a narrative used to justify acquisitions that remain operationally separate. Only revenue actually won, cost actually removed or losses demonstrably reduced should qualify as realized synergy.

2. Current economics at the TTM anchor

The verified FY2026 historical base is ¥1,103.075 billion of external revenue and ¥102.474 billion of Trading income, a 9.29% margin [data_package §3, External revenue table and Trading income table, ICT & Financial Business rows; [ITOCHU's official downloadable financial data inventory](https://www.itochu.co.jp/en/ir/finance/financial_data/index.html)]. The exact sealed TTM Trading income is ¥106.528 billion [data_package §2, TTM bridge, ICT & Financial Business row; statutory_bridge.json, TTM segment-profit line, derived from the [FY2026 annual results](https://www.itochu.co.jp/en/ir/financial_statements/2026/__icsFiles/afieldfile/2026/05/01/26_ended_01_e.pdf) and [Q1 FY2027 results](https://www.itochu.co.jp/en/ir/financial_statements/2027/__icsFiles/afieldfile/2026/08/06/27_1st_01_e.pdf)]. Q1 FY2027 revenue was ¥278.1 billion and Trading income was ¥21.8 billion [data_package §7, ICT & Financial Business row; [ITOCHU Q1 FY2027 business-results supplement dated 7 August 2026](https://www.itochu.co.jp/en/ir/financial_statements/2027/__icsFiles/afieldfile/2026/08/07/27_1st_02_e.pdf)]. The segment’s FY2027 parent-profit plan is ¥97.0 billion, but parent profit is not Trading income and cannot be used as a margin numerator [data_package §3a, current guidance].

`[DATA GAP: data_package.md does not provide Q1 FY2026 segment revenue, so an exact FY2026 − prior-Q1 + current-Q1 TTM revenue bridge cannot be constructed.]` To keep the five-year model anchored at 30 June 2026 without inventing a prior-quarter number, this appendix uses an explicitly labeled **TTM revenue proxy** of ¥1,112.4 billion, equal to four times the disclosed current-quarter revenue of ¥278.1 billion. The proxy is only 0.8% above FY2026 revenue and is not represented as an issuer figure. Dividing the exact TTM Trading income by the proxy gives a 9.58% modeling margin. The reviewer should replace the proxy if the upstream package is amended with exact TTM segment revenue.

The segment has become economically more important. External revenue rose from ¥864.0 billion in FY2022 to ¥1,103.075 billion in FY2026, a 6.3% four-year CAGR. Trading income rose from ¥78.522 billion to ¥102.474 billion, a 6.9% CAGR. The path was not linear: FY2023 Trading income fell to ¥69.4 billion, then recovered to ¥79.1 billion, ¥91.830 billion and ¥102.474 billion. The recovery shows operating leverage and improved portfolio mix, but also demonstrates that a smooth extrapolation is inappropriate.

The current quarter supports strength but not a one-quarter annualization. CFO Tsuyoshi Naka said in ITOCHU's Q1 FY2027 Q&A dated 5 August 2026 that CTC grew operating and net profit by more than 20% in Q1 for a fourth consecutive year and

that organic growth was gaining momentum [data_package §7]. However, the data package also cautions that CTC service growth must be separated from large-contract timing. The segment's 21% progress toward its ¥97.0 billion parent-profit plan after one quarter is consistent with back-end weighting, not evidence that the annual plan is at risk.

Capital intensity varies sharply. IT services and agency insurance consume mostly people, software, receivables and modest fixed assets. Used-device distribution consumes inventory and working capital. Finance consumes funded assets, loss reserves and regulatory capital. Satellite and other infrastructure exposures can be capital intensive even when held through associates. The group-level ¥260.1 billion FY2026 capex figure cannot be allocated to this segment from the package [data_package §1 and §10]. Any apparent high segment return on assets would therefore be unsafe without a segment balance-sheet bridge.

3. Unit economics and sub-business margin mix

The segment's economics are driven more by mix than by headline revenue. A yen of cloud resale, used-device distribution or financed receivables is not equivalent to a yen of advisory, managed service or agency commission. The model therefore uses revenue-weighted margins only as a reconstruction tool; it does not claim issuer disclosure at this granularity.

The following TTM allocation is an analyst proxy calibrated mechanically to the ¥1,112.4 billion TTM revenue proxy and the exact ¥106.528 billion Trading income. It is designed to make assumptions auditable, not to fill disclosure gaps with false precision.

Modeling bucket	TTM revenue proxy, ¥bn	Revenue share	TTM Trading-income margin proxy	TTM Trading income, ¥bn	Confidence
IT services & BPO	622.944	56.0%	13.00%	80.983	Medium-low; dominant role is clear, revenue split is not disclosed
Telecom & circular mobile	100.116	9.0%	4.00%	4.005	Low; transactional mix and contract terms are not disclosed
Media, space, healthcare & other ICT	88.992	8.0%	6.00%	5.340	Low; several investees may sit below Trading income
Finance & credit	200.232	18.0%	4.50%	9.010	Low; interest revenue and loss provisions are not separately disclosed
Insurance & intermediation	100.116	9.0%	7.18%	7.190	Low; agency and risk-bearing activities are mixed
Segment total / exact tie-out	**1,112.400**	**100.0%**	**9.58%**	**106.528**	Revenue is proxy; Trading income is exact

IT services unit economics. Gross value creation comes from architecting systems, integrating hardware and software, writing and testing applications, migrating workloads, and operating systems after launch. Managed services, security and operations are typically more recurring and can carry better utilization than one-off equipment resale. Labor utilization, bill rates, subcontractor cost, project overruns and vendor rebates drive margin. Fixed-price work creates asymmetric downside: an overrun consumes margin while delivery upside is capped. AI coding can increase engineer output, but customers will eventually demand part of that efficiency through lower prices or faster delivery.

BPO economics. Contact centers and outsourced workflows earn per seat, hour, transaction or outcome. Labor is the largest cost. Generative voice and text agents can reduce required seats, improve quality assurance and automate after-call work. That creates a near-term productivity opportunity but a long-term revenue risk if pricing remains seat-based. The attractive path is to price on resolved outcomes and retain some automation benefit; the unattractive path is rapid volume deflation with customers capturing all savings.

Telecom and circular economics. Used-device margins depend on buying discipline, grading, repair, fraud prevention, inventory aging and global resale channels. Rapid new-device launches and carrier promotions can change residual values. Working-capital turns matter more than accounting revenue growth. A two-point deterioration in gross spread can erase a large share of Trading income in a low-margin distribution model.

Media economics. Retail media can be high incremental margin after data plumbing and advertiser relationships are established, but it competes for budgets with major ad platforms, agencies and other retailers. Measurement integrity is crucial. AI lowers the cost of content and campaign creation, which may expand campaign volumes but also commoditize creative services. Proprietary transaction data, consent and closed-loop attribution are more defensible than content production alone.

Finance economics. Pre-provision profit equals risk-adjusted yield and fees less funding, acquisition and servicing costs. Trading income is after expected credit-loss charges for consolidated lenders. Fast receivables growth can boost interest income before later vintages season into delinquency. The model therefore requires cohort loss curves, Stage 2 or Stage 3 delinquency data, charge-offs, recoveries, loan-to-value for secured products and funding tenor. None is provided at segment level.

Insurance economics. Agency commissions are driven by policy count, premium, product mix, renewal, carrier commission schedules and adviser productivity. Underwriting economics instead depend on claims, reserve adequacy, reinsurance, catastrophe and capital. An agency can show good cash conversion without bearing underwriting risk; a guarantor cannot. The base case gives only modest margin expansion because the package does not separate these activities.

4. Competitive dynamics

IT services and BPO

The direct Japanese competitors include NTT DATA, Nomura Research Institute, SCSK, TIS, Fujitsu, NEC and Dentsu Soken. Global consultancies and cloud hyperscalers compete at the architecture, application and platform layers, while customers' internal engineering teams compete through insourcing. CTC's advantages are multi-vendor integration, long enterprise relationships and technical delivery capability. Its disadvantage is limited ownership of the underlying cloud and software economics.

Fresh competitor evidence shows that demand is real but margins are not automatic. NRI reported first-half FY2026 Financial IT Solutions revenue growth of 7.4% and operating-profit growth of 19.5%, citing favorable orders, more management and operation services and profitability improvement. NRI's longer record shows Financial IT margins in the mid-teens and IT platform margins around 15%, a useful benchmark for an optimized mix rather than a promise for CTC ([NRI official results](https://ir.nri.com/en/ir/library/financial.html)). SCSK's FY2026 fourth-quarter operating margin was 10.7%, showing that labor and mix can restrain profitability even at scale ([SCSK official FY2026 presentation](https://www.scsk.jp/ir_en/library/archives/pdf/scsk/20260501_presentation_e.pdf)).

Dentsu Soken is both a competitor and proposed partner. Its 2026 forecast calls for ¥182.0 billion of revenue, 10.4% growth, and ¥25.5 billion of operating profit, an approximately 14.0% margin ([Dentsu Soken official forecast](https://www.dentsusoken.com/ir/financial/forecast.html)). Its mix spans financial, business, manufacturing and communication IT. Those economics validate a strategic fit with CTC but also set a demanding integration bar: ITOCHU must create incremental commercial value without disrupting two professional-services cultures.

BPO competition includes other large contact-center operators, specialist outsourcers and increasingly software-native AI agents. Pricing power is limited when bids are standardized. Data security, regulated-industry workflow expertise and integration with client systems are more defensible than raw seat capacity. The segment should prioritize automation-led outcome contracts and secure managed operations rather than defend legacy volumes.

Telecom, media and adjacent ICT

Mobile-related businesses compete with carrier trade-in programs, device manufacturers, online recommerce platforms, refurbishers and distributors. Scale helps sourcing and resale liquidity, but product differentiation is low. Fraud controls, device grading and inventory velocity form the operational moat. The bear case assumes contract repricing and residual-value pressure persist; the bull case requires evidence of international sourcing scale and service attachment, not merely more units.

Retail media competes with Dentsu, Hakuhodo, digital platforms and retailers building their own networks. The segment's potential advantage is access to ITOCHU-group consumer touchpoints and transaction data. The moat survives only if data use is permissioned, measurement is trusted and advertisers see incremental sales rather than recycled attribution. Content and IP and satellite assets can create differentiated inventory, but streaming substitution and escalating rights costs are real risks.

Finance and insurance

Cards, consumer finance and auto finance compete with banks, captive finance companies, specialist non-banks and digital lenders. Funding scale and data matter, but aggressive approval standards can manufacture short-term growth. In the United Kingdom, motor finance also faces material conduct risk. The FCA's March 2026 redress framework covers eligible agreements from 2007 to November 2024 and estimates an industry-wide £7.5 billion compensation payout and £9.1 billion

total bill; litigation has suspended parts of implementation, so timing remains uncertain ([FCA statement](https://www.fca.org.uk/news/statements/fca-confirms-motor-finance-redress-scheme)). The appendix does not assert that ITOCHU's UK lender owes a specific amount; it flags the exposure until company-specific provisioning is disclosed.

Retail insurance faces direct digital insurers, bank channels, carrier agents, online aggregators and other agencies. Physical advice can remain valuable for complex family protection, retirement and business policies, but simple products migrate online. Product breadth and adviser quality can support conversion, while regulation and customer-oriented conduct constrain aggressive sales practices. Embedded insurance can expand distribution but concentrates platform and compliance risk.

5. Moat at the segment level

The segment has a **moderate, uneven moat**, strongest in enterprise IT and weakest in commoditized device distribution.

CTC's installed relationships, multi-vendor certifications, engineering workforce and responsibility for mission-critical systems create switching costs. A failed migration or outage is costly, so clients value delivery history. Managed operations deepen recurring revenue. These advantages should survive five years. They are not a 20-year guarantee: cloud vendors can move up the stack, generative AI can reduce custom-code differentiation, and scarce engineers can leave. CTC must convert project knowledge into reusable software, automation and industry platforms to widen the moat.

Finance has data and distribution advantages, but no evidence here of structurally superior underwriting. A lender's true moat is low losses through a cycle at an attractive risk-adjusted yield and funding cost. Without vintage and loss data, the segment receives no underwriting-moat credit. Geographic diversification across Japan, the UK and Asia reduces single-market dependence but adds regulatory and currency complexity.

Insurance distribution benefits from customer relationships, adviser experience and product breadth. Its moat is vulnerable where products are standardized and price-comparable. Advice quality, renewal service and embedded group distribution are more durable than storefront count alone. Risk-bearing insurance and guarantees can earn attractive returns, but only if reserving and capital are disciplined.

Media and retail-data assets have potential network effects: more transactions can improve audience definition, which can attract more advertisers. Yet privacy constraints and platform competition can prevent the loop from scaling. Satellite and content rights can be scarce assets, but they are capital intensive and exposed to technology substitution. Telecom and circular mobile has an execution moat—procurement, grading and global disposition—but limited pricing power.

The five-to-ten-year moat conclusion is therefore **durable but not widening by default**. Base-case margin expansion requires CTC to shift toward managed, security, data and AI-enabled services and requires finance losses to stay controlled. A bull case needs evidence that the Dentsu alliance creates proprietary solutions or retail-data monetization rather than simply adding associate earnings below Trading income.

6. Historical growth rates — reproduced from the data package

The issuer discloses no universal product or sub-business revenue series for this segment. The only compliant historical table is therefore the segment total. Every figure below comes from the cited data-package rows; no external ITOCHU history is substituted.

Product / sub-segment	FY2024 revenue, ¥bn	FY2025 revenue, ¥bn	FY2026 revenue, ¥bn	FY2024–FY2026 CAGR (2 years)	Most recent YoY	Data-package cite
ICT & Financial Business total	864.300	984.699	1,103.075	12.97%	12.02%	data_package §3, External revenue table, ICT & Financial Business row
IT services & BPO	n/d	n/d	n/d	n/d	n/d	data_package §10 gap 1: no product revenue series
Telecom & circular mobile	n/d	n/d	n/d	n/d	n/d	data_package §10 gap 1
Media, space, healthcare & other ICT	n/d	n/d	n/d	n/d	n/d	data_package §10 gap 1
Finance & credit	n/d	n/d	n/d	n/d	n/d	data_package §10 gap 1
Insurance & intermediation	n/d	n/d	n/d	n/d	n/d	data_package §10 gap 1

Exact profit metric	FY2024, ¥bn	FY2025, ¥bn	FY2026, ¥bn	FY2024–FY2026 CAGR (2 years)	Most recent YoY	Data-package cite
Trading income	79.100	91.830	102.474	13.82%	11.59%	data_package §3, Trading income table, ICT & Financial Business row

Arithmetic tie-outs: ¥864.300 billion × 1.1393 ≈ ¥984.699 billion; ¥984.699 billion × 1.1202 ≈ ¥1,103.075 billion. Trading income ties as ¥79.100 billion × 1.1609 ≈ ¥91.830 billion and ¥91.830 billion × 1.1159 ≈ ¥102.474 billion. All changes are within rounding tolerance. The five-year FY2022–FY2026 CAGR is 6.30% for revenue and 6.88% for Trading income, showing that the recent two-year pace is well above the full-period base rate.

Margins were 9.09%, 7.93%, 9.15%, 9.33% and 9.29% from FY2022 through FY2026. The recovery from FY2023 is real, but FY2026 did not show further margin expansion despite double-digit revenue growth. This supports a base case with gradual, not heroic, operating leverage.

7. Management guidance — quoted from the data package

- **CTC growth:** CFO Tsuyoshi Naka said, “CTC achieved growth of more than 20% in both operating profit and net profit in Q1 for the fourth consecutive year.” [ITOCHU Q1 FY2027 Q&A, 5 August 2026, as reproduced in data_package §7]. Interpretation: CTC is currently the strongest operating engine. The statement refers to CTC profit, not segment Trading income, and one quarter can include delivery timing.

- **Organic momentum:** CFO Tsuyoshi Naka said, “We also feel that our organic growth is gaining clear momentum.” [ITOCHU Q1 FY2027 Q&A, 5 August 2026, as reproduced in data_package §7]. Interpretation: this supports a positive demand backdrop, but the model still separates acquisitions, currency and one-offs because “organic” is management characterization rather than a reconciled KPI.

- **Segment signal:** Q1 FY2027 ICT & Financial Business revenue was ¥278.1 billion and Trading income was ¥21.8 billion; the evidence note highlights CTC strength [data_package §7, segment observations table]. Interpretation: annualized revenue is close to the FY2026 level, while first-quarter Trading-income margin of 7.84% is below the TTM proxy margin, consistent with seasonality or mix.

- **FY2027 plan:** The company’s ICT & Financial Business parent-profit plan is ¥97.0 billion [data_package §3a]. Interpretation: it is not a Trading-income guide and must not be used to force this appendix’s FY+1 Trading-income number.

- **Forecast-driver instruction:** “For ICT, CTC’s recurring service growth and large-contract timing should be separated.” [data_package §3a]. Interpretation: recurring managed services deserve a higher confidence multiple than hardware resale or project milestones. The annual cadence below builds gradually and does not annualize Q1 profit growth.

`[DATA GAP: no management guidance in the authoritative package provides segment revenue, segment Trading income, sub-business revenue, credit costs or segment capex through 30 June 2031.]`

8. Forward growth assumptions — explicit by sub-business

The sub-business historical CAGRs are undisclosed. “Historical context” therefore references the segment’s 12.97% FY2024–FY2026 revenue CAGR and 6.30% FY2022–FY2026 CAGR without attributing either rate to individual buckets. The FY+1 guide column notes that only a ¥97.0 billion segment parent-profit plan exists; it is not comparable with revenue or Trading income.

Bear case growth

Product / modeling bucket	Historical context	Latest disclosed signal	Management FY+1 guide	Bear CAGR TTM→TTM+5y	Justification
IT services & BPO	Segment FY2024–FY2026 CAGR 12.97% (2 years); bucket n/d	CTC profit growth above 20% in Q1	No bucket revenue guide	2.0%	AI productivity is passed to customers, project pricing tightens and weak consulting utilization offsets managed-service growth
Telecom & circular mobile	Segment context; bucket n/d	Current contract and mix detail n/d	No bucket guide	-2.0%	Contract repricing, device-spread pressure and inventory risk shrink the low-margin revenue base
Media, space, healthcare & other ICT	Segment context; bucket n/d	No quantified current revenue	No bucket guide	2.0%	Advertising and content grow slowly; affiliate-heavy businesses add little consolidated revenue
Finance & credit	Segment context; bucket n/d	Overseas retail finance requires loss normalization	No bucket guide	-1.0%	Tighter underwriting, higher defaults, redress and funding costs constrain originations
Insurance & intermediation	Segment context; bucket n/d	Agency commission strength, no loss ratios	No bucket guide	1.0%	Online substitution offsets modest renewal and embedded-distribution growth

Base case growth

Product / modeling bucket	Historical context	Latest disclosed signal	Management FY+1 guide	Base CAGR TTM→TTM+5y	Justification
IT services & BPO	Segment FY2024–FY2026 CAGR 12.97% (2 years); bucket n/d	CTC profit growth above 20% in Q1	No bucket revenue guide	7.0%	Japanese cloud, security, data and modernization demand stays healthy; growth decelerates from recent segment pace as scale rises
Telecom & circular mobile	Segment context; bucket n/d	Q1 segment strong overall; bucket n/d	No bucket guide	1.0%	Circular-device volumes grow but contract reset and price competition cap revenue
Media, space, healthcare & other ICT	Segment context; bucket n/d	Dentsu alliance is announced, not closed in anchor	No bucket guide	6.0%	Retail media and data services expand; associate economics are excluded from Trading income
Finance & credit	Segment context; bucket n/d	No segment loan-book metrics	No bucket guide	4.0%	Moderate credit growth in Asia and auto finance, with tighter approvals and normalized funding costs
Insurance & intermediation	Segment context; bucket n/d	Higher agency commissions cited	No bucket guide	4.5%	Renewals, product breadth and embedded channels offset digital price transparency

Bull case growth

Product / modeling bucket	Historical context	Latest disclosed signal	Management FY+1 guide	Bull CAGR TTM→TTM+5y	Justification
IT services & BPO	Segment FY2024–FY2026 CAGR 12.97% (2 years); bucket n/d	CTC profit growth above 20% in Q1	No bucket revenue guide	10.0%	AI creates more transformation work than it displaces; managed security, data and cloud scale with strong utilization
Telecom & circular mobile	Segment context; bucket n/d	International circular opportunity unquantified	No bucket guide	5.0%	Better sourcing, cross-border resale and service attachment overcome contract pressure
Media, space, healthcare & other ICT	Segment context; bucket n/d	Dentsu partnership could improve reach	No bucket guide	10.0%	Retail-media adoption, content monetization and healthcare services compound; no associate revenue is consolidated by assumption
Finance & credit	Segment context; bucket n/d	Q1 overseas finance described as improving	No bucket guide	7.0%	Stable funding and superior underwriting allow growth without a loss spike
Insurance & intermediation	Segment context; bucket n/d	Agency commission momentum	No bucket guide	7.5%	AI-assisted advice lifts adviser productivity and embedded insurance expands customer acquisition

The implied deceleration is deliberate. The segment's latest two-year revenue CAGR is approximately 13%, but the base model falls to 7.0% in IT services and lower elsewhere. The reason is not generic "maturation." Recent growth started from a volatile FY2024 base, disclosed CTC growth is profit rather than segment revenue, AI will shift pricing, and the credit businesses cannot be grown safely without loss data. NRI's 7.4% first-half Financial IT revenue growth and Dentsu Soken's 10.4% 2026 revenue forecast provide a relevant competitive corridor rather than proof of ITOCHU's future rate.

Base-case annual cadence

Horizon date	Segment revenue, ¥bn	YoY growth	Trading-income margin	Trading income, ¥bn	Main cadence driver
TTM 30 Jun 2026 anchor	1,112.4	n/a	9.58%	106.5	Exact profit / proxy revenue
30 Jun 2027	1,174.9	5.6%	9.85%	115.7	CTC backlog conversion; finance remains disciplined
30 Jun 2028	1,241.2	5.6%	10.12%	125.6	Managed services and retail-media ramp
30 Jun 2029	1,311.8	5.7%	10.38%	136.2	Security and data mix and insurance productivity
30 Jun 2030	1,386.7	5.7%	10.65%	147.7	Reusable solutions and better utilization
30 Jun 2031	1,466.4	5.7%	10.91%	160.0	Mature mix; no terminal step-up

The segment-level cadence is lower than the 7% IT-services bucket CAGR because finance, telecom and insurance grow more slowly. Margin expands roughly 27 basis points per year, not in a terminal jump. This smooth cadence is a modeling convention; actual system-integration delivery and credit charges will remain quarterly uneven.

9. Forward Trading-income margin assumptions

The exact profit metric in every table is **Trading income**. Corporate or unallocated lines and the statutory bridge from Trading income to pretax income are excluded from this segment. Dentsu Soken equity-method profit is also excluded.

Product / modeling bucket	TTM margin proxy	Bear TTM+5y margin	Base TTM+5y margin	Bull TTM+5y margin	Mechanism
IT services & BPO	13.00%	11.00%	13.50%	15.00%	Bear: rate pressure and poor utilization; Base: managed-service mix; Bull: AI productivity retained and strong delivery
Telecom & circular mobile	4.00%	2.00%	4.00%	6.00%	Contract terms, device residual values, grading yield and inventory turns
Media, space, healthcare & other ICT	6.00%	5.00%	8.50%	11.00%	Retail-media scale and data monetization versus content and infrastructure cost
Finance & credit	4.50%	3.00%	6.50%	9.00%	Funding spread, credit costs, conduct provisions and operating leverage
Insurance & intermediation	7.18%	6.00%	9.50%	12.00%	Renewal mix and adviser productivity versus acquisition and compliance cost
Blended segment	**9.58%**	**8.05%**	**10.91%**	**12.74%**	Revenue-weighted mix; no corporate or below-line items

The bear reduction exceeds 100 basis points because two explicit mechanisms coincide. First, IT labor utilization weakens while clients demand AI savings. Second, consolidated finance businesses suffer higher provisions and compliance costs. The base expansion of 133 basis points over five years is supported by managed-service mix and productivity but constrained by the absence of segment capex, backlog and loss metrics. The bull expansion of 316 basis points requires multiple favorable conditions and is assigned only 20% probability.

AI disruption test

AI is both demand and substitution. In IT services, generative coding, testing and documentation can expand engineer capacity. If contracts remain time-based, billable hours fall; if fixed-price or outcome-based, CTC can retain part of the gain. The base case assumes benefits and price pass-through roughly balance until managed-service mix improves. The bear assumes customers capture most savings and simpler development is insourced. The bull assumes AI stimulates a larger

wave of data, security, integration and governance spending than the code it automates.

BPO is more directly exposed. Voice agents and workflow automation can reduce seat volumes. A provider that owns the automation layer can improve margin; a provider selling labor hours can lose both revenue and price. Media creative work is also commoditized, while proprietary transaction data and attribution gain value. Finance can improve underwriting and fraud controls, but model risk, bias, explainability and cyber threats increase. Insurance advisers can serve more customers, but recommendation quality and suitability obligations remain.

Japan's METI and MIC integrated prior rules into the AI Guidelines for Business, emphasizing governance across developers, providers and users ([METI official release](https://www.meti.go.jp/english/press/2024/0419_002.html)). The FSA's financial-sector cybersecurity program added frontier-AI threat measures and a July 2026 resilience report ([Japan FSA](https://www.fsa.go.jp/en/policy/cybersecurity/index.html)). Compliance therefore creates recurring security and governance demand for CTC but also raises the cost of delivering AI solutions and financial services.

10. Segment rollup — bottom-up and annual cadence

Horizon-year bucket rollup

Bear case bucket	TTM+5y revenue, ¥bn	Trading-income margin	Trading income, ¥bn
IT services & BPO	687.8	11.00%	75.7
Telecom & circular mobile	90.5	2.00%	1.8
Media, space, healthcare & other ICT	98.3	5.00%	4.9
Finance & credit	190.4	3.00%	5.7
Insurance & intermediation	105.2	6.00%	6.3
Bear segment total	**1,172.2**	**8.05%**	**94.4**

Base case bucket	TTM+5y revenue, ¥bn	Trading-income margin	Trading income, ¥bn
IT services & BPO	873.7	13.50%	118.0
Telecom & circular mobile	105.2	4.00%	4.2
Media, space, healthcare & other ICT	119.1	8.50%	10.1
Finance & credit	243.6	6.50%	15.8
Insurance & intermediation	124.8	9.50%	11.9
Base segment total	**1,466.4**	**10.91%**	**160.0**

Bull case bucket	TTM+5y revenue, ¥bn	Trading-income margin	Trading income, ¥bn
IT services & BPO	1,003.3	15.00%	150.5
Telecom & circular mobile	127.8	6.00%	7.7
Media, space, healthcare & other ICT	143.3	11.00%	15.8
Finance & credit	280.8	9.00%	25.3
Insurance & intermediation	143.7	12.00%	17.2
Bull segment total	**1,698.9**	**12.74%**	**216.4**

Rounded bucket sums can differ from displayed segment totals by ¥0.1 billion; calculations retain unrounded precision. Every total is reconstructed from the Section 8 revenue CAGRs and Section 9 margins.

Scenario annual cadence

Horizon date	Bear revenue, ¥bn	Bear margin	Bear Trading income, ¥bn	Base revenue, ¥bn	Base margin	Base Trading income, ¥bn	Bull revenue, ¥bn	Bull margin	Bull Trading income, ¥bn
30 Jun 2027	1,123.6	9.27%	104.2	1,174.9	9.85%	115.7	1,210.1	10.22%	123.6
30 Jun 2028	1,135.2	8.97%	101.8	1,241.2	10.12%	125.6	1,316.8	10.85%	142.9
30 Jun 2029	1,147.2	8.67%	99.4	1,311.8	10.38%	136.2	1,433.2	11.49%	164.6
30 Jun 2030	1,159.5	8.36%	96.9	1,386.7	10.65%	147.7	1,560.2	12.12%	189.0
30 Jun 2031	1,172.2	8.05%	94.4	1,466.4	10.91%	160.0	1,698.9	12.74%	216.4

The bear deliberately declines in Trading income despite modest revenue growth: automation price pass-through, weak device economics and credit costs erode margins. The base reaches ¥160.0 billion of Trading income, an 8.5% CAGR from the exact ¥106.528 billion TTM anchor. The bull reaches ¥216.4 billion, a 15.2% CAGR, requiring both sustained double-digit IT growth and over 300 basis points of blended margin expansion.

Credit-loss overlay

`[DATA GAP: the authoritative package does not disclose segment loan balances, Stage 2 or Stage 3 assets, delinquency, net charge-offs, vintage loss curves, collateral, coverage ratios or a finance-only Trading-income bridge.]` The scenario margins are therefore stress overlays, not an IFRS 9 expected-credit-loss forecast.

At the modeled horizon, moving finance from the base 6.5% Trading-income margin to the bear 3.0% reduces finance Trading income by roughly ¥6.7 billion on the bear revenue base before considering the lower revenue itself. That haircut is intended to cover some combination of higher provisions, funding pressure and conduct or redress expense. It is not a claim that losses equal 3.5% of receivables.

Fresh external indicators justify retaining a wide downside. The Bank of England’s Q2 2026 survey reported that unsecured household default rates increased and were expected to increase again in Q3 ([Bank of England](https://www.bankofengland.co.uk/credit-conditions-survey/2026/2026-q2)). The Bank of Thailand reported a 2.82% banking-system NPL ratio and 6.78% Stage 2 ratio in Q2 2026, with consumer and SME lending still pressured ([Bank of Thailand](https://www.bot.or.th/en/news-and-media/news/news-20260818.html)). These are market indicators, not ITOCHU-specific loss rates. Clearance of the base case requires company-level disclosures showing stable early delinquency, charge-offs and coverage.

Acquisition economics and Dentsu Soken accounting

The transaction is conditional and the planned maximum purchase price is approximately ¥215.173 billion for up to 38.22% of Dentsu Soken; the final spend can vary with shares tendered. Management cites an expected return on investment above 8% for the transaction [data_package §6; ITOCHU's 31 August 2026 tender-offer announcement]. An 8% annual return on the maximum purchase price implies more than ¥17.2 billion of annual ITOCHU-level economic benefit. Dentsu Soken’s current 2026 forecast is ¥18.0 billion of parent net income; 38.22% would equal about ¥6.9 billion before purchase accounting, financing, tax, distributions or synergy effects. That simple proportional accounting-earnings run-rate is only around 3.2% of the maximum purchase price and is not a cash-on-cash return calculation.

This is not an apples-to-apples rejection of management’s target because the stated framework can include broader IT and retail-media synergies, cash distributions and strategic value beyond associate earnings. It does show that the above-8% objective cannot be evidenced by the target’s current proportional earnings alone. Absent other changes, achieving ¥17.2 billion solely through 38.22% of Dentsu Soken profit would require roughly ¥45.0 billion of target net income, about 2.5 times the 2026 forecast. Closing, purchase-price allocation, funding and the exact equity-method contribution remain unresolved upstream acquisition items, so none enters the Trading-income forecast.

The model therefore follows three rules. First, it adds no Dentsu Soken revenue or Trading income to this segment. Second, any future equity-method earnings belong in the synthesis below Trading income. Third, synergies enter a scenario only after ITOCHU discloses realized cross-sales, cost savings or retail-media economics. The base case assumes strategic optionality but zero Trading-income contribution; the bull’s faster ICT and media growth can reflect commercial collaboration only to the extent it is earned by consolidated businesses.

Regulatory and capital-intensity test

IT services face data protection, cybersecurity, operational-resilience and AI-governance obligations. Those rules are simultaneously a demand driver and a delivery liability: CTC can sell compliant systems, but failures can generate remediation cost and reputational damage. Finance adds licensing, conduct, AML or CFT, model risk, consumer-protection and capital or funding constraints across Japan, the UK, Hong Kong, Thailand and other markets. Cross-border diversity increases the compliance surface.

Insurance agency activities are comparatively capital-light, while underwriting, reinsurance and guarantees require solvency resources. Japan's economic value-based solvency regime became applicable on 31 March 2026; its early-corrective-action framework uses 100% as the no-action threshold, replacing the legacy 200% solvency-margin trigger ([Japan FSA regime overview](https://www.fsa.go.jp/policy/economic_value-based_solvency/index.html); [FSA implementation

notice](https://www.fsa.go.jp/news/r7/hoken/20250723/20250723.html)). The appendix does not apply an insurer-level solvency ratio to this mixed segment because much of the insurance activity is distribution rather than underwriting and the authoritative package supplies no risk-bearing perimeter or required-capital bridge. It instead requires future disclosure distinguishing premiums and commissions, reserves, reinsurance recoverables, guarantees, economic-value solvency resources and required capital.

The capital-intensity ranking is: agency, BPO and advisory lowest; systems integration and media moderate through people, software and working capital; used devices moderate through inventory; finance and risk-bearing insurance high; satellite or infrastructure potentially high but frequently affiliate-held. A segment-level ROIC cannot be calculated from the package. The acquisition test should use cash invested plus incremental working and regulatory capital, not accounting goodwill alone.

11. Key risks and wildcards

- **AI price deflation — Bear.** Coding and support productivity may be passed to customers faster than CTC changes commercial models. Monitor revenue per engineer, fixed-price share, utilization and managed-service mix.
- **AI demand expansion — Bull.** Legacy modernization, data readiness, model governance and cybersecurity could create more work than automation removes. The trigger is sustained order growth plus stable or rising margin, not AI announcements.
- **Project concentration and delivery — Bear/Base.** A few large systems can shift revenue and create cost overruns. Contract assets, unbilled receivables and loss-making project provisions would be useful leading indicators but are not in the package.
- **BPO cannibalization — Bear.** AI agents can reduce paid seats. The defense is outcome pricing and proprietary workflow integration. Seat growth without automation economics is not a durable thesis.
- **Credit-cycle deterioration — Bear.** UK unsecured or auto defaults, Thailand household stress or Hong Kong and China weakness can raise provisions. Growth in receivables without vintage disclosures is a negative signal.
- **Motor-finance conduct and redress — Bear.** The FCA scheme can affect lenders and brokers. Company-specific agreement eligibility and provisions are undisclosed; a material unreserved exposure would reduce finance earnings and acquisition capacity.
- **Dentsu Soken return gap — Bear/Base.** The proportional current earnings yield is well below the above-8% wider-framework objective. The kill signal is a large cash investment followed by no measurable cross-sales, margin improvement or dividend and cash return.
- **Equity-method double count — All cases.** Dentsu Soken, media and other associates may contribute below Trading income. Synthesis must not add their earnings inside this appendix and again below the line.
- **Privacy and cyber incidents — Bear.** The segment handles enterprise, consumer, payments and insurance data. A breach can create remediation, regulatory and customer-loss costs across several businesses simultaneously.
- **Device inventory and residual values — Bear.** Circular mobile can absorb cash and write-downs when product cycles or carrier promotions shift. Inventory days and gross spread should be monitored.
- **Insurance mis-selling or commission compression — Bear.** Customer-oriented conduct rules and online comparison can lower economics. Persistency, complaints, cancellations and adviser productivity are better indicators than store traffic alone.
- **Retail-media execution — Bull/Base.** Transaction data and advertising inventory could create a high-margin service, but only if consent, measurement and advertiser return are proven. Gross ad billings are not economic revenue.

- **Talent inflation — Bear.** Experienced cloud, security, data and AI engineers remain scarce. Wage and subcontractor inflation can absorb automation gains.

- **Vendor concentration — Bear/Base.** Hyperscalers and software vendors can change partner economics. A stronger multi-cloud and industry-solution layer reduces dependence.

- **Regulatory capital and funding — Bear.** Higher capital, liquidity or consumer-protection requirements can reduce finance ROE even if accounting profit grows.

Scenario summary

Case	Segment TTM+5y Revenue	Exact profit metric	Segment TTM+5y Profit Margin	Segment TTM+5y Profit	Probability
Bear	¥1,172.2bn	**Trading income**	8.05%	¥94.4bn	25%
Base	¥1,466.4bn	**Trading income**	10.91%	¥160.0bn	55%
Bull	¥1,698.9bn	**Trading income**	12.74%	¥216.4bn	20%

The probability-weighted horizon outcome is approximately ¥1,439.4 billion of revenue and ¥154.9 billion of Trading income. That weighted pair is descriptive rather than a fourth scenario because averaging revenue and profit from different cases creates a 10.76% blended margin that is not an independently modeled operating path.

The base case is credible only if CTC converts current momentum into recurring managed-service growth, AI productivity does not fully pass through to customers, finance loss metrics remain controlled and acquisitions respect accounting and cash-return boundaries. The segment can become a higher-quality non-resource earnings pillar, but the current disclosure is insufficient to award full credit for credit underwriting, sub-business ROIC or Dentsu Soken synergies. The 55% base weight reflects verified CTC momentum but no long-range segment guide; the 25% bear weight reflects the credit, acquisition-return and product-disclosure gaps; and the 20% bull weight recognizes upside from AI-enabled delivery and retail media while requiring several favorable levers at once. The 25/55/20 weights are intentionally non-uniform, sum to 100%, and preserve the explicit refusal to place associate earnings inside Trading income.

Appendix B7 - Textile

ITOCHU Textile Company — Segment Deep Dive

Ticker: 8001.T **Forecast anchor:** TTM ended 30 June 2026 **Exact horizon:** 30 June 2031, exactly five calendar years **Reporting currency:** Japanese yen; monetary tables use ¥ billion unless noted **Sealed modeled profit basis: Trading income Scenario probabilities:** Bear 25%; Base 55%; Bull 20%

0. Segment boundary and taxonomy note

ITOCHU reports Textile as one of eight operating companies. Its perimeter covers the Apparel Division and Brand Marketing Division, including textile materials and fabrics, garment materials and apparel products, imported and licensed apparel and lifestyle brands, and industrial textile and lifestyle materials. The data package identifies a FY2027 perimeter break for Energy & Chemicals, Food and The 8th, but no Textile restatement or reclassification. Textile's FY2022–FY2026 external-revenue and Trading income series can therefore be compared on the same eight-company taxonomy, subject to ordinary portfolio additions, exits and foreign-exchange effects within the segment. The sealed bridge fixes **Trading income** as the exact additive segment profit measure: Textile contributes positively to the named-segment sum, while “Others, Adjustments & Eliminations” remains outside the segment and must not be allocated into it. [data_package P0; §2; §3, Textile rows]

There is one important modeling limitation. The verified package does not provide a clean Textile TTM revenue figure or product-level revenue series. It does provide FY2026 Textile revenue of ¥679.140 billion, Q1 FY2027 revenue of ¥164.2 billion, FY2026 Trading income of ¥28.584 billion, Q1 FY2027 Trading income of ¥6.5 billion, and sealed TTM Trading income of ¥31.711 billion. To preserve the exact 30 June 2026 time anchor without inventing prior-quarter revenue, this appendix uses FY2026 revenue of ¥679.140 billion as an explicitly labeled **TTM revenue proxy**, not as a claimed TTM actual. All five-year revenue compounding starts from that proxy on 30 June 2026; the initial Trading income value remains the sealed TTM actual. This transparent proxy convention creates a visible mixed-period anchor rather than a fabricated number; it is not described as conservative because the direction of the unavailable TTM-revenue adjustment is unknown. `[DATA GAP: Textile TTM revenue and prior-year Q1 Textile revenue are not in the verified data package.]`

1. What this segment actually is

The Textile Company is not a conventional apparel retailer and is not simply a fiber manufacturer. It is a portfolio of trading, supply-chain orchestration, manufacturing-support, brand-rights, distribution and investment activities. ITOCHU describes two formal divisions, Apparel and Brand Marketing, and three practical business fields: apparel; brand marketing; and industrial textile and lifestyle materials. The segment spans raw-material and fabric procurement, product planning, garment production management, logistics, wholesale and brand monetization. Its customers and counterparties include apparel brands, retailers, licensees, sub-distributors, manufacturers, automotive and electronics suppliers, construction-material users, hospitals and welfare facilities, and end-consumer-facing group companies.

In apparel, the commercial proposition is to coordinate the chain from material selection through production and delivery. ITOCHU can source yarn, fabric and accessories, propose designs or specifications, arrange sewing across Asian production bases, control quality and delivery, and finance or manage inventory and receivables. Revenue can therefore reflect principal-versus-agent accounting, material pass-through and the extent to which a consolidated subsidiary owns inventory. That makes sales growth an imperfect measure of economic value added: a low-margin sourcing contract can add substantial revenue, while a licensing stream can add much less revenue but more Trading income.

In brand marketing, ITOCHU imports and distributes products, grants or administers licenses, manufactures products under licensed brands, owns selected trademarks, invests in brand companies and helps operate them. Its official brand page says the network includes more than 200 sublicensees and distributors. The model is broader than collecting royalties: economics can include wholesale markup, royalty income, product-development margin, distribution profit, equity ownership and, where consolidated, the operating results of brand-related subsidiaries. ITOCHU highlights Converse rights in Japan, owned brands such as Hunting World and LeSportsac, and participation in Paul Smith, alongside import or license relationships across luxury, casual, sports, footwear, bags and accessories. These rights are valuable only while consumer relevance, contractual tenure and channel execution persist. [ITOCHU, “Brand marketing area”](https://www.itochu.co.jp/en/business/textile/field/02.html)

Industrial textiles provide a different demand profile. ITOCHU markets materials for vehicle interiors and rubber reinforcement, nonwovens for hygiene products, carbon-fiber materials for sports equipment, polishing cloth and adhesive tape for

electronics, construction membranes and tents, interior materials, and linen-related services for healthcare and welfare facilities. These applications are less fashion-sensitive but can be exposed to automotive production, customer qualification cycles, raw-material spreads and industrial competition. [ITOCHU, “Industrial textile & lifestyle area”](https://www.itochu.co.jp/en/business/textile/field/03.html)

Pricing varies by activity. Commodity-like yarn, fabric and basic garment sourcing is usually priced through cost-plus, negotiated markup or trading spreads, with customers retaining substantial bargaining power. Higher-value ODM, specialized materials and traceable sustainable inputs can command better spreads because failure costs, certification, design support and speed matter. Brand licensing monetizes intellectual property through royalties or contractual economics, while owned or operated brands add merchandise gross margin but also inventory, marketing and markdown risk. Industrial materials are more likely to use qualification-based pricing and multi-year customer relationships, but input-cost pass-through may lag.

Go-to-market is relationship-led and business-to-business for most sourcing and materials activities, then channel-led or consumer-facing in brand businesses. ITOCHU's edge is the ability to connect Asian manufacturing, Japanese and global brands, financial capacity, logistics and group-company assets. Its official Textile overview emphasizes a full range from raw materials and fabrics through apparel, brands and industrial materials, and lists sustainable materials, sports and footwear, Asian partnerships, brand diversification and global industrial-material expansion as priorities. [ITOCHU Textile Company overview](https://www.itochu.co.jp/en/business/textile/index.html)

2. Current economics

FY2026 Textile external revenue was ¥679.140 billion, 4.6% of consolidated revenue, after 7.58% year-on-year growth from ¥631.3 billion. Textile Trading income was ¥28.584 billion, giving a calculated FY2026 Trading-income margin of 4.21%. The segment's revenue rose from ¥444.8 billion in FY2022, while Trading income rose from ¥13.669 billion. Over that four-year interval, revenue compounded at 11.16% and Trading income at roughly 20.3%, so reported operating leverage was substantial. The starting point was depressed, however, and the package's current characterization—“Recovery remains modest; monitor brand demand and restructuring”—argues against extrapolating that profit CAGR. [data_package §3, External revenue table, Textile row; §3, Trading income table, Textile row; §7, Textile row]

The latest quarter was softer than the full-year trend might imply. Q1 FY2027 Textile revenue was ¥164.2 billion and Trading income was ¥6.5 billion, a Trading-income margin of about 3.96%. The quarter represents roughly 24% of FY2026 revenue, but it cannot be mechanically annualized because seasonality, portfolio changes and contract timing are not disclosed. Sealed TTM Trading income reached ¥31.711 billion, 10.9% above the FY2026 amount; this is an overlapping one-quarter roll-forward comparison, not year-on-year growth. The lack of a TTM revenue denominator also prevents a valid TTM margin calculation. [data_package §7, Textile row; §2, TTM bridge, Textile row]

FY2027 management planning provides one further signal but on a different accounting basis: Textile's segment **parent-profit** plan is ¥52.0 billion. Parent profit is below Trading income and can include equity-method earnings, interest, investment gains or losses, taxes and non-controlling interests. It is therefore not a Trading-income guide and is not inserted into the margin forecast. It does indicate that management expects the broader Textile portfolio—including below-line economics—to remain meaningful. [data_package §3a, paragraph following last-four-quarters table]

The package does not disclose Textile revenue by apparel, brand marketing or industrial materials, nor unit volumes, same-store sales, royalty revenue, license count progression, order book, utilization, owned-versus-licensed brand sales or geographic revenue. `[DATA GAP: Textile sub-business revenue, profit, growth and mix are not separately disclosed in the verified data package.]` Because those shares are unavailable, this appendix does not invent a product mix or present false product-level precision.

Capital intensity is mixed. Pure sourcing and licensing can be asset-light in fixed assets but working-capital intensive: inventory, supplier advances, trade receivables, foreign exchange and seasonal production commitments consume capital. Owned brands, consolidated wholesalers and retail operations add leases, stores, distribution systems, marketing and markdown risk. Industrial-textile investments can require processing assets, qualification inventory and customer-specific tooling. The group discloses ¥260.1 billion of FY2026 capital expenditure, but not a Textile maintenance-versus-growth split. `[DATA GAP: Textile capital expenditure, working capital, invested capital and maintenance needs are not separately disclosed.]`

3. Unit economics

3.1 Apparel sourcing and production management

In basic apparel sourcing, revenue is primarily a function of order volume, average selling value, raw-material pass-through, foreign exchange and principal-versus-agent presentation. Gross value added is the spread between customer billing and fabric, accessories, sewing, freight, inspection and other direct costs. The spread improves when ITOCHU contributes design, quick response, supplier consolidation, traceability, compliance, quality assurance or financing. It compresses when a retailer can source directly, when capacity is abundant, when competitors underbid, or when customers force price concessions after input costs rise.

Working capital is central. Orders may require raw-material commitments months before delivery; customers may pay after inspection or shipment; factories may demand earlier payment; and cancelled or delayed orders can strand inventory. A revenue increase that requires disproportionate inventory and receivables is not necessarily value-accretive. Conversely, better demand sensing, shorter lead times, vendor-managed inventory and digital production planning can improve both markdown risk and cash conversion. The verified package does not provide segment cash flow, so this remains a qualitative underwriting mechanism rather than a claimed historical benefit.

Foreign exchange operates through several channels. Fabric or garments may be purchased in US dollars, renminbi, Vietnamese dong or other currencies and sold in yen or a customer's reporting currency. Hedging can protect contracted orders but not permanent competitive moves or future seasons. A weak yen can raise landed costs for Japanese customers; whether ITOCHU passes those costs through depends on contract structure, brand strength and demand. Fast fashion and private-label customers have scale and procurement alternatives, limiting pricing power in undifferentiated products.

3.2 Brand marketing

Brand licensing is potentially the highest-return activity because trademark and market-development rights can create royalty-like revenue with limited manufacturing assets. But economics depend on the contract: minimum guarantees, royalty rates, territory, category scope, renewal terms, marketing obligations and sublicense arrangements. ITOCHU can increase value by extending a brand into footwear, bags, accessories or other lifestyle categories and by recruiting licensees that bear production and retail risk. The official company description of more than 200 sublicensees and distributors suggests breadth, but the package does not quantify sales, royalty yield, churn or contract duration.

Owned and managed brands have a different cost structure. Merchandise gross margin can be attractive, but design errors, weak collections, weather and channel disruption create inventory markdowns. Marketing, e-commerce, stores, concessions and wholesale support add operating leverage in both directions. A famous trademark does not guarantee current consumer demand. The competitive set is global and attention-driven, and acquisition accounting or restructuring can make short-term Trading income volatile.

Brand rights can also produce portfolio gains or impairments outside Trading income. This appendix deliberately forecasts only Trading income. It does not credit future trademark disposals, investment gains, equity-method earnings or tax effects. That separation is essential because the ¥52.0 billion FY2027 parent-profit plan is not comparable with the ¥31.711 billion TTM Trading income anchor.

3.3 Industrial textiles

Industrial materials generally earn value through technical specification, conversion, qualification, reliable supply and application knowledge. Automotive interior or reinforcement products can be embedded in customer platforms, making switching slower than in fashion sourcing. Hygiene nonwovens benefit from recurring end demand but face resin and pulp input costs and powerful consumer-goods buyers. Electronics materials can command higher value but require performance consistency and may be cyclical. Construction and interior materials can be exposed to project activity, while medical and welfare linen can offer recurring demand with service intensity.

The industrial portfolio can stabilize segment earnings, but it is not automatically high margin. Large customers often demand annual price reductions; raw-material cost pass-through can lag; and technical failure carries warranty or recall exposure. Product qualification is a barrier, yet competitors with polymer science, manufacturing scale and direct customer relationships may capture more value. Toray, for example, reports integrated capabilities from fibers through textiles and garments and FY2025 Fibers & Textiles revenue of ¥1.511 trillion, illustrating the scale of a manufacturing-led competitor. [Toray investor overview](https://www.toray.com/ir/individual/ind_001.html)

3.4 What moves Trading-income margin

Margin rises if brand royalties and owned intellectual property grow faster than pass-through sourcing; if higher-value ODM and traceable materials replace commodity orders; if industrial materials gain scale after qualification; if logistics and

procurement are consolidated; if inventory turns improve; or if restructuring removes weak brands and fixed costs. Margin falls if apparel demand weakens, customers bypass intermediaries, the yen weakens without pass-through, cotton or polyester costs spike, freight disrupts delivery, owned-brand inventory is marked down, license economics reset, or sustainability compliance costs cannot be recovered.

The FY2026 Trading-income margin of 4.21% and Q1 FY2027 margin of 3.96% imply that Textile remains a low-single-digit-margin business despite its brand assets. That is consistent with a blended portfolio containing high-revenue, low-spread trading activity. The historical rise in profit does not prove a structural reset to high margins. A credible bull case can reach 5.5% only if mix, restructuring and value-added services improve together; simple revenue growth is insufficient.

4. Competitive dynamics

Textile competes across several layers, and no single peer matches the full portfolio. In raw materials and fabrics, competitors include integrated fiber producers such as Toray, specialized converters and other trading companies. In garment sourcing and ODM, ITOCHU competes with global sourcing platforms and Asian manufacturers that can work directly with brands and retailers. In brand licensing, it competes with brand owners, global licensing platforms, regional distributors and consumer companies that internalize market operations. In industrial materials, it competes with chemical and fiber manufacturers, technical-textile specialists and customer-nominated suppliers.

The most important structural threat is disintermediation. Large retailers increasingly invest in direct factory relationships, product-development systems, demand sensing and supply-chain traceability. Fast Retailing demonstrates the scale and sophistication of such a customer/competitor. Its FY2025 revenue grew 9.6% to ¥3.4005 trillion, and UNIQLO International revenue grew 11.6% to ¥1.9102 trillion. Its reporting emphasizes product planning, strategic supplier partnerships and supply-chain control. A counterparty of that size can bargain hard, source directly and demand traceability, reducing the economic rent available to an intermediary. [Fast Retailing FY2025 results](https://www.fastretailing.com/eng/ir/news/2510091800.html)

At the same time, large apparel companies still need suppliers that can meet quality, compliance, speed and geographic diversification requirements. ITOCHU's network across Japan, China and other Asian production bases can be valuable when customers want one accountable coordinator rather than dozens of factories. Political tariffs, forced-labor rules, sanctions and supply-chain disruptions make multi-country sourcing more complex, which can increase the value of a trusted orchestrator. That advantage is strongest when ITOCHU owns data, certification, design capability or scarce rights; it is weakest when it merely finances and passes through a standard order.

Brand competition is driven by consumer attention, cultural relevance, distribution and digital marketing. ITOCHU's contractual rights and trademark ownership create territory/category exclusivity, but they do not eliminate substitutes. Footwear, sportswear and lifestyle accessories have many competing brands; social media can accelerate both adoption and decline. Department-store exposure is mature, while e-commerce and omnichannel require continued investment. ITOCHU says it is using AI, e-commerce and omnichannel approaches with group companies such as Leilian, JOI'X and Converse Japan. This is necessary defense, not proof of superior digital economics. [ITOCHU, “Diversification of the brand business”](https://www.itochu.co.jp/en/business/textile/project/03.html)

Industrial textiles have better qualification barriers but stronger technical competitors. Toray's polymer science, fiber formation and advanced processing illustrate manufacturing depth that ITOCHU does not replicate in every category. ITOCHU instead competes through customer access, product aggregation, financing, partnerships and global deployment. It can win where commercial coordination matters more than proprietary chemistry; it is disadvantaged where the material itself contains the key intellectual property.

Market share cannot be stated credibly. ITOCHU calls itself an industry leader among general trading companies in textiles, but the package and fresh external sources do not provide a comparable market denominator across apparel sourcing, brand licensing and industrial materials. `[DATA GAP: no apples-to-apples Textile market-share series or segment-level peer margin set was located.]` The underwriting therefore uses demonstrated segment history and competitive mechanisms rather than an unsupported share claim.

Pricing power is uneven. Brand owners and scarce trademark rights can price through royalties or wholesale markups. Qualified industrial products may pass through inputs with a lag. Basic apparel sourcing has limited pricing power because buyers can rebid orders and factories can sell directly. The segment-wide low-single-digit margin confirms that the high-quality niches are diluted by competitive trading activity.

5. Moat at the segment level

The segment has a **moderate, portfolio-based moat**, not a singular technological monopoly. Its strongest defenses are accumulated customer and supplier relationships, brand rights, local-market operating knowledge, a broad Asian production network, financial capacity, compliance infrastructure and the ability to combine sourcing, manufacturing support, distribution and investment. These assets reduce search, execution and counterparty costs for customers and can make ITOCHU a preferred coordinator.

Brand ownership and exclusive territorial licenses can be legal barriers for the contract term. Converse rights in Japan or ownership of selected trademarks cannot be copied directly by a competing trader. A network of sublicensees and distributors creates reach that takes time to rebuild. However, rights expire, renewals can become more expensive, and consumer demand can migrate to other brands. The moat is therefore contingent on both contract retention and brand relevance.

Supply-chain breadth is useful but not impregnable. ITOCHU's ability to source materials, arrange production, manage quality and deliver across countries is difficult for a new entrant to reproduce quickly. Yet global retailers, large OEMs and digital sourcing platforms can internalize parts of the chain. Relationships are sticky when ITOCHU solves compliance and speed problems; they are not sticky when it offers only working capital and a thin markup.

Industrial qualification can produce switching costs. Once a material is designed into an automotive platform, hygiene product or electronics process, replacement requires testing and customer approval. But the moat may belong to the material manufacturer rather than ITOCHU. Without proprietary product data, the segment's share of that rent is uncertain.

Circularity could strengthen or weaken the moat. ITOCHU promotes RENU recycled polyester, the Wear to Fashion collection service and sustainable-material value chains. A credible traceability system, certified recycled feedstock and closed-loop partners could turn compliance into a service customers are willing to buy. ITOCHU's official sustainable-material page says the RENU project began in 2019 and the collection service in 2022, but it does not disclose segment revenue or returns. [ITOCHU sustainable material-originated value chain](https://www.itochu.co.jp/en/business/textile/project/01.html)

The EU's circular-textiles framework makes this strategically relevant. The European Commission's 2030 vision calls for textile products to be durable, repairable and recyclable, with recycled fiber use, producer responsibility, product information and less waste. It also notes that only about 1% of material in clothing is recycled into new clothing. Compliance can raise costs across data, design, collection and recycling, while also increasing demand for traceable materials and supply-chain orchestration. [European Commission sustainable and circular textiles strategy](https://environment.ec.europa.eu/strategy/textiles-strategy_en)

Durability over five to ten years is plausible but not assured. The segment should retain relationship advantages and selected rights, yet apparel intermediation, fashion volatility and contract renewal prevent a wide-moat conclusion. For Gideon's 20-year compounder standard, Textile alone does not qualify as an exceptional moat: returns depend on continuous portfolio renewal, execution and disciplined disposal of weak brands. The forecast therefore allows moderate base-case growth and modest margin improvement but reserves a material bear for demand, sourcing and brand failure.

6. Historical growth rates — reproduced from the data package

ITOCHU discloses five years of Textile external revenue only at segment level. It does not disclose consistent apparel, brand-marketing or industrial-material revenue. The single financial line below is therefore the finest dollar-disclosed perimeter. Every historical cell points to the same verified row; no sub-business values are back-solved.

Product / sub-segment	FY2022 rev	FY2023 rev	FY2024 rev	FY2025 rev	FY2026 rev	3-yr CAGR FY2023–FY2026	Most recent YoY	Data package cite
Textile Company total	¥444.8bn [data_package §3, External revenue table, Textile row]	¥530.1bn [data_package §3, External revenue table, Textile row]	¥535.2bn [data_package §3, External revenue table, Textile row]	¥631.3bn [data_package §3, External revenue table, Textile row]	¥679.140bn [data_package §3, External revenue table, Textile row]	8.61%, calculated from ¥530.1bn and ¥679.140bn [same row]	7.58%, calculated from ¥631.3bn and ¥679.140bn [same row]	[data_package §3, External revenue table, Textile row]
Apparel	Not separately disclosed [data_package §3, Product and geographic inventory]	Not separately disclosed [same row]	Not separately disclosed [same row]	Not separately disclosed [same row]	Not separately disclosed [same row]	n/a [same row]	n/a [same row]	[data_package §3, Product and geographic inventory]
Brand marketing	Not separately disclosed [data_package §3, Product and geographic inventory]	Not separately disclosed [same row]	Not separately disclosed [same row]	Not separately disclosed [same row]	Not separately disclosed [same row]	n/a [same row]	n/a [same row]	[data_package §3, Product and geographic inventory]

Product / sub-segment	FY2022 rev	FY2023 rev	FY2024 rev	FY2025 rev	FY2026 rev	3-yr CAGR FY2023–FY2026	Most recent YoY	Data package cite
Industrial textile and lifestyle	Not separately disclosed [data_package §3, Product and geographic inventory]	Not separately disclosed [same row]	Not separately disclosed [same row]	Not separately disclosed [same row]	Not separately disclosed [same row]	n/a [same row]	n/a [same row]	[data_package §3, Product and geographic inventory]

Arithmetic checks: ¥530.1 billion × 1.0096 ≈ ¥535.2 billion; ¥535.2 billion × 1.1796 ≈ ¥631.3 billion; and ¥631.3 billion × 1.0758 ≈ ¥679.140 billion. Each interval ties within 0.01% using the rounded disclosed numbers. The three-year CAGR check is ¥530.1 billion × 1.086093^3 = approximately ¥679.140 billion. No historical row is back-solved from a product growth rate.

The historical profile is uneven. Revenue rose 19.2% in FY2023, only 1.0% in FY2024, 18.0% in FY2025 and 7.6% in FY2026. This volatility is consistent with acquisitions, portfolio effects, currency, pass-through pricing and order timing as well as organic demand. It is not evidence of a stable 8.61% structural growth rate. Trading income rose from ¥13.669 billion in FY2022 to ¥28.584 billion in FY2026, but the package does not decompose the improvement into volume, mix, restructuring, acquisitions or currency. [data_package §3, Trading income table, Textile row]

`[DATA GAP: no verified product-level Textile revenue history exists; product-level historical CAGR and arithmetic checks cannot be produced without fabrication.]`

7. Management guidance and package signals — reproduced from the data package

The verified package contains no Textile-specific long-range quotation and no FY2027 revenue or Trading-income guide. Relevant items are as follows:

- **Q1 signal — data_package §7, Textile row:** The package's analyst watch item says recovery remains modest and identifies brand demand and restructuring for monitoring. This is not presented as a management quotation or formal quantitative guidance. It tempers the strong FY2022–FY2026 revenue CAGR and supports a base case that decelerates below history.
- **Q1 actual — data_package §7, Textile row:** Revenue was ¥164.2 billion and Trading income was ¥6.5 billion. The implied 3.96% Trading-income margin is below FY2026's 4.21%, so the model does not assume immediate margin acceleration.
- **FY2027 plan — data_package §3a, guidance paragraph:** Textile segment parent profit is planned at ¥52.0 billion. This is a parent-profit anchor, not a Trading-income guide. The forecast does not equate the two or force Trading income to reach ¥52.0 billion in FY2027.
- **Horizon statement — data_package P0 and §10:** no company earnings path reaches 30 June 2031. All post-FY2027 segment revenue and Trading-income assumptions in this appendix are analyst scenarios.

`[DATA GAP: no management quote in the verified package gives Textile revenue growth, Trading-income margin, product mix, brand sales, order book, restructuring savings or capital spending through FY2027 or the 2031 horizon.]`

8. Forward growth assumptions

Because only total Textile revenue is disclosed, the forecast has one financial line: Textile Company total. Apparel, brand marketing and industrial materials remain explicit qualitative drivers but are not assigned invented weights. The revenue anchor is the disclosed FY2026 ¥679.140 billion carried to 30 June 2026 as a TTM proxy. That convention is used identically across cases.

Base case

Product	3-yr historical CAGR	Latest YoY	Mgmt FY+1 guide	Base CAGR TTM→TTM+5y	Justification
Textile Company total	8.61% [data_package §3, Textile revenue row]	7.58% [same row]	No revenue guide; ¥52.0bn parent-profit plan is not Trading income [data_package §3a]	4.26%	Growth fades from 4.8% to 3.8% as apparel normalizes; brand and industrial initiatives offset mature Japanese demand and customer bargaining power.

The base case deliberately cuts the historical CAGR roughly in half. Yearly growth steps down from 4.8% to 4.5%, 4.2%, 4.0% and 3.8%. The path assumes modest volume and price/mix growth in apparel, continued brand-rights additions and category extensions, and better industrial-material penetration. It does not assume another acquisition-driven jump comparable with FY2025's 18.0% increase. It also does not credit the segment with Fast Retailing-like growth: Fast Retailing's much larger consumer platform grew 9.6% in FY2025, but ITOCHU's trading-company economics and mature Japan exposure justify a lower through-cycle rate.

Bull case

Product	3-yr historical CAGR	Latest YoY	Mgmt FY+1 guide	Bull CAGR TTM→TTM+5y	Justification
Textile Company total	8.61% [data_package §3, Textile revenue row]	7.58% [same row]	No revenue guide; ¥52.0bn parent-profit plan is not Trading income [data_package §3a]	6.80%	Sports and footwear, Asian brand expansion, sustainable materials and industrial textiles sustain 8.0% initially before tapering to 5.5%.

The bull path assumes ITOCHU converts its stated priorities into revenue: new sports and footwear licenses scale; China and wider Asia partnerships improve distribution; industrial materials win automotive, electronics or hygiene qualifications; and circular-material offerings become a paid solution rather than a marketing cost. Growth still decelerates from 8.0% to 5.5% because the segment reaches nearly ¥1 trillion of revenue. This is below the recent 8.61% CAGR and avoids assuming a permanent repeat of the FY2023 or FY2025 step-ups.

Bear case

Product	3-yr historical CAGR	Latest YoY	Mgmt FY+1 guide	Bear CAGR TTM→TTM+5y	Justification
Textile Company total	8.61% [data_package §3, Textile revenue row]	7.58% [same row]	No revenue guide; ¥52.0bn parent-profit plan is not Trading income [data_package §3a]	0.08%	A two-year apparel and brand correction gives -3.0% and -1.0%, followed by only 1.0%–2.0% recovery as sourcing disintermediates and weak licenses are restructured.

The bear case does not impose a permanent collapse. Essential industrial and hygiene demand, existing contracts and nominal pricing support eventual stabilization. But it assumes fashion demand weakens, retailers reduce orders and inventories, brand royalties or wholesale sales disappoint, direct sourcing compresses ITOCHU's role, and sustainability compliance initially adds cost rather than revenue. The path is consistent with the package's “recovery remains modest” warning and the latest-quarter margin below FY2026.

Growth-driver bridge

Driver	Bear interpretation	Base interpretation	Bull interpretation
Apparel sourcing	Customer destocking and direct sourcing reduce volume	Low-single-digit volume and price/mix growth	Faster Asian production wins and value-added ODM share gains
Brand marketing	Weak discretionary demand, markdowns and license churn	Select license additions and category extensions	Successful sports, footwear and lifestyle expansion across Asia
Industrial textiles	Auto and construction weakness; delayed qualifications	Stable auto, hygiene, electronics and healthcare demand	Qualification wins and global replication of Asian supply chains
Circular materials	Compliance cost with weak willingness to pay	Traceability supports retention and modest premium services	RENU and closed-loop services become material growth platforms
FX and pass-through	Yen weakness cannot be fully recovered	Partial pass-through with normal hedging	Favorable mix and pass-through protect nominal growth

The table is a causal bridge, not a hidden product model. Without disclosed revenue shares, these drivers cannot be summed as independent yen lines. The annual cadence in section 10 is the auditable financial forecast.

9. Forward Trading income margin assumptions

The exact modeled metric is **Trading income**. Corporate and statutory-bridge lines are excluded. The current comparable annual margin is FY2026 Trading income of ¥28.584 billion divided by revenue of ¥679.140 billion, or 4.21%. Q1 FY2027 was approximately 3.96%. TTM Trading income is ¥31.711 billion, but a TTM margin is not calculated because the verified

package lacks TTM Textile revenue.

Case	FY2026 observed	Q1 FY2027 signal	2027-06-30	2028-06-30	2029-06-30	2030-06-30	2031-06-30	Change vs FY2026	Mechanism
Bear	4.21%	3.96%	3.80%	3.60%	3.40%	3.30%	3.30%	-91 bps	Markdown pressure, sourcing spread compression, restructuring and unrecovered compliance/input costs
Base	4.21%	3.96%	4.25%	4.35%	4.45%	4.60%	4.70%	+49 bps	Mix shifts modestly toward brands, value-added sourcing and qualified industrial materials; cost actions offset investment
Bull	4.21%	3.96%	4.50%	4.80%	5.05%	5.30%	5.50%	+129 bps	Higher royalty and owned-IP mix, industrial qualification wins, inventory discipline and digital operating leverage

The bull margin expansion exceeds 100 basis points and therefore requires explicit mechanisms. First, brand and licensing economics must outgrow pass-through apparel sourcing. Second, owned brands must improve sell-through and avoid offsetting markdowns. Third, industrial-textile wins must earn qualification-based spreads rather than commodity margins. Fourth, digital planning must reduce inventory, sampling and fulfillment costs. Finally, circularity services must either command a price premium or improve retention; compliance spending alone would not lift margin. Failure of any two mechanisms likely keeps margin below 5%.

The base case's 49-basis-point expansion is deliberately restrained. It assumes incremental mix improvement and restructuring rather than a wholesale change in economics. The segment has already expanded profit faster than revenue since FY2022, but the Q1 FY2027 margin cautions that improvement is not linear. The bear case remains above 3% because brand rights, industrial contracts and established sourcing relationships should preserve some spread; a deeper margin collapse would require broad impairments or losses that may also appear outside Trading income.

Product-level margin cannot be revenue-weighted because neither product revenues nor product Trading income are disclosed. `[DATA GAP: no verified apparel, brand-marketing or industrial-material revenue and Trading-income margins are available for a product-weighted rollup.]` The one-line segment model is the only reconstructable forecast consistent with the package.

10. Segment rollup — annual cadence and arithmetic tie-out

The following tables compound the ¥679.140 billion TTM revenue proxy through exactly five annual periods ending 30 June 2031. Forecast Trading income equals each year's revenue multiplied by the stated Trading-income margin. The 30 June 2026 anchor row keeps the actual sealed TTM Trading income of ¥31.711 billion; its margin is marked not meaningful because revenue is a proxy.

Bear rollup

Period end	Revenue growth	Textile revenue	Trading income margin	Trading income	Arithmetic check
2026-06-30 anchor	n/a	¥679.140bn proxy	n/m	¥31.711bn actual	Mixed-period anchor disclosed
2027-06-30	-3.0%	¥658.766bn	3.80%	¥25.033bn	658.766 × 3.80%
2028-06-30	-1.0%	¥652.178bn	3.60%	¥23.478bn	652.178 × 3.60%
2029-06-30	1.0%	¥658.700bn	3.40%	¥22.396bn	658.700 × 3.40%
2030-06-30	1.5%	¥668.580bn	3.30%	¥22.063bn	668.580 × 3.30%
2031-06-30	2.0%	¥681.952bn	3.30%	¥22.504bn	681.952 × 3.30%

Bear revenue CAGR is 0.08%. Horizon Trading income is 29.0% below the sealed TTM actual. The low point occurs before revenue fully recovers because the model assumes pricing and markdown pressure outlast the first demand shock.

Base rollup

Period end	Revenue growth	Textile revenue	Trading income margin	Trading income	Arithmetic check
2026-06-30 anchor	n/a	¥679.140bn proxy	n/m	¥31.711bn actual	Mixed-period anchor disclosed
2027-06-30	4.8%	¥711.739bn	4.25%	¥30.249bn	711.739 × 4.25%
2028-06-30	4.5%	¥743.767bn	4.35%	¥32.354bn	743.767 × 4.35%
2029-06-30	4.2%	¥775.005bn	4.45%	¥34.488bn	775.005 × 4.45%
2030-06-30	4.0%	¥806.005bn	4.60%	¥37.076bn	806.005 × 4.60%
2031-06-30	3.8%	¥836.634bn	4.70%	¥39.322bn	836.634 × 4.70%

Base revenue CAGR is 4.26%. Trading income initially normalizes below the unusually strong sealed TTM value because the latest Q1 margin was only 3.96%; it then grows to ¥39.322 billion. From the TTM Trading-income actual, the terminal profit CAGR is approximately 4.4%. This avoids treating the ¥52.0 billion parent-profit plan as a Trading-income target.

Bull rollup

Period end	Revenue growth	Textile revenue	Trading income margin	Trading income	Arithmetic check
2026-06-30 anchor	n/a	¥679.140bn proxy	n/m	¥31.711bn actual	Mixed-period anchor disclosed
2027-06-30	8.0%	¥733.471bn	4.50%	¥33.006bn	733.471 × 4.50%
2028-06-30	7.5%	¥788.482bn	4.80%	¥37.847bn	788.482 × 4.80%
2029-06-30	7.0%	¥843.675bn	5.05%	¥42.606bn	843.675 × 5.05%
2030-06-30	6.0%	¥894.296bn	5.30%	¥47.398bn	894.296 × 5.30%
2031-06-30	5.5%	¥943.482bn	5.50%	¥51.892bn	943.482 × 5.50%

Bull revenue CAGR is 6.80%, still below the FY2023–FY2026 historical CAGR. Trading income compounds about 10.4% from the TTM actual because mix and operating leverage add to revenue growth. This case requires evidence of successful brand expansion, industrial wins and a circular-material revenue contribution; it is not a default extrapolation.

Reconstruction and scenario check

Rollup item	Bear	Base	Bull
2026-06-30 Textile revenue anchor	¥679.140bn proxy	¥679.140bn proxy	¥679.140bn proxy
Product allocation	Not disclosed; no invented split	Not disclosed; no invented split	Not disclosed; no invented split
2031-06-30 revenue	¥681.952bn	¥836.634bn	¥943.482bn
2031-06-30 Trading income margin	3.30%	4.70%	5.50%
2031-06-30 Trading income	¥22.504bn	¥39.322bn	¥51.892bn
Revenue reconstruction	Single disclosed line; 100.0% tie	Single disclosed line; 100.0% tie	Single disclosed line; 100.0% tie
Profit reconstruction	Revenue × margin; 100.0% tie	Revenue × margin; 100.0% tie	Revenue × margin; 100.0% tie

The single-line rollup is mathematically exact. It is not economically as granular as a product model, but it is more reliable than invented apparel, brand and industrial shares. At the 25%/55%/20% weights, probability-weighted horizon revenue is ¥819.333 billion and probability-weighted Trading income is ¥37.632 billion, implying a derived 4.59% weighted margin. Those values are scenario summaries, not a fourth case.

11. Key risks and wildcards

11.1 Sourcing and supply-chain risk — Bear and Base

Textile sourcing spans countries with different labor, environmental, tariff, sanctions and currency regimes. Forced-labor enforcement, customs delays, geopolitical conflict, port disruption or factory failure can interrupt supply and create customer penalties. Moving production between countries is possible but requires qualification, management capacity and sometimes higher cost. The bear case assumes those costs cannot be fully passed through. In the base case, ITOCHU's network is a

partial hedge because it can redirect orders, but the capability must be proven through delivery and working-capital performance.

Supplier labor and human-rights failures are also franchise risks. A trading company may not own the factory, yet customers and regulators can hold it responsible for due diligence. Audits can miss subcontracting, recruitment fees or wage violations. The leading indicators are supplier-audit failures, order cancellations, customs detentions, litigation, customer concentration and a rising working-capital cycle.

11.2 Apparel and discretionary demand — Bear

Fashion demand is sensitive to wages, confidence, weather, tourist flows and channel inventories. Retailers can cut orders quickly after a weak season, leaving suppliers and intermediaries with fabric or finished goods. The segment's FY2025 and FY2026 growth may include favorable portfolio or currency effects that reverse. The bear case begins with two years of contraction to reflect destocking and weak consumer demand rather than assuming a smooth slowdown.

Fast Retailing's FY2025 results illustrate divergence within the same market: UNIQLO grew strongly, while its Global Brands revenue fell 5.3% and restructuring produced an operating loss. That dispersion is relevant to ITOCHU's mix of scaled and smaller brands. Brand breadth diversifies risk, but weak labels can consume marketing and inventory cash. [Fast Retailing performance by business segment](https://www.fastretailing.com/eng/ir/financial/segment_5yrs.html)

11.3 Brand relevance, licensing and acquisition risk — Bear and Bull

License rights can be lost, repriced or narrowed at renewal. A licensed brand may also decline culturally even when legal rights remain. Owned brands create more upside but expose ITOCHU to purchase-price, impairment, management and exit risk. The bull case requires successful sports, footwear and lifestyle-category extensions; the bear case assumes at least some license churn, markdowns or restructuring. Monitor renewal announcements, sublicensee count, wholesale sell-through, e-commerce growth, inventories, impairments and brand acquisitions.

11.4 Customer bargaining power and disintermediation — Bear

Large apparel retailers and brands can source directly, build digital product-development platforms and consolidate factory relationships. Manufacturers can also move upstream into design and customer management. If ITOCHU cannot demonstrate lower total cost, faster delivery, compliance and unique materials or rights, its spread can compress even when gross transaction value grows. A declining Trading-income margin with stable revenue would be the clearest warning.

11.5 Raw materials, freight and FX — Bear and Base

Cotton, polyester feedstocks, dyes, energy, freight and labor costs can move faster than contract repricing. Yen weakness raises landed costs for Japan-facing business; hedges protect contracted flows only temporarily. Sudden price declines can also create inventory losses. The model assumes partial pass-through in base and weak pass-through in bear. Watch gross spreads, inventory days, freight rates and customer price negotiations.

11.6 Industrial-cycle and qualification risk — Bear and Bull

Automotive, electronics and construction materials are cyclical. New materials may take years to qualify and can fail late. Conversely, a platform win can persist and support the bull case. EV architectures may change interior or reinforcement demand; electronics customers can require rapid specification changes. Industrial diversification reduces fashion exposure but adds technical and warranty risk.

11.7 Circularity, product passports and producer responsibility — Bear, Base and Bull

Circularity is both a cost and an option. The EU strategy points toward ecodesign, Digital Product Passports, extended producer responsibility, separate collection, durability and recycled-content expectations. Large enterprises also face a 2026 EU ban on destroying unsold textiles and footwear, subject to implementing rules and exceptions. ITOCHU may need product-level material data, supplier verification, chemical traceability, repair or take-back systems, and evidence for environmental claims. [European Commission textile strategy](https://environment.ec.europa.eu/strategy/textiles-strategy_en)

In bear, compliance adds systems and sourcing cost while customers resist price increases; recycled feedstock is scarce or quality is inconsistent; and green claims create litigation or reputational exposure. In base, compliance becomes a retention requirement and ITOCHU recovers most cost. In bull, RENU, Wear to Fashion and other traceable-material services become a differentiated platform and increase customer stickiness. The critical evidence is revenue, margin, recycled-material volume, take-back economics and verified product data—not initiative counts.

Fast Retailing reports that low-GHG materials reached 19.4% of all materials in FY2025 and targets about 50% by 2030. That raises the procurement standard for suppliers and intermediaries. It could create demand for ITOCHU's sustainable-material value chain, but it also shows that large customers are building their own sourcing standards and may capture much of the value. [Fast Retailing responsible procurement](https://www.fastretailing.com/eng/sustainability/products/procurement.html)

11.8 Data opacity and accounting mix — All cases

The largest underwriting risk is limited granularity. Revenue can change because of principal-versus-agent presentation, acquisitions, currency or input pass-through without equivalent economic growth. Parent profit can rise from below-line items while Trading income weakens. Product shares, capital employed and cash conversion are unavailable. The scenario range compensates partially, but future reporting could invalidate assumptions. Any synthesis must keep Textile Trading income separate from equity-method earnings, investment gains, interest, tax and corporate eliminations.

11.9 Execution and portfolio renewal — Base and Bull

ITOCHU's model requires continual renewal: win licenses, develop categories, exit weak assets, modernize supply chains and maintain consumer relevance. Success can produce compounding without heavy manufacturing assets. Failure can leave a collection of mature trading flows and underperforming brands. The base case assumes disciplined, incremental renewal; the bull case requires measurable acceleration. A sustained margin below 4%, recurring brand impairments, rising inventory or unexplained acquisition dependence would break the thesis.

Scenario summary

Case	Segment TTM+5y Revenue	Exact profit metric	Segment TTM+5y Profit Margin	Segment TTM+5y Profit	Probability
Bear	¥681.952bn	Trading income	3.30%	¥22.504bn	25%
Base	¥836.634bn	Trading income	4.70%	¥39.322bn	55%
Bull	¥943.482bn	Trading income	5.50%	¥51.892bn	20%

The central conclusion is cautious. Textile has recovered materially since FY2022 and owns useful relationships, rights and supply-chain capabilities, but its low-single-digit Trading-income margin, latest-quarter softness, product-level opacity and exposure to fashion, sourcing and licensing risks do not justify extrapolating recent double-digit revenue or profit growth. The base case assumes respectable mid-single-digit revenue growth and only modest margin improvement. The bull case is achievable only if sports and footwear, Asian brand expansion, industrial qualifications and circular-material services become measurable profit engines. The bear case remains economically viable but shows that modest revenue resilience does not protect profit when spread and mix deteriorate.

Appendix B8 - The 8th

ITOCHU — The 8th Company Segment Deep Dive

Ticker: 8001.T **Forecast basis:** `Trading income` **TTM anchor:** 30 June 2026 **Exact horizon:** 30 June 2031 **Scenario weights:** Bear 25%; Base 55%; Bull 20% **Trade execution authorized:** false **Important perimeter warning:** FY2027 changes the economic and reporting boundary so radically that the TTM revenue and Trading-income margin are not comparable with the post-break segment. This appendix does not smooth that discontinuity away. **Forecast-base warning:** The ¥13.6 billion revenue and -¥3.2 billion Trading-income starting values used below are analyst-modeled annualized proxies equal to four times Q1 FY2027. They are not disclosed TTM figures, company guidance or sealed historical values.

0. Segment boundary and FY2027 taxonomy note

The 8th Company is not a stable reportable perimeter across the forecast boundary. Through FY2026, FamilyMart was the segment's main consolidated operating asset and drove most of its revenue, assets and Trading income. From FY2027, ITOCHU transferred primary responsibility for FamilyMart to the Food Company. FamilyMart's assets, liabilities and profit now reside in Food, while 70% of FamilyMart's net-profit contribution is allocated to The 8th for management reporting. That allocation is below Trading income and therefore must not be added to the segment's Trading income forecast. ITOCHU reclassified the prior-year first-quarter comparison and 31 March 2026 assets, but it did not publish a fully reclassified five-year revenue series. The data package therefore correctly instructs analysts not to combine historical The 8th revenue with reclassified profit to calculate a margin [data_package §§P0, 3a, 7, 10].

This is a hard boundary, not a cosmetic renaming. FY2022-FY2026 revenue describes an old-perimeter convenience-store-led segment. Q1 FY2027 revenue of ¥3.4 billion and a Trading loss of ¥0.8 billion describe the much smaller continuing platform/new-business perimeter [data_package §7, The 8th row]. The sealed bridge's TTM Trading income of ¥83.903 billion is arithmetically correct—FY2026 less old Q1 plus reclassified Q1—but economically hybrid. It cannot be divided by FY2026 revenue or annualized as a durable run rate. The model consequently preserves the exact disclosed TTM Trading income only in the transition bridge, then builds the continuing post-break scenarios from an explicitly analyst-modeled proxy equal to four times Q1 FY2027. FamilyMart is analyzed separately as consumer-platform context and as an allocated parent-profit driver, but its store sales, net profit and 70% allocation are not inserted into the `Trading income` table.

1. What this segment actually is

After the transfer, The 8th is best understood as ITOCHU's consumer-interface incubator rather than as a conventional convenience-store segment. Its mandate is to combine physical reach, digital identity, payments, purchase data, media inventory and ITOCHU's upstream sourcing capabilities to create businesses around everyday consumers. FamilyMart remains the anchor ecosystem: it provides the daily traffic, stores, transaction data, app distribution and merchant relationships from which retail media, loyalty, financial services, e-commerce and cross-company product initiatives can be built. Management nevertheless explicitly cautions that the strategy is “not necessarily centered solely on FM” [data_package §7, ITOCHU DAY Q&A]. That means the segment must eventually demonstrate economics beyond simply receiving an internal allocation of FamilyMart earnings.

The consumer platform has five connected layers:

- **Physical access.** FamilyMart operates a dense Japanese convenience-store network and a larger international franchise network. FamilyMart reported 16,415 Japanese stores and 8,848 overseas stores at February 2026, or 25,263 in total; total chain sales were ¥3,300.208 billion. These are FamilyMart operating statistics, not The 8th segment revenue ([FamilyMart corporate outline](https://www.family.co.jp/company/familymart/outline.html)).
- **Transaction frequency.** FamilyMart says about 15 million customer visits occur daily in Japan, or roughly 5.5 billion annually ([FamilyMart president message, 1 April 2026](https://www.family.co.jp/company/news_releases/2026/20260401_01.html)). Frequency is the scarce asset: a low-ticket retailer can create high-value data and media inventory when interactions repeat daily.
- **Merchandise and private label.** Famimaru spans everyday groceries, prepared food, bakery, sweets and premium products. Product quality, availability, food safety, procurement and price-value perception determine traffic and gross profit; advertising cannot compensate for weak stores.

- **Identity, payments and loyalty.** FamiPay combines coupons, points and payments. Downloads exceeded 30 million by June 2026, with approximately 5.2 million new downloads in the preceding year. FamilyMart also distributes roughly 680 coupons per user per year and runs a tiered members program based on monthly visits and spend ([FamiPay seventh-anniversary release](https://www.family.co.jp/company/news_releases/2026/20260623_01.html); [FamilyMart Members Program](https://www.family.co.jp/famipay.html)). Downloads are reach, not automatically active or profitable customers, so the model treats conversion, frequency and incremental gross profit as the relevant tests.
- **Media and data monetization.** The in-store signage network, renamed FamiMa TV, exceeded 11,000 stores by April 2026. FamilyMart reported average media recognition near 56%, about 70% among people in their teens and twenties, and more than 440 advertisers—4.5 times the FY2022 level ([FamilyMart media release](https://www.family.co.jp/company/news_releases/2026/20260410_01.html)). Advertising and data services can carry higher incremental margins than store merchandise, but only if measurement is credible and the promotions do not degrade trust or franchise operations.

The economic model therefore has two very different streams. FamilyMart generates chain merchandise sales, franchise income and operating profit in Food; The 8th receives an internal 70% net-profit allocation for management reporting. The continuing The 8th entities aim to monetize the consumer platform directly through media, data, digital commerce, loyalty-related services and new businesses. For statutory forecast consolidation, only the continuing entities' `Trading income` belongs in this appendix. The 70% allocation is an internal segment attribution, not incremental consolidated earnings. Synthesis must not add it on top of Food's FamilyMart economics or the consolidated bridge; it may show the allocation only as disclosure-only attribution if a sourced, zero-residual below-line bridge is available.

2. Current economics: old perimeter, transition TTM and new perimeter

The old perimeter was a meaningful consolidated retail operation. External revenue rose from ¥457.9 billion in FY2022 to ¥512.437 billion in FY2026, a four-year CAGR of 2.8%. Trading income increased from ¥42.140 billion to ¥83.440 billion, an 18.6% CAGR. The implied historical Trading-income margin expanded from 9.2% to 16.3% [data_package §3, The 8th revenue and Trading-income rows]. That improvement is real on the disclosed historical perimeter, but it should not be interpreted as an organic platform margin: consolidation choices, FamilyMart operating performance, internal group economics and other entities all affect it.

At the exact TTM anchor, the sealed bridge reports The 8th Trading income of ¥83.903 billion [data_package §2, TTM bridge; statutory_bridge.json, TTM `segment_profit_lines`]. The data package does not provide a TTM revenue for the segment, and because the quarter entering the TTM uses the new perimeter while the quarters rolling through it largely use the old perimeter, a constructed TTM margin would be analytically misleading even if the missing quarterly revenue were available. The correct TTM margin is therefore **not comparable / not meaningful**.

The first clean post-break operating signal is Q1 FY2027: revenue of ¥3.4 billion and Trading loss of ¥0.8 billion [data_package §7]. Annualizing one quarter solely to size the continuing perimeter gives an analyst-modeled ¥13.6 billion revenue proxy and -¥3.2 billion Trading-income proxy as of 30 June 2026. Neither value is a disclosed TTM figure, company forecast or seasonally adjusted forecast. They are transparent scaling devices for the exact five-year scenario model because no post-break TTM revenue exists. The observed quarterly margin is negative 23.5%; every subsequent negative or positive revenue, margin and profit value through 30 June 2031 is an analyst scenario, not management guidance.

ITOCHU's FY2027 plan assigns The 8th ¥31.5 billion of parent profit [data_package §3a]. That figure is not Trading income. It contains the 70% FamilyMart net-profit allocation and potentially other below-operating contributions. The plan cannot be used as a substitute for the required segment-profit basis. The distinction produces an important analytical paradox: The 8th can report attractive allocated parent profit while the continuing entities still record a Trading loss. A strong FamilyMart allocation is economically useful to ITOCHU shareholders but does not prove that The 8th's new businesses have achieved standalone product-market fit.

Current consumer-platform operating frame

Using FamilyMart's disclosed ¥3,300.208 billion chain sales, 16,415 domestic stores and 15 million daily Japanese visits produces useful, explicitly derived diagnostics. If the chain-sales perimeter is treated as Japanese chain sales, implied average daily sales are approximately ¥551,000 per domestic store and implied average ticket is approximately ¥603. These are not published KPIs and the perimeter may differ; they are directional checks only. The corresponding visits-per-store figure is approximately 914 daily. Because the inputs are disclosed at different dates and may have different franchise

perimeters, no forecast tie-out relies on the precise values.

Those proxies show why small changes matter. A 1% increase in traffic or ticket on a ¥3.3 trillion sales base is about ¥33 billion of chain sales before gross margin, franchise sharing, taxes and ITOCHU ownership/allocation effects. Conversely, customer-count erosion can be hidden for a time by inflation-driven ticket growth. The operating scorecard must therefore separate traffic, ticket, product mix and gross margin rather than celebrating nominal same-store sales alone.

3. Unit economics

3.1 Store and franchise engine

FamilyMart operates primarily through a franchise system. The store sells food, beverages, daily necessities and services; the franchise framework allocates gross profit and costs between store operator and franchisor under contract. The franchisor supplies the brand, merchandising, logistics, systems, product development, marketing and operating support. Economics improve when daily sales rise faster than the combined cost of goods, franchise support, logistics, technology, labor assistance, utilities and depreciation. Store count alone is not a sufficient driver in mature Japan; sales density and gross profit per store matter more.

Traffic, ticket and gross margin interact. Traffic comes from convenience, location, availability, service, product novelty and habitual use. Ticket is influenced by food inflation, basket expansion, prepared-food mix, premium/private-label mix and cross-selling. Gross margin benefits when proprietary products and high-margin categories grow, but aggressive coupons, food waste, procurement inflation and franchisee economics can offset the benefit. The bear case therefore assumes nominal ticket growth fails to cover traffic and cost pressure; the bull case assumes product quality and loyalty raise both basket and gross profit without excessive discounting.

3.2 Private label and prepared food

Famimaru is strategically important because differentiated food and non-food lines support both traffic and margin. The brand includes Famimaru, Famimaru KITCHEN, Bakery, Sweets and PREMIUM. FamilyMart reported that Famimaru sales exceeded the prior year for 46 consecutive months through August 2025 ([Famimaru PREMIUM release](https://www.family.co.jp/company/news_releases/2025/20251010_02.html)). One prominent bakery platform, the “Nama-pan” series, surpassed 260 million cumulative units by February 2025, and the bakery category achieved its best sales in ten years during 2024 ([FamilyMart bakery release](https://www.family.co.jp/company/news_releases/2025/20250324_01.html)). These examples demonstrate customer acceptance, but neither a private-label sales share nor category gross margin is disclosed. The model therefore does not invent a mix percentage.

Private-label upside comes from tighter product control, distinctiveness, faster experimentation and potential sourcing leverage across ITOCHU's food network. Risks include food safety, manufacturing concentration, commodity inflation, markdowns and brand damage. A high nominal growth rate in a promoted item is not necessarily profitable if coupons or wastage absorb the gross profit. The appropriate KPI is incremental gross profit after promotion and waste, accompanied by repeat purchase, not launch-week sales.

3.3 Digital, loyalty and retail media

The digital flywheel begins when a visit is linked to an identity. FamiPay can lower customer acquisition cost, target promotions and measure response. The Members Program explicitly uses visit count and monthly spend to assign ranks. This design can encourage frequency, but it also risks subsidizing behavior that would have occurred anyway. The key unit-economics measure is incremental contribution margin per redeemed coupon after cannibalization, not the face value of discounts or app downloads.

FamiMa TV adds a monetizable impression layer to the physical network. More than 11,000 installed stores represent roughly two-thirds of the domestic network, while 15 million daily visits create unusual mass reach. Advertising can carry attractive incremental margin because the stores and screens already exist, although content production, sales staff, measurement technology, hardware refresh and revenue sharing consume part of the gross profit. The jump to more than 440 advertisers and higher youth recognition is encouraging; recurring advertiser retention, price per measured impression and operating contribution are the proof points.

Data One and related data businesses can connect transaction evidence to advertising and coupon targeting. The moat is strongest where closed-loop measurement—exposure, visit, purchase and repeat behavior—creates a demonstrably better

return for advertisers. It weakens if privacy rules constrain linkage, if retailer data cannot be combined safely, or if Amazon, Rakuten, LINE/Yahoo, mobile carriers and payment platforms offer better scale or targeting.

Digital commerce remains early. FamilyMart disclosed that FamiMa Online access rose about 5.5 times and sales approximately 1.5 times in its first year; about 30% of store pickups included an additional purchase, and the ticket on those combined transactions was roughly twice the average FamiPay-user ticket ([FamilyMart Online anniversary release](https://www.family.co.jp/company/news_releases/2026/20260225_01.html)). The data support an omnichannel cross-sell thesis, but an access surge much faster than sales also signals low conversion or browsing intensity. The program should be judged on repeat users, fulfillment cost, net merchandise margin and incremental store visits.

3.4 Capital expenditure, leases and cash intensity

The platform is asset-light only in a qualified sense. Franchising moves some store labor and investment to franchisees, but the ecosystem still requires store fixtures, refrigeration, cooking equipment, renovations, signage, digital systems, distribution centers, vehicles, food-manufacturing capacity and cybersecurity. Lease structures can also create long-duration fixed commitments even when cash rent is not obvious in Trading income. Under IFRS-style lease accounting, part of what economically resembles rent may appear as depreciation and interest, so operating margin alone does not capture fixed-charge intensity.

The data package explicitly states that segment maintenance versus growth capex is not fully disclosed [data_package §10, gap 8]. No numeric The 8th or FamilyMart capex-to-sales ratio is therefore asserted. This is a material data gap, not a reason to assume zero capital intensity. The 8th transition may reduce reported segment assets and capex because FamilyMart moved to Food, but ITOCHU's consolidated cash needs do not disappear. Synthesis should keep FamilyMart capex and leases with Food while monitoring whether The 8th's media/digital ventures consume cash before reaching scale.

For underwriting, four cash tests matter: (1) mature-store maintenance capex relative to depreciation; (2) renovation and digital equipment payback; (3) franchisee cash-on-cash returns after labor, utilities and rent; and (4) corporate cash conversion after leases and working capital. A weakening franchisee return can eventually reduce store quality, staffing and renewals even if franchisor accounting looks stable. A retail-media project should be funded only when advertiser revenue and merchandise uplift together cover screen amortization, connectivity, selling costs and store disruption.

4. Competitive dynamics

Japan's convenience-store market is concentrated and mature. Seven-Eleven Japan, FamilyMart and Lawson together account for the vast majority of channel sales. A current Seven & i market frame reports FY2024 convenience-store value shares of 45.6% for Seven-Eleven, 27.5% for FamilyMart and 21.2% for Lawson ([Seven & i market environment](https://www.7andi.com/library/ir/co/2025/file/en/pdf/2025_all_a_en.pdf)). The same source family reports FY2025 store counts of 21,927 for Seven-Eleven, 16,415 for FamilyMart and 14,697 for Lawson ([Seven & i domestic convenience-store data](https://www.7andi.com/en/ir/library/co_financial/2026/convenience_store.html)). FamilyMart has sufficient density to be a national platform but remains materially smaller than Seven-Eleven.

Seven-Eleven's lead creates procurement, logistics, product-development, advertising and data advantages. Its recent monthly disclosures also illustrate a sector issue: through August 2026, average spending per customer rose in each reported month while customer counts were below the prior year in five of six months. Same-store sales were roughly flat to modestly positive ([Seven & i monthly business performance](https://www.7andi.com/en/company/news/release/82773.html)). That pattern is an external warning for FamilyMart: inflation-led ticket can mask traffic fragility. FamilyMart must win customer occasions, not merely pass through price.

Lawson offers differentiated product franchises, health-oriented ranges and a strong local-service proposition under Mitsubishi. It is also a credible partner in logistics and operational technology. Beyond convenience chains, supermarkets, drugstores, discount retailers, quick-service restaurants, vending, delivery platforms and e-commerce compete for the same meal, snack and daily-need missions. Digital advertising competes with far larger platforms whose user identity and measurement may be stronger.

FamilyMart's pricing power is selective. Convenience allows a premium over supermarkets, and proprietary prepared food can avoid direct comparison. However, commodity staples and national brands are transparent, Japanese consumers are value-conscious, and franchisees face cost pressure. The durable source of price is better products and time saved, not a blanket markup. FamiPay can personalize value rather than discounting the entire customer base, but poor targeting would teach customers to wait for coupons.

Entry barriers are high at the national-network level: prime locations, multi-temperature logistics, food development, franchise support, payments, trusted operations and regulatory compliance are difficult to recreate. Yet innovation barriers are lower. A rival can copy a food concept, loyalty feature or digital sign. The moat lies in the coordinated system and the speed at which consumer feedback travels into products, promotions and replenishment.

5. Moat at the segment level

The strongest moat is the combination of dense physical distribution and high-frequency purchase data. Fifteen million daily visits create an engagement rate most digital startups cannot buy economically. A new advertiser or product supplier can reach a national audience and observe sales response quickly. ITOCHU's upstream trading relationships can then support procurement, manufacturing, logistics and cross-category development. This creates a plausible closed loop: source or design a product, distribute it nationally, promote it through FamiPay and FamiMa TV, measure purchase, then refine the offer.

The moat is not yet proven in The 8th's continuing reported economics. Q1 revenue of ¥3.4 billion and a ¥0.8 billion Trading loss show that monetization entities remain small relative to the FamilyMart system they use. The FamilyMart net-profit allocation is an internal management choice, not an external competitive advantage. If The 8th cannot build profitable revenue outside that allocation, the segment becomes an incubator funded by a captive transfer rather than a genuine compounding platform.

Durability depends on four conditions. First, FamilyMart must protect traffic and food relevance against Seven-Eleven and Lawson. Second, app identity must represent active, incremental behavior rather than dormant downloads. Third, advertisers must renew because closed-loop measurement produces better returns. Fourth, new businesses must scale without impairing franchisee economics or misusing customer data. A breach in data trust, food safety or franchise relations could damage several layers simultaneously.

The five-to-ten-year moat verdict is therefore **narrow-to-moderate and conditional**. The physical network, visit frequency and data integration are difficult to replicate at scale. FamilyMart's second-place market position and ITOCHU supply-chain links are meaningful. But the continuing The 8th segment has not disclosed positive standalone Trading income, product-level revenue, return on invested capital or cash conversion. The moat belongs mainly to the FamilyMart ecosystem; the burden of proof is that The 8th can translate access into high-margin, repeatable economics.

6. Historical growth rates reproduced from the data package

The historical tables below reproduce the only verified segment-wide dollar series. They must be read as old-perimeter history and are not spliced into the post-FY2027 revenue forecast. No FamilyMart product or sub-segment revenue series was disclosed, and the FMP product endpoints were empty [data_package §§P0a, 3, 10]. Accordingly, no false revenue split is created for FamiPay, Famimaru, media or financial services.

6.1 External revenue

Product / sub-segment	FY2022 revenue	FY2023 revenue	FY2024 revenue	FY2025 revenue	FY2026 revenue	FY2023-FY2026 CAGR	Most recent YoY	Data-package cite
The 8th, old perimeter	¥457.9bn	¥467.1bn	¥515.2bn	¥510.990bn	¥512.437bn	3.1%	0.3%	data_package §3, External revenue by operating segment, The 8th row
Continuing The 8th, new perimeter	n/d	n/d	n/d	n/d	n/d	n/c	n/c	data_package §7, The 8th Q1 FY2027 row gives only Q1 revenue ¥3.4bn
FamilyMart chain sales	n/a to segment table	n/a	n/a	n/a	n/a	n/c	n/c	Not segment revenue; current ¥3,300.208bn disclosed separately by FamilyMart

Arithmetic checks on the disclosed revenue row: ¥457.9bn × 1.0201 ≈ ¥467.1bn; ¥467.1bn × 1.1030 ≈ ¥515.2bn; ¥515.2bn × 0.9918 ≈ ¥510.990bn; and ¥510.990bn × 1.0028 ≈ ¥512.437bn. All implied annual changes reconcile within 0.1 percentage point. The visible series peaked in FY2024 and was essentially flat over the last two years before the perimeter reset.

6.2 Trading income and implied historical margin

Metric	FY2022	FY2023	FY2024	FY2025	FY2026	TTM ended Jun-26	Data-package cite
Trading income	¥42.140bn	¥46.1bn	¥67.1bn	¥67.618bn	¥83.440bn	¥83.903bn	data_package §3 Trading income row; §2 TTM bridge, The 8th row
Implied margin on contemporaneous revenue	9.2%	9.9%	13.0%	13.2%	16.3%	n/c	Calculated from the two data_package §3 rows; TTM revenue absent and perimeter hybrid
YoY Trading-income growth	n/a	9.4%	45.6%	0.8%	23.4%	n/c	Calculated from data_package §3 Trading income row

The Trading-income series more than doubled from FY2022 to FY2026 while revenue rose only 11.9%, so margin expansion rather than top-line growth drove the old-perimeter result. That is useful evidence of FamilyMart improvement and/or mix effects but not a valid basis for a 16% terminal margin in the continuing segment. The TTM ¥83.903 billion number is required for statutory reconciliation; it is not a steady-state earnings anchor after FamilyMart moves to Food.

6.3 Post-break current-quarter signal

Period	Revenue	Trading income	Implied margin	Comparability	Data-package cite
Q1 FY2027	¥3.4bn	-¥0.8bn	-23.5%	First reported quarter under new perimeter; not comparable with historical annual series	data_package §7, The 8th row
Annualized sizing reference	¥13.6bn	-¥3.2bn	-23.5%	Analyst scaling diagnostic only; not guidance and not a seasonally adjusted forecast	Four times Q1 FY2027 disclosed values

7. Management guidance and commentary

The data package contains only one segment-specific strategic quote and several numeric current anchors. That scarcity is itself relevant: no five-year FamilyMart or The 8th targets were disclosed through the exact 30 June 2031 horizon.

- **Strategy is broader than FamilyMart.** The 8th Company President Hosomi said, “The 8th Company’s strategy is not necessarily centered solely on FM.” [data_package §7, ITOCHU DAY Q&A]. The constructive interpretation is that The 8th intends to create multiple consumer businesses using FamilyMart as an initial platform. The skeptical interpretation is that management is widening the mandate before proving standalone profitability in the first platform businesses. Base case assumes disciplined adjacency; bull requires measurable external customers and positive Trading income; bear assumes incubation costs persist.
- **Current FY2027 parent-profit plan is ¥31.5 billion.** [data_package §3a, segment parent-profit plan]. This is not guidance for Trading income and cannot be inserted into the forecast table. It primarily demonstrates that the FamilyMart allocation provides substantial below-Trading-income economics even while Q1 Trading income is negative.
- **Q1 FY2027 revenue and Trading loss are ¥3.4 billion and ¥0.8 billion.** [data_package §7]. Management did not provide a full-year revenue or Trading-income target for the new perimeter. The model uses the quarter only as a disclosed run-rate reference and builds a gradual profitability cadence rather than an immediate step-up.
- **Group organic-growth framing.** CFO Tsuyoshi Naka said, “We also feel that our organic growth is gaining clear momentum.” [data_package §7, Q1 FY2027 Q&A]. This is group-level commentary, not The 8th guidance. The segment must substantiate it with post-break revenue, gross profit and cash conversion.
- **No horizon guidance.** The company has no published earnings path to 30 June 2031 [data_package §§P0, 3a, 10]. Every CAGR and margin in Sections 8-10 is therefore an analyst scenario, not management guidance.

The model deliberately refuses three tempting shortcuts. It does not treat the ¥31.5 billion parent-profit plan as Trading income. It does not apply the old 16.3% margin to the ¥3.4 billion new-perimeter revenue. It also does not forecast FamilyMart chain sales as consolidated The 8th revenue. Those shortcuts would each overstate the segment's current operating economics.

8. Forward growth assumptions by economic line

All growth rates and terminal revenue values in this section are analyst-modeled from the Q1-FY2027-times-four proxy dated 30 June 2026 to the exact horizon of 30 June 2031. None is a company forecast or a disclosed TTM series.

8.1 Base case

Product / economic line	Historical CAGR	Latest signal	Management FY+1 guide	Analyst-modeled base CAGR, 30 Jun 2026 proxy to 30 Jun 2031	Justification
Legacy FamilyMart-led consolidated perimeter	3.1% FY2023-FY2026	FY2026 revenue ¥512.437bn	Transferred to Food in FY2027	n/m; terminal revenue in The 8th = zero	The legal/reporting transfer, not demand, removes this revenue from The 8th.
Continuing consumer-platform and new businesses	n/d	Q1 revenue ¥3.4bn; annualized sizing reference ¥13.6bn	None disclosed	10.0%	Digital media, data, commerce and new businesses scale from a small base, but evidence is insufficient for hypergrowth.
FamilyMart allocated net profit	n/a; not revenue	70% allocation to The 8th for management reporting	The 8th parent-profit plan ¥31.5bn	Excluded from revenue CAGR	Allocation is below Trading income and modeled outside this appendix's segment-profit basis.

Base-case revenue reaches ¥21.9 billion in June 2031, exactly ¥13.6 billion × 1.10^5. This assumes The 8th converts some existing platform reach into paid revenue without acquiring a large unrelated business. Ten percent is well above the old-perimeter 3.1% historical CAGR because the continuing entities start small; it is well below the growth suggested by isolated digital launches because app downloads, signage coverage and online access are not revenue. The path requires advertiser retention, better data monetization and repeat digital-commerce use.

8.2 Bull case

Product / economic line	Historical CAGR	Latest signal	Management FY+1 guide	Analyst-modeled bull CAGR, 30 Jun 2026 proxy to 30 Jun 2031	Justification
Legacy FamilyMart-led consolidated perimeter	3.1% FY2023-FY2026	FY2026 revenue ¥512.437bn	Transferred to Food	n/m; terminal revenue in The 8th = zero	No reporting-perimeter reversal is assumed.
Continuing consumer-platform and new businesses	n/d	Q1 revenue ¥3.4bn; media advertisers above 440; FamiPay downloads above 30m	None disclosed	15.0%	Closed-loop retail media, loyalty and commerce convert reach to external revenue while new ventures add scale.
FamilyMart allocated net profit	n/a	70% management allocation	Parent-profit plan ¥31.5bn	Excluded	Strong FamilyMart economics support parent profit but are not reclassified into Trading income.

Bull-case revenue reaches ¥27.4 billion, exactly ¥13.6 billion × 1.15^5. This does not assume that all 15 million daily visits become monetized users. It assumes higher advertiser yield and renewal, stronger FamiPay engagement, online-to-store cross-selling and at least one scaled new business. The case fails if growth is mostly internal transfer pricing or low-margin pass-through revenue.

8.3 Bear case

Product / economic line	Historical CAGR	Latest signal	Management FY+1 guide	Analyst-modeled bear CAGR, 30 Jun 2026 proxy to 30 Jun 2031	Justification
Legacy FamilyMart-led consolidated perimeter	3.1% FY2023-FY2026	FY2026 revenue ¥512.437bn	Transferred to Food	n/m; terminal revenue in The 8th = zero	The perimeter change still occurs; bear is not allowed to restore transferred revenue.
Continuing consumer-platform and new businesses	n/d	Q1 revenue ¥3.4bn and Trading loss ¥0.8bn	None disclosed	5.0%	Platform revenue grows modestly, but advertiser pricing, engagement and new-business conversion disappoint.
FamilyMart allocated net profit	n/a	70% management allocation	Parent-profit plan ¥31.5bn	Excluded	FamilyMart can remain profitable while The 8th's continuing operations lose money.

Bear-case revenue reaches ¥17.4 billion, exactly ¥13.6 billion × 1.05^5. Nominal growth remains positive because retail media and digital services are structurally growing from a low base; economic failure appears through continued losses and poor conversion rather than an assumed collapse in revenue.

8.4 FamilyMart look-through operating scenario: traffic, ticket, stores and private label

This table is non-additive context. FamilyMart store sales belong economically to Food after the taxonomy change and must not be added to The 8th revenue or Trading income. It uses the current ¥3.300 trillion chain-sales disclosure, 15 million daily visits and an approximate ¥603 ticket diagnostic.

Driver to 2031	Bear	Base	Bull	Underwriting interpretation
Annual traffic CAGR	-1.5%	-0.5%	0.0%	Demographics and channel competition pressure visits; bull only stabilizes traffic.
Annual ticket CAGR	2.0%	2.5%	3.5%	Mix, price and private label lift ticket; real volume must be tested separately.
Implied nominal chain-sales CAGR	0.5%	2.0%	3.5%	Approximate sum of traffic and ticket effects.
2031 daily visits	13.9m	14.6m	15.0m	Starting point 15m daily; rounded.
2031 implied ticket	¥666	¥682	¥716	Starting proxy ¥603; not a published KPI.
2031 chain sales	¥3.38tn	¥3.64tn	¥3.92tn	¥3.300tn compounded for five years.
Domestic store network	Shrinks modestly	Broadly stable	Stable with selective additions	Store productivity matters more than blanket expansion.
Famimaru / prepared-food mix	Gains fail to offset waste and input cost	Steady mix improvement	Strong repeat purchase and premiumization	No numeric private-label share is disclosed; avoid invented percentages.
FamiPay / loyalty	Downloads grow but active use stagnates	Engagement and targeted coupons improve frequency	High active conversion and measurable incremental gross profit	Downloads are not MAU; coupon incrementality is the gate.

The scenario intentionally avoids assuming traffic growth in Japan. Seven-Eleven's contemporary pattern of declining customer count and rising spend shows that the mature market can generate nominal same-store sales without more visits. FamilyMart's bull case therefore depends on stabilizing traffic and improving ticket through better product and mix, not on a demographic miracle.

9. Forward Trading-income margin assumptions and annual cadence

9.1 Margin framework

The exact metric is `Trading income`. The only clean current new-perimeter observation is Q1 FY2027's -23.5% implied margin. A single quarter may contain launch costs and seasonality, but it establishes that positive margin must be earned. The old-perimeter FY2026 margin of 16.3% is not the anchor. Every annual cadence and terminal margin below is analyst-modeled; no positive or negative value is management guidance. The terminal cases are:

- **Bear: -10.0%.** Revenue grows but the segment remains an incubator. Media sales costs, technology, promotions and new-business overhead absorb gross profit. The 13.5-percentage-point improvement from Q1 reflects scale and cost actions but not break-even.
- **Base: 3.0%.** The segment reaches modest profitability by FY2031. Retail media and data mix offset investment in commerce and new businesses, but no mature-platform margin is assumed. The 26.5-percentage-point improvement requires explicit annual operating leverage and disciplined exits from weak projects.
- **Bull: 12.0%.** High-margin media/data revenue scales, digital commerce improves fulfillment economics and one or more new businesses establish product-market fit. The margin remains below the old-perimeter FY2026 16.3% because the continuing segment is smaller and still investing.

The large basis-point changes are mechanically driven by mix and scale. Media and data have low marginal delivery cost once screens, data infrastructure and sales capacity are installed; early overhead is spread over a small revenue base. Conversely, commerce and new ventures can consume fulfillment, customer-acquisition and technology spend. The model does not allocate Food's FamilyMart costs, corporate overhead or statutory bridge adjustments into The 8th.

9.2 Bear annual cadence

Horizon date	Continuing revenue	Trading-income margin	Trading income	Main mechanism
30 Jun 2026 analyst proxy	¥13.600bn	-23.5%	-¥3.200bn	Q1 FY2027 × 4 sizing reference; not reported TTM or guidance
Jun-2027	¥14.280bn	-20.0%	-¥2.856bn	Revenue growth but weak advertiser yield and ongoing launch costs
Jun-2028	¥14.994bn	-17.5%	-¥2.624bn	Some fixed-cost absorption; no decisive product-market fit
Jun-2029	¥15.744bn	-15.0%	-¥2.362bn	Cost control partly offsets promotion and technology spend
Jun-2030	¥16.531bn	-12.5%	-¥2.066bn	Slow normalization; new ventures remain subscale
Jun-2031	¥17.357bn	-10.0%	-¥1.736bn	Segment still destroys operating value despite FamilyMart allocation below Trading income

9.3 Base annual cadence

Horizon date	Continuing revenue	Trading-income margin	Trading income	Main mechanism
30 Jun 2026 analyst proxy	¥13.600bn	-23.5%	-¥3.200bn	Q1 FY2027 × 4 sizing reference; not reported TTM or guidance
Jun-2027	¥14.960bn	-15.0%	-¥2.244bn	Signage and loyalty monetization begin covering platform overhead
Jun-2028	¥16.456bn	-10.0%	-¥1.646bn	Advertiser renewal and targeted promotions improve contribution
Jun-2029	¥18.102bn	-5.0%	-¥0.905bn	Commerce fulfillment and data economics improve
Jun-2030	¥19.912bn	0.0%	¥0.000bn	Continuing segment reaches break-even
Jun-2031	¥21.903bn	3.0%	¥0.657bn	Modest positive Trading income; no mature-platform premium assumed

9.4 Bull annual cadence

Horizon date	Continuing revenue	Trading-income margin	Trading income	Main mechanism
30 Jun 2026 analyst proxy	¥13.600bn	-23.5%	-¥3.200bn	Q1 FY2027 × 4 sizing reference; not reported TTM or guidance
Jun-2027	¥15.640bn	-10.0%	-¥1.564bn	Faster media/data scale and strong campaign demand
Jun-2028	¥17.986bn	-3.0%	-¥0.540bn	High incremental margin and lower acquisition cost
Jun-2029	¥20.684bn	4.0%	¥0.827bn	Segment crosses break-even one year before base
Jun-2030	¥23.787bn	8.0%	¥1.903bn	Commerce repeat use and profitable adjacencies add leverage
Jun-2031	¥27.354bn	12.0%	¥3.283bn	Scaled consumer platform; still below old-perimeter margin

10. Segment rollup and reconciliation

The rollup has only one revenue-bearing modeled line because the data package does not disclose reliable product revenue beneath the post-break segment. Creating line items for FamiPay, media and commerce would be false precision. The old consolidated FamilyMart line exits the segment by policy; the FamilyMart allocation is a parent-profit item and has zero revenue and zero Trading income in this appendix.

Case	Legacy perimeter revenue in The 8th	Continuing platform revenue	Analyst-modeled revenue at 30 Jun 2031	Analyst-modeled Trading-income margin	Analyst-modeled Trading income	Arithmetic tie-out
Bear	¥0.000bn	¥17.357bn	¥17.357bn	-10.0%	-¥1.736bn	¥13.600bn × 1.05^5 × -10.0% = -¥1.736bn
Base	¥0.000bn	¥21.903bn	¥21.903bn	3.0%	¥0.657bn	¥21.903bn × 3.0% = ¥0.657bn
Bull	¥0.000bn	¥27.354bn	¥27.354bn	12.0%	¥3.283bn	¥13.600bn × 1.15^5 × 12.0% = ¥3.283bn

All cases reconcile exactly within rounding. The segment revenue collapse from the historical ¥512.437 billion to the low tens of billions is a taxonomy transfer, not a forecast of FamilyMart commercial collapse. Likewise, the fall from hybrid TTM Trading income of ¥83.903 billion to a low single-digit terminal result reflects FamilyMart moving to Food and its 70% net-profit contribution sitting below Trading income. Any synthesis that carries ¥83.903 billion forward in The 8th while also forecasting FamilyMart in Food would double count.

The analyst-modeled probability-weighted 30 June 2031 output is ¥21.857 billion of revenue and ¥0.584 billion of Trading income, calculated as 25% bear, 55% base and 20% bull. The implied weighted margin of approximately 2.7% is a diagnostic only; synthesis should preserve the discrete scenarios rather than forecast the average as if it were an observable case.

11. Key risks, wildcards and monitoring requirements

- **Taxonomy and double-counting risk — all cases.** The most immediate modeling hazard is counting FamilyMart once in Food and again in The 8th. The old revenue history, hybrid TTM Trading income and 70% net-profit allocation live on different accounting levels. Kill criterion: any model cannot show a zero-residual bridge from segment Trading income to pretax and net income after the reclassification.
- **Traffic erosion hidden by ticket inflation — bear.** Nominal same-store sales can look positive while visits fall. FamilyMart should disclose or management should discuss comparable traffic and ticket separately. Bear becomes more likely if customer count declines more than 1% annually for two years while ticket gains are mainly price.
- **Private-label margin illusion — bear/base.** Famimaru unit growth and consecutive sales gains are encouraging but incomplete. Promotions, food waste, ingredient inflation and manufacturing costs may offset mix benefits. Trigger for bull: repeat purchase and gross-profit growth outpace sales; kill criterion: frequent promotions sustain sales but franchise/store gross profit stagnates.
- **Digital reach without active engagement — bear.** Thirty million downloads are not 30 million monthly active users. Coupon volume may buy activity rather than create it. Required KPI: monthly active users, identified-transaction share, redemption incrementality and retention cohorts.
- **Retail-media pricing and concentration — bear/base.** Advertiser count can rise while campaign size, yield or retention remain weak. A recession or weak brand budgets would pressure a young network. Bull requires multi-year advertiser retention and evidence that purchase-linked measurement commands a premium.
- **Privacy, cybersecurity and trust — all cases.** A data breach or inappropriate targeting could damage payments, loyalty and media simultaneously. Consumer consent, data minimization and vendor controls are critical because the platform links physical purchase behavior with identity.
- **Franchisee economics and labor — bear.** Wage inflation, labor scarcity, electricity, rent and operating complexity can overwhelm store-level returns. More campaigns and digital services may add tasks. If franchisees cannot earn acceptable returns, closures, weak execution and poorer service will impair the traffic asset.
- **Capex and lease opacity — bear/base.** The segment does not disclose maintenance versus growth capex or lease commitments. Asset transfers can make The 8th appear capital-light without changing ITOCHU's consolidated burden.

Require a cash bridge for screens, systems, store renovations and logistics before assigning a high multiple to platform earnings.

- **New-business mandate drift — bear.** Management's non-FamilyMart ambition may create adjacency value or become a license for unrelated investment. Each venture needs an owner, external customer, hurdle rate, milestone and exit date. The bull case assumes one scaled success; it does not assume indiscriminate acquisitions.
- **Internal-allocation dependence — all cases.** The 70% FamilyMart net-profit allocation can mask continuing Trading losses. The segment should be judged on both allocated parent profit and standalone Trading income. Base requires break-even by June 2030; failure to reach it despite double-digit revenue growth is a downgrade.
- **Competitive response — bear/base.** Seven-Eleven has materially greater store and sales scale, while Lawson can innovate with Mitsubishi support. Competitors can add screens, improve apps and copy prepared-food concepts. FamilyMart's advantage must come from execution speed and integrated measurement, not feature novelty.
- **Food safety and supply continuity — all cases.** Centralized private-label sourcing raises brand and concentration risk. A major recall, quality failure or logistics outage could reduce traffic across the national network and impair media value at the same time.

Decision-useful KPI dashboard

KPI	Current evidence	Base-case requirement	Bear trigger
FamilyMart daily traffic	About 15m visits	Decline no worse than 0.5% CAGR	Decline worse than 1.0%-1.5% for two years
Average ticket	Approx. ¥603 derived proxy	About 2.5% nominal CAGR with stable units	Price rises but items/basket and traffic fall
Domestic stores	16,415 at Feb-2026	Broadly stable, productivity up	Closures accelerate without sales-density gain
Famimaru	46 months of YoY sales growth through Aug-2025	Gross-profit and repeat purchase rise	Promo/waste consumes mix benefit
FamiPay	More than 30m downloads	Active use and identified transactions rise	Downloads rise but MAU/retention stalls
Retail-media footprint	More than 11,000 stores; 440+ advertisers	Renewal and yield rise	Advertiser churn or declining price per impression
Continuing The 8th Trading income	Q1 FY2027 -¥0.8bn	Break-even by Jun-2030	Loss persists past FY2030
Capex and lease burden	Not separately disclosed	Paybacks shown for material projects	Cash needs rise without contribution margin

Summary

Case	Analyst-modeled revenue at 30 Jun 2031	Exact profit metric	Analyst-modeled margin at 30 Jun 2031	Analyst-modeled profit at 30 Jun 2031	Probability
Bear	¥17.357bn	Trading income	-10.0%	-¥1.736bn	25%
Base	¥21.903bn	Trading income	3.0%	¥0.657bn	55%
Bull	¥27.354bn	Trading income	12.0%	¥3.283bn	20%

The core conclusion is intentionally conservative. FamilyMart is a valuable consumer platform with enormous physical reach, strong private-label evidence, a large loyalty/app funnel and a nationally scaled media network. Those assets support allocated parent profit and strategic optionality. They do not justify carrying the old The 8th Trading-income base through FY2031. After the FY2027 transfer, the segment must prove that it can convert privileged access into external revenue and positive `Trading income`. The base case gives it five years to do so and assumes only a 3% terminal margin. The primary upside is high-incremental-margin media/data monetization plus disciplined new-business success; the primary downside is an incubator that grows revenue but never covers platform and venture costs.

Data gaps retained: [DATA GAP: no post-break TTM segment revenue]; [DATA GAP: no product-level revenue for media, data, FamiPay, commerce or new businesses]; [DATA GAP: no disclosed The 8th maintenance/growth capex or lease schedule]; [DATA GAP: no FamilyMart private-label share or category gross margin]; [DATA GAP: no FamiPay MAU, identified-transaction share or cohort retention]; [DATA GAP: no five-year company guidance to 30 June 2031].

Appendix S - Earnings Synthesis

ITOCHU — Synthesis (Combined Earnings Model)

This appendix mechanically consolidates the eight reviewed segment appendices on the exact sealed profit basis, **Trading income**, and then carries every preserved corporate, below-line, tax, and non-controlling-interest classification through attributable net income and listed-unit EPS. It does not perform source discovery, does not alter any reviewed segment forecast, and does not introduce a balancing plug. Amounts are JPY billions unless stated otherwise. The forecast horizon is exactly five calendar years from 30 June 2026 to 30 June 2031.

The operating model is intentionally stricter than a conventional conglomerate roll-up. Food begins from an explicitly labelled Q1 FY2027 multiplied by four new-perimeter revenue proxy, not reported TTM revenue, and its sealed TTM Trading income remains a separate historical fact. The 8th begins from a post-transfer analyst proxy and does not extrapolate the hybrid historical TTM Trading income. FamilyMart is consolidated in Food after the transfer; the 70% management attribution to The 8th is never added to Trading income, associate earnings, or any other below-line forecast. Power transferred into Energy & Chemicals is modeled only there. Associate and joint-venture earnings remain on their sealed below-line line and are never imported into segment Trading income.

1. Anchors and gate controls

- Today: 28 September 2026.
- Fiscal year end: 31 March.
- TTM anchor: year ended 30 June 2026.
- TTM construction: FY2026, year ended 31 March 2026, less Q1 FY2026, three months ended 30 June 2025, plus Q1 FY2027, three months ended 30 June 2026. This is equivalent to Q2-Q4 FY2026 plus Q1 FY2027.
- Latest completed fiscal year used for historical tie-out: FY2026.
- Horizon date: 30 June 2031, exactly 5.0 calendar years after the TTM end.
- Valuation price: JPY 2,226 per listed ordinary share, XJPX:8001, raw exchange close for 28 September 2026.
- Quote raw-source SHA-256: `e7787b842c094f396d9425fe5ac979cc95a10146060d0f2b50806e26f3f89c6e`.
- QFR-sealed quote-packet SHA-256: `97c92efbb577232fcd885cf1e2d6bf69b334d7f5153c5f74ce6f89e09db0712e`.
- Quote actionability expiry: 29 September 2026 at 20:20:13 SGT. The strict validator was rerun at 29 September 2026 at 00:44:39 SGT and returned `QUOTE_PACKET_VALID` with the expected packet hash.
- QFR-sealed statutory-bridge SHA-256: `97d763c7c2b858f45dec2262263e347e013c2bf636d8161d7563cb3882a16317`. The statutory validator returned `STATUTORY_BRIDGE_VALID` with the expected hash.
- Durable upstream gate: `gate_manifest.json` records QFR cleared, DR cleared, `STATUTORY BRIDGE VERIFIED — CLEARED FOR FORECASTING`, eight reviewed segment gates, Management YELLOW, and Moat YELLOW with no unresolved segment issue.
- Reporting and quote currency: JPY. FX quote currency per reporting currency is 1.000000.
- Listed unit: one ITOCHU ordinary share. Depositary ratio is 1.000000 and share-class conversion factor is 1.000000, so financial shares per listed unit equal 1.000000.
- Financial-basis diluted-share proxy at 30 June 2026: 6,990,376,434 shares. The January 2026 five-for-one split was already reflected in the reported figures. No split occurred over the 30 June to 28 September quote bridge, so the current bridge factor is 1.000000 and quote-basis diluted shares remain 6,990,376,434.
- `trade_execution_authorized=false`. This appendix is research, not an order instruction.

The quote and bridge packets were byte-hashed before model work. The listing, currency, share class, split convention, listed-unit factor, and FX identity all reproduce the passed packet. There is no alternative price in this appendix.

1a. Reported-to-normalized current denominator

The DR-cleared normalization ledger in `data_package.md` §11 supplies the zero-residual bridge that was unavailable in the first synthesis. It starts with statutory TTM attributable profit, removes only management-identified post-tax, parent-attributable extraordinary gains and losses, and separately removes the quantified temporary Middle East chemical-price uplift. It does not gross up those post-tax adjustments, apply a second NCI deduction, or rewrite the historical weighted-average share denominator.

Denominator step	Attributable profit, JPY B	Listed-unit EPS, JPY	Current P/E at JPY 2,226
Reported TTM statutory	910.107	129.812039	17.147870x
Remove exact actual-period extraordinary gains and losses	-60.107	-8.573291	n/a
Actual-period core before temporary-market adjustment	850.000	121.238748	18.360465x
Remove temporary Middle East chemical-price uplift	-5.000	-0.713170	n/a
Selected normalized statutory-equivalent denominator	**845.000**	**120.525578**	**18.469109x**
Disclosure-rounding range	844.250-845.750	120.418603-120.632554	18.452730x-18.485516x

The exact profit residual is JPY 910.107 billion less JPY 60.107 billion less JPY 5.000 billion less JPY 845.000 billion, equal to zero. EPS uses the sealed TTM weighted-average 7,010.959923 million listed ordinary shares. The September tender is post-anchor and enters only the forward share path.

This normalized denominator is **constrained, not fully cycle-neutral**. The package does not provide the absolute normalized commodity prices, hedge book, timing lags, or transaction-versus-translation FX split needed for a complete resource/FX adjustment. The ledger removes the one source-bound JPY 5 billion temporary uplift and all disclosed actual-period extraordinary gains/losses, but it must not be called commodity-cycle-neutral or FX-neutral. The 18.469109x current normalized P/E is therefore a transparent current-denominator reference, not a cap on terminal P/E and not a multiple-selection rule.

2. Segment-level forward assumptions

The table reproduces the reviewed segment conclusions. “Starting revenue basis” is used instead of mechanically calling every item TTM revenue because several appendices deliberately use proxy perimeters. That distinction is a control, not a caveat to be smoothed away.

Segment	Exact profit metric	Starting revenue basis	Bear 2031 revenue	Base 2031 revenue	Bull 2031 revenue	Bear margin	Base margin	Bull margin	Reviewed source
Textile	Trading income	679.140 FY2026 proxy	681.952	836.634	943.482	3.30%	4.70%	5.50%	`appendix_B_textile.md` §§8-10
Machinery	Trading income	1,526.479 reported TTM	1,564.800	1,898.900	2,126.600	4.65%	6.67%	7.77%	`appendix_B_machinery.md` §§8-10
Metals & Minerals	Trading income	1,264.924 annual-average-quarter proxy	1,114.500	1,398.600	1,629.700	6.02%	9.11%	12.25%	`appendix_B_metals_and_minerals.md` §§8-10
Energy & Chemicals	Trading income	3,143.173 TTM proxy including power transfer	3,075.294	3,495.339	3,892.391	2.04%	3.91%	5.25%	`appendix_B_energy_and_chemicals.md` §§8-10
Food	Trading income	5,677.580 Q1 FY2027 × 4 new-perimeter proxy	5,908.259	6,518.163	6,940.694	2.10%	2.80%	3.30%	`appendix_B_food.md` §§8-10
General Products & Realty	Trading income	1,528.334 FY2026 proxy	1,444.400	1,733.400	1,993.200	3.20%	4.98%	6.15%	`appendix_B_general_products_and_realty.md` §§8-10

Segment	Exact profit metric	Starting revenue basis	Bear 2031 revenue	Base 2031 revenue	Bull 2031 revenue	Bear margin	Base margin	Bull margin	Reviewed source
ICT & Financial Business	Trading income	1,112.400 TTM proxy	1,172.200	1,466.400	1,698.900	8.05%	10.91%	12.74%	`appendix_B_ict_and_financial_business.md` §§8-10
The 8th	Trading income	13.600 Q1 FY2027 × 4 post-transfer proxy	17.357	21.903	27.354	-10.00%	3.00%	12.00%	`appendix_B_the_8th.md` §§8-10

Food has no valid starting margin because its revenue proxy and sealed TTM Trading income are different perimeters. Its JPY 115.926 billion sealed TTM Trading income is preserved only in historical statutory reconciliation. The 8th's JPY 83.903 billion hybrid TTM Trading income is also used only for historical reconciliation. Forecasting that number while also forecasting FamilyMart in Food would double count the transferred economics. The 8th's 70% FamilyMart allocation is management reporting attribution only; it is not an additive statutory line.

The model also preserves the Energy & Chemicals power-transfer perimeter. Power and environmental operations are forecast once in that segment. Associate-heavy economics in Machinery, Metals & Minerals, ICT, and other segments remain excluded from the segment tables and are consolidated only through the separate `Equity in earnings of associates and joint ventures` line in Section 5.

3. Combined revenue build

The named-segment totals are direct sums of the reviewed horizon values. The separate revenue adjustment is held at the exact reported TTM `Others, Adjustments & Eliminations` value of JPY 124.172 billion. It is not allocated into segments and is not used to force any segment margin.

Line	Bear	Base	Bull
Sum of named-segment 2031 revenue	14,978.762	17,369.339	19,252.321
Others, adjustments and eliminations revenue	124.172	124.172	124.172
Combined 2031 revenue	**15,102.934**	**17,493.511**	**19,376.493**
Reported consolidated TTM revenue	15,140.015	15,140.015	15,140.015
Implied TTM-to-2031 CAGR, exactly five years	-0.05%	2.93%	5.06%

The Bear case is effectively flat in nominal revenue. This does not imply stable earnings: resource, construction-material, and trading spreads compress while Food's defensive nominal growth offsets declines elsewhere. Base grows at about 2.9% annually, driven by Food's enlarged perimeter, Machinery services and infrastructure, ICT services, and modest Energy & Chemicals mix improvement. Bull requires simultaneous delivery across consumer, digital, machinery, resource, and transition exposures and therefore receives only 20% probability.

For recency control, the first-forward-year revenue sums are JPY 14,989.401 billion in Bear, JPY 15,511.786 billion in Base, and JPY 15,847.484 billion in Bull, including the same JPY 124.172 billion adjustment. Base is 2.46% above reported TTM revenue, well inside the 10% recency threshold. The model therefore does not hide a terminal result behind an implausible first-year step.

4. Combined operating-income build

All eight segment lines use Trading income. ITOCHU's sealed bridge has no separate operating adjustment between consolidated Trading income and statutory operating income. The only operating consolidation item is `Others, Adjustments & Eliminations`, projected explicitly rather than buried in a margin.

Line	Bear	Base	Bull
Textile Trading income	22.504	39.322	51.892
Machinery Trading income	72.800	126.600	165.300
Metals & Minerals Trading income	67.100	127.400	199.700
Energy & Chemicals Trading income	62.688	136.585	204.241

Line	Bear	Base	Bull
Food Trading income	124.073	182.509	229.043
General Products & Realty Trading income	46.215	86.405	122.636
ICT & Financial Business Trading income	94.400	160.000	216.400
The 8th Trading income	-1.736	0.657	3.283
Named-segment Trading income sum	**488.044**	**859.478**	**1,192.495**
Others, Adjustments & Eliminations	-50.000	-30.000	-25.000
Consolidated 2031 Trading income	438.044	829.478	1,167.495
Operating bridge adjustments	0.000	0.000	0.000
Statutory 2031 operating income	**438.044**	**829.478**	**1,167.495**
Implied operating margin	2.90%	4.74%	6.03%

The corporate line begins from the sealed TTM loss of JPY 25.993 billion. Base normalizes to a JPY 30 billion loss, close to that anchor. Bear widens to JPY 50 billion to reflect central investment, restructuring, and control costs under weaker segment absorption. Bull remains a JPY 25 billion cost rather than assuming headquarters becomes a profit center. There are no operating-bridge adjustments because the sealed statutory bridge contains none.

Section 5a now supplies the complete annual operating and statutory cadence. Base first-forward-year statutory operating income is JPY 679.987 billion, 7.69% below the JPY 736.608 billion reported TTM anchor and inside the 10% recency threshold. Machinery's missing annual profit cadence is not filled by a backward-solving plug: the schedule applies disclosed annual margins tied to the Q1 operating signal, scenario mechanisms, reviewed annual revenue, and the exact reviewed terminal Trading-income result.

5. Net income and EPS build

Each below-line row preserves the sealed issuer label. The scenario values are normalized underwriting paths from the TTM anchor, not hidden segment allocations. Investment and asset gains are deliberately bounded; associate/JV earnings are kept separate; interest expense reflects acquisition and funding risk; and NCI is calculated as a stated percentage of consolidated profit after tax rather than as an unexplained residual.

Exact sealed line / driver	TTM actual	Bear 2031	Base 2031	Bull 2031	Forecast rule
Statutory operating income	736.608	438.044	829.478	1,167.495	Section 4 mechanical roll-up
Gains (losses) on investments	82.814	-25.000	50.000	125.000	Bear loss; Base below FY2026 gain; Bull remains bounded
Gains (losses) on property, plant, equipment and intangible assets	-11.391	-60.000	-15.000	10.000	Bear impairment stress; no recurring Base gain
Other-net	14.855	-10.000	15.000	25.000	Scenario normalization around TTM
Interest income	50.783	45.000	55.000	65.000	Liquidity and rate path
Dividends received	57.560	50.000	65.000	80.000	Investee distribution path
Interest expense	-107.847	-175.000	-145.000	-130.000	Funding, acquisition, and rate stress
Equity in earnings of associates and joint ventures	371.269	320.000	410.000	480.000	Existing associate base plus scenario growth; no FamilyMart allocation

The Base associate/JV line grows only about 2% annually from TTM. It leaves room for existing investee progression and potential post-closing contributions without treating ACG revenue, Dentsu Soken revenue, or management's strategic return targets as consolidated Trading income. The Bear line declines despite possible new transactions because credit, commodity, project, and funding risks can weaken existing associates. The Bull line requires both incumbent performance and successful new-associate execution. None of the three cases adds the 70% FamilyMart management allocation: Food already consolidates FamilyMart after the transfer.

Net-income and EPS line	Bear	Base	Bull
Statutory operating income	438.044	829.478	1,167.495
Net interest income / expense	-130.000	-90.000	-65.000
Other income, dividends, gains, and associate/JV earnings	275.000	525.000	720.000
Pretax income	**583.044**	**1,264.478**	**1,822.495**
Normalized effective tax rate	24.00%	22.00%	22.00%
Income tax expense	-139.931	-278.185	-400.949
Profit after tax before NCI	443.113	986.293	1,421.546
NCI rate on post-tax consolidated profit	4.50%	4.00%	4.00%
Net profit attributable to non-controlling interests	-19.940	-39.452	-56.862
Net income attributable to ITOCHU	**423.173**	**946.841**	**1,364.684**
Quote-basis diluted financial shares, million	6,720.585	6,648.260	6,631.413
EPS in JPY per quote-basis financial share	62.967	142.419	205.791
Financial shares per listed unit	1.000000	1.000000	1.000000
EPS in JPY per listed unit	62.967	142.419	205.791
FX, JPY quote currency per JPY reporting currency	1.000000	1.000000	1.000000
EPS in quote currency per listed unit	**JPY 62.967**	**JPY 142.419**	**JPY 205.791**

The identity is exact in each case: attributable net income in JPY billions multiplied by 1,000 and divided by quote-basis diluted shares in millions equals JPY EPS per financial share. The one-for-one share-unit and FX bridges then reproduce listed-unit EPS without conversion.

5a. Annual Bear/Base/Bull statutory earnings cadence

The cadence begins from the constrained normalized TTM attributable-profit anchor of JPY 845.000 billion and runs through every annual period to the exact 30 June 2031 horizon. Textile, Metals & Minerals, Energy & Chemicals, Food, General Products & Realty, ICT & Financial Business, and The 8th annual Trading-income rows are reproduced directly from their reviewed appendices. Machinery publishes reviewed annual revenue but only starting and terminal margins, so S applies a disclosed, driver-based annual margin schedule to the reviewed revenue cadence: Bear 5.60%, 5.20%, 4.90%, 4.70%, and the reviewed terminal 4.65%; Base 5.80%, 6.00%, 6.20%, 6.45%, and the reviewed terminal 6.67%; Bull 6.30%, 6.70%, 7.10%, 7.45%, and the reviewed terminal 7.77%. Year 1 is anchored around the disclosed Q1 margin of approximately 5.6%; later changes reflect order-cycle pressure or service, aerospace, and infrastructure mix. The terminal Trading-income amounts remain the reviewed JPY 72.800 billion, JPY 126.600 billion, and JPY 165.300 billion rather than a rounded-margin plug.

Corporate/unallocated and every below-line item use an explicit annual rule. Bear corporate cost peaks during restructuring before settling at JPY 50 billion; Base moves from JPY 27 billion to JPY 30 billion; Bull remains a JPY 25-26 billion cost. Investment and asset gains follow bounded transaction/impairment schedules rather than TTM annualization. Interest income, dividends, interest expense, and associate/JV earnings follow stated scenario paths. Tax and NCI are applied mechanically to pretax and post-tax profit. No annual subtotal is solved backward from a desired EPS.

Bear segment Trading-income cadence

Segment, JPY B	2027	2028	2029	2030	2031
Textile	25.033	23.478	22.396	22.063	22.504
Machinery	83.474	76.892	73.235	71.637	72.800
Metals & Minerals	122.100	107.100	93.000	79.600	67.100
Energy & Chemicals	105.864	94.660	83.738	73.086	62.688
Food	122.678	120.424	118.733	119.920	124.073
General Products & Realty	68.000	59.700	51.700	46.700	46.215
ICT & Financial Business	104.200	101.800	99.400	96.900	94.400

Segment, JPY B	2027	2028	2029	2030	2031
The 8th	-2.856	-2.624	-2.362	-2.066	-1.736
Named-segment Trading income	**628.493**	**581.430**	**539.840**	**507.840**	**488.044**

Base segment Trading-income cadence

Segment, JPY B	2027	2028	2029	2030	2031
Textile	30.249	32.354	34.488	37.076	39.322
Machinery	91.193	98.196	106.268	116.352	126.600
Metals & Minerals	135.900	133.800	131.700	129.600	127.400
Energy & Chemicals	120.639	124.178	128.001	132.129	136.585
Food	140.350	150.584	160.914	171.698	182.509
General Products & Realty	75.200	77.100	80.700	84.500	86.405
ICT & Financial Business	115.700	125.600	136.200	147.700	160.000
The 8th	-2.244	-1.646	-0.905	0.000	0.657
Named-segment Trading income	**706.987**	**740.166**	**777.366**	**819.055**	**859.478**

Bull segment Trading-income cadence

Segment, JPY B	2027	2028	2029	2030	2031
Textile	33.006	37.847	42.606	47.398	51.892
Machinery	101.600	115.535	131.364	148.158	165.300
Metals & Minerals	148.400	159.800	172.000	185.300	199.700
Energy & Chemicals	131.844	147.626	164.848	183.662	204.241
Food	151.293	170.502	190.218	211.239	229.043
General Products & Realty	82.200	90.000	100.300	111.500	122.636
ICT & Financial Business	123.600	142.900	164.600	189.000	216.400
The 8th	-1.564	-0.540	0.827	1.903	3.283
Named-segment Trading income	**770.379**	**863.670**	**966.763**	**1,078.160**	**1,192.495**

Food’s annual rows use the post-transfer new-perimeter proxy and never divide the sealed TTM Trading income by that proxy. The 8th annual rows use only continuing post-transfer operations. No FamilyMart management allocation appears in any Trading-income or below-line row. Power is counted only in Energy & Chemicals. Associate/JV earnings remain entirely below Trading income.

Bear statutory cadence

Statutory line, JPY B except rates, shares and EPS	2027	2028	2029	2030	2031
Named-segment Trading income	628.493	581.430	539.840	507.840	488.044
Others, Adjustments & Eliminations	-35.000	-45.000	-55.000	-50.000	-50.000
Operating bridge adjustments	0.000	0.000	0.000	0.000	0.000
Statutory operating income	**593.493**	**536.430**	**484.840**	**457.840**	**438.044**
Gains (losses) on investments	25.000	10.000	0.000	-10.000	-25.000
Gains (losses) on PP&E and intangible assets	-20.000	-35.000	-50.000	-60.000	-60.000
Other-net	10.000	5.000	0.000	-5.000	-10.000
Interest income	50.000	48.000	47.000	46.000	45.000
Dividends received	55.000	53.000	52.000	51.000	50.000
Interest expense	-125.000	-140.000	-155.000	-165.000	-175.000

Statutory line, JPY B except rates, shares and EPS	2027	2028	2029	2030	2031
Equity in earnings of associates and JVs	350.000	340.000	330.000	325.000	320.000
Below-line subtotal	345.000	281.000	224.000	182.000	145.000
Pretax income	**938.493**	**817.430**	**708.840**	**639.840**	**583.044**
Effective tax rate	23.00%	23.50%	24.00%	24.00%	24.00%
Income tax expense	-215.853	-192.096	-170.122	-153.562	-139.931
Profit after tax before NCI	722.640	625.334	538.718	486.278	443.113
NCI rate on post-tax profit	4.25%	4.50%	4.50%	4.50%	4.50%
Net profit attributable to NCI	-30.712	-28.140	-24.242	-21.883	-19.940
Net income attributable to ITOCHU	**691.927**	**597.194**	**514.476**	**464.396**	**423.173**
Quote-basis diluted shares, M	6,911.391	6,859.585	6,810.704	6,764.454	6,720.585
Listed-unit EPS, JPY	**100.114**	**87.060**	**75.539**	**68.652**	**62.967**

Base statutory cadence

Statutory line, JPY B except rates, shares and EPS	2027	2028	2029	2030	2031
Named-segment Trading income	706.987	740.166	777.366	819.055	859.478
Others, Adjustments & Eliminations	-27.000	-28.000	-29.000	-30.000	-30.000
Operating bridge adjustments	0.000	0.000	0.000	0.000	0.000
Statutory operating income	**679.987**	**712.166**	**748.366**	**789.055**	**829.478**
Gains (losses) on investments	60.000	55.000	50.000	50.000	50.000
Gains (losses) on PP&E and intangible assets	-15.000	-15.000	-15.000	-15.000	-15.000
Other-net	15.000	15.000	15.000	15.000	15.000
Interest income	52.000	53.000	54.000	55.000	55.000
Dividends received	60.000	62.000	63.000	64.000	65.000
Interest expense	-120.000	-130.000	-135.000	-140.000	-145.000
Equity in earnings of associates and JVs	390.000	395.000	400.000	405.000	410.000
Below-line subtotal	442.000	435.000	432.000	434.000	435.000
Pretax income	**1,121.987**	**1,147.166**	**1,180.366**	**1,223.055**	**1,264.478**
Effective tax rate	22.00%	22.00%	22.00%	22.00%	22.00%
Income tax expense	-246.837	-252.377	-259.681	-269.072	-278.185
Profit after tax before NCI	875.150	894.789	920.685	953.983	986.293
NCI rate on post-tax profit	4.00%	4.00%	4.00%	4.00%	4.00%
Net profit attributable to NCI	-35.006	-35.792	-36.827	-38.159	-39.452
Net income attributable to ITOCHU	**840.144**	**858.998**	**883.858**	**915.824**	**946.841**
Quote-basis diluted shares, M	6,911.391	6,841.228	6,774.144	6,709.894	6,648.260
Listed-unit EPS, JPY	**121.559**	**125.562**	**130.475**	**136.489**	**142.419**

Bull statutory cadence

Statutory line, JPY B except rates, shares and EPS	2027	2028	2029	2030	2031
Named-segment Trading income	770.379	863.670	966.763	1,078.160	1,192.495

Statutory line, JPY B except rates, shares and EPS	2027	2028	2029	2030	2031
Others, Adjustments & Eliminations	-26.000	-26.000	-25.000	-25.000	-25.000
Operating bridge adjustments	0.000	0.000	0.000	0.000	0.000
Statutory operating income	**744.379**	**837.670**	**941.763**	**1,053.160**	**1,167.495**
Gains (losses) on investments	75.000	90.000	105.000	115.000	125.000
Gains (losses) on PP&E and intangible assets	-5.000	0.000	5.000	10.000	10.000
Other-net	20.000	22.000	23.000	24.000	25.000
Interest income	55.000	58.000	60.000	63.000	65.000
Dividends received	62.000	68.000	72.000	76.000	80.000
Interest expense	-115.000	-120.000	-125.000	-128.000	-130.000
Equity in earnings of associates and JVs	400.000	420.000	440.000	460.000	480.000
Below-line subtotal	492.000	538.000	580.000	620.000	655.000
Pretax income	**1,236.379**	**1,375.670**	**1,521.763**	**1,673.160**	**1,822.495**
Effective tax rate	22.00%	22.00%	22.00%	22.00%	22.00%
Income tax expense	-272.003	-302.647	-334.788	-368.095	-400.949
Profit after tax before NCI	964.376	1,073.023	1,186.975	1,305.065	1,421.546
NCI rate on post-tax profit	4.00%	4.00%	4.00%	4.00%	4.00%
Net profit attributable to NCI	-38.575	-42.921	-47.479	-52.203	-56.862
Net income attributable to ITOCHU	**925.801**	**1,030.102**	**1,139.496**	**1,252.862**	**1,364.684**
Quote-basis diluted shares, M	6,911.391	6,833.659	6,761.547	6,694.329	6,631.413
Listed-unit EPS, JPY	**133.953**	**150.739**	**168.526**	**187.153**	**205.791**

The first-forward-year Base attributable profit of JPY 840.144 billion is 0.57% below the constrained normalized TTM JPY 845.000 billion anchor, while Base EPS rises 0.86% from JPY 120.525578 to JPY 121.559 because the disclosed tender begins reducing shares. Bear and Bull year-one attributable profit are JPY 691.927 billion and JPY 925.801 billion. Those outcomes are the arithmetic result of the operating and statutory schedules, not values selected to match management's JPY 900 billion FY2027 core guidance.

5b. Return-method input bridge

S does not select the final security-return method. The EPS/P-E inputs are complete and reconciled. EV/NOPAT cannot control at this stage because the upstream evidence does not support a five-year terminal capital-structure path separating gross debt, lease liabilities, minority interests, and non-operating assets by scenario. No residual net-debt plug is created.

Return-method input	Bear	Base	Bull	Availability and treatment
Statutory operating income	438.044	829.478	1,167.495	Available; Section 4
Normalized cash-tax-rate proxy	24.00%	22.00%	22.00%	Available as normalized effective-rate assumption
Normalized NOPAT	332.913	646.993	910.646	OI × one minus tax rate
Terminal cash	Unavailable	Unavailable	Unavailable	Current cash exists, but no source-bound terminal scenario path
Terminal gross debt	Unavailable	Unavailable	Unavailable	Current debt definitions differ; no terminal path
Terminal lease liabilities	Unavailable	Unavailable	Unavailable	Not separately forecast-ready at horizon
Terminal preferred equity	Unavailable	Unavailable	Unavailable	No terminal claim schedule supplied
Terminal minority-interest balance-sheet claim	Unavailable	Unavailable	Unavailable	NCI income charge is modeled; terminal equity claim is not

Return-method input	Bear	Base	Bull	Availability and treatment
Other terminal senior claims	Unavailable	Unavailable	Unavailable	No complete five-year schedule
Separately valued non-operating assets	Unavailable	Unavailable	Unavailable	No scenario valuation ledger
Diluted listed-equivalent shares, million	6,720.585	6,648.260	6,631.413	Available; Section 6
Attributable net income	423.173	946.841	1,364.684	Available and reconciled
Listed-unit EPS, JPY	62.967	142.419	205.791	Available and reconciled
P/E input bridge	Complete	Complete	Complete	Ready for VP/CS consideration
EV/NOPAT enterprise-to-equity bridge	Unavailable	Unavailable	Unavailable	Cannot control without terminal capital structure

At 30 June 2026, official cash was JPY 673.419 billion and borrowings plus lease liabilities were JPY 5,244.013 billion, while ITOCHU's own interest-bearing-debt definition was lower. Those current anchors do not solve the terminal denominator problem. The absence of a terminal bridge is therefore recorded as unavailable, not silently filled with current net debt.

5c. P&C insurer lane

`NOT TRIGGERED — issuer is not a P&C insurer or reinsurer.` ITOCHU contains financial and insurance-related activities, but it is not classified as a P&C insurer or reinsurer for this contract. No `insurer_return_bridge.json` is created.

6. Annual share-count path

The path starts from the packet's 6,990.376434 million quote-basis diluted financial shares. Year 1 includes the disclosed 82.735750 million-share tender settled on 28 September 2026 for JPY 149.999915 billion at JPY 1,813 per share. The remaining authorization is not assumed executed without evidence. Years 2-5 use scenario buyback rates consistent with the FY2022-FY2026 JPY 60-170 billion history and free-cash-flow capacity. A conservative 3.750 million annual issuance allowance equals the disclosed 1.5 million restricted-stock ceiling plus 2.25 million BIP-point ceiling; it is only about 0.05% of starting shares. Statutory diluted EPS is otherwise not applicable, so no additional dilution is invented.

Case / year ending 30 June	Starting shares, M	Buyback, JPY B	Average price, JPY	Shares retired, M	Compensation issuance, M	Ending shares, M
Bear 2027	6,990.376	150.000	1,813	82.736	3.750	6,911.391
Bear 2028	6,911.391	100.000	1,800	55.556	3.750	6,859.585
Bear 2029	6,859.585	100.000	1,900	52.632	3.750	6,810.704
Bear 2030	6,810.704	100.000	2,000	50.000	3.750	6,764.454
Bear 2031	6,764.454	100.000	2,100	47.619	3.750	6,720.585
Base 2027	6,990.376	150.000	1,813	82.736	3.750	6,911.391
Base 2028	6,911.391	170.000	2,300	73.913	3.750	6,841.228
Base 2029	6,841.228	170.000	2,400	70.833	3.750	6,774.144
Base 2030	6,774.144	170.000	2,500	68.000	3.750	6,709.894
Base 2031	6,709.894	170.000	2,600	65.385	3.750	6,648.260
Bull 2027	6,990.376	150.000	1,813	82.736	3.750	6,911.391
Bull 2028	6,911.391	220.000	2,700	81.481	3.750	6,833.659
Bull 2029	6,833.659	220.000	2,900	75.862	3.750	6,761.547
Bull 2030	6,761.547	220.000	3,100	70.968	3.750	6,694.329
Bull 2031	6,694.329	220.000	3,300	66.667	3.750	6,631.413

Every case satisfies starting shares plus cumulative issuance less cumulative retirement equals terminal shares. Buyback cash is not deducted again from net income. It matters to the denominator and, in later return work, to cash and equity; the unsupported terminal balance-sheet bridge is why EV/NOPAT remains unavailable here.

6a. Annual cash-dividend and distribution schedule

The official TTM cash-flow bridge reports JPY 294.692 billion of cash dividends paid and 7,010.959923 million weighted-average listed ordinary shares. The source-bound current run-rate is therefore **JPY 42.033046 per share**: JPY 294.692 billion multiplied by 1,000 and divided by 7,010.959923 million shares. This is a historical cash-payment anchor, not a company forecast. The management appendix separately documents the official progressive-dividend commitment, a long-run total payout ratio of at least 40%, and significant competition for cash from ACG, Dentsu Soken, HCM, privatizations, capex, and repurchases.

The schedule below is governed per share. For cash-capacity testing only, each annual dividend pool equals the per-share dividend multiplied by the average eligible-share proxy, defined as the simple average of that year's starting and ending quote-basis shares. Actual record-date shares may differ, but this convention ties every pool mechanically to the Section 6 scenario path without changing EPS or inventing a second denominator. Cash dividends are shareholder distributions and do not reduce statutory net income. Buybacks are excluded from the distributions below because they already affect shares and terminal EPS; adding them again to terminal wealth would double count them.

Bear assumes the progressive policy is suspended under earnings and acquisition-funding stress: JPY 36 in 2027, JPY 32 in 2028, then JPY 30 frozen through 2031. Base begins essentially flat to the JPY 42.033 anchor and increases JPY 1 per year. Bull begins at JPY 43 and advances by JPY 3 annually as earnings rise and payout capacity expands. These paths remain conservative relative to the policy language because they do not assume the FY2027 initial total-payout indication persists and do not count repurchases as cash distributions in the return bridge.

Scenario / year	Gross dividend per share, JPY	Average eligible shares, M	Derived dividend pool, JPY B	Pool / modeled attributable profit
Bear 2027	36.000	6,950.884	250.232	36.16%
Bear 2028	32.000	6,885.488	220.336	36.90%
Bear 2029	30.000	6,835.144	205.054	39.86%
Bear 2030	30.000	6,787.579	203.627	43.85%
Bear 2031	30.000	6,742.519	202.276	47.80%
Base 2027	42.000	6,950.884	291.937	34.75%
Base 2028	43.000	6,876.309	295.681	34.42%
Base 2029	44.000	6,807.686	299.538	33.89%
Base 2030	45.000	6,742.019	303.391	33.13%
Base 2031	46.000	6,679.077	307.238	32.45%
Bull 2027	43.000	6,950.884	298.888	32.28%
Bull 2028	46.000	6,872.525	316.136	30.69%
Bull 2029	49.000	6,797.603	333.083	29.23%
Bull 2030	52.000	6,727.938	349.853	27.92%
Bull 2031	55.000	6,662.871	366.458	26.85%

Distribution summary	Bear	Base	Bull	Probability-weighted diagnostic
Cumulative gross cash dividends per share, 2027-2031	158.000	220.000	245.000	209.500
Cumulative derived dividend pool, JPY B	1,081.525	1,497.785	1,664.417	1,427.046
Starting TTM cash-dividend run-rate per share, JPY	42.033046	42.033046	42.033046	42.033046
Policy interpretation	Two-step haircut, then freeze	Flat-to-modestly progressive	Progressive with earnings	Wealth-weighting input only

The probability-weighted per-share figure is 25% × JPY 158 plus 55% × JPY 220 plus 20% × JPY 245, equal to JPY 209.500. CS and CSA should add each scenario's cumulative distribution to that scenario's terminal P/E share value before calculating terminal wealth and the exact-horizon gross return. They should then probability-weight terminal wealth, not scenario IRRs. Investor withholding, costs, and FX belong in the downstream net-SGD layer and are not deducted from this gross JPY schedule.

7. P/E 15 test

Required EPS at the immutable JPY 2,226 quote is exactly JPY 148.400 per listed unit. The base case controls the binary gate.

Case	2031 EPS, JPY per listed unit	EPS × 15	Quote-packet price	Cushion	Pass?
Bear	62.967	944.505	2,226.000	-57.57%	FAIL
Base	142.419	2,136.285	2,226.000	-4.03%	FAIL
Bull	205.791	3,086.865	2,226.000	38.67%	PASS

The base case fails because JPY 142.419 is below the JPY 148.400 required EPS. The Bull case does not override that result. The binary P/E-15 gate is therefore **FAIL with a -4.03% base-case cushion**. This is an entry-price discipline test only; it does not select the terminal return method or exit multiple for VP/CS.

8. Reflexivity check against reported financials

The historical reconstruction uses official TTM revenue, not the forecast proxies used for Food, The 8th, and other perimeter-adjusted segment forecasts.

Historical tie-out	Named segments	Others / corporate	Consolidated result	Reported result	Residual	Status
FY2026 Trading income	727.656	-25.768	701.888	701.888	0.000	PASS
TTM Trading income	762.601	-25.993	736.608	736.608	0.000	PASS
TTM revenue	15,015.843	124.172	15,140.015	15,140.015	0.000	PASS

The TTM profit reconstruction passes the bridge packet’s JPY 0.597 billion tolerance and the broader 2% reflexivity threshold. FY2026 also has zero residual. No forecast proxy is substituted into this historical check: Food’s Q1-times-four new-perimeter proxy and The 8th’s post-transfer proxy remain forecast-only inputs.

The horizon segment sum also reconciles. Named-segment revenue is 99.18%, 99.29%, and 99.36% of combined Bear, Base, and Bull revenue, respectively; the small remainder is the explicit JPY 124.172 billion adjustment. Named-segment Trading income plus the exact projected corporate line equals statutory operating income in each scenario with zero residual.

9. Latest-interim bridge reconciliation

The cumulative bridge is triggered because the official TTM uses an annual period less a comparable prior-year quarter plus the current-year quarter. Both Q1 windows cover 1 April through 30 June, and no standalone quarter overlaps either cumulative window.

Line	FY2026	Less Q1 FY2026	Plus Q1 FY2027	TTM to 30 June 2026	Status
Revenue	14,823.087	-3,558.933	3,875.861	15,140.015	PASS
Trading income	701.888	-170.735	205.455	736.608	PASS
Pretax income	1,199.466	-374.814	369.999	1,194.651	PASS
Income tax expense	-262.008	82.531	-66.349	-245.826	PASS
Net profit attributable to ITOCHU	900.283	-283.939	293.763	910.107	PASS

The signs above follow the arithmetic operation, not a reclassification. Balance-sheet items are point-in-time at 30 June 2026 and are not summed. The TTM weighted-average share calculation is separately reproduced upstream as 7,010.959923 million shares; the quote-basis share anchor for the forward path is the packet’s 6,990.376434 million Q1 diluted-share proxy. These are different purposes and are not mixed.

10. Sensitivity — variables that drive the verdict

The sensitivities hold all non-tested inputs at Base. EPS changes include the 22% tax rate, 4% NCI allocation, and Base terminal shares. They are diagnostics, not alternate scenarios.

Sensitivity from Base	Down case	Base	Up case	EPS effect versus Base	Interpretation
Food revenue CAGR ±200 bps	0.8%; revenue 5,908.3	2.8%; revenue 6,518.2	4.8%; revenue 7,177.4	-1.923 / +2.079	Scale matters, but low Trading-income margin limits EPS torque

Sensitivity from Base	Down case	Base	Up case	EPS effect versus Base	Interpretation
Machinery terminal Trading-income margin ±200 bps	4.67%	6.67%	8.67%	-4.277 / +4.277	Service, utilization, credit, and project mix are material
Terminal share count ±5%	6,980.7M	6,648.3M	6,315.8M	-6.782 / +7.496	Buyback price and execution can decide the P/E gate
Effective tax rate ±300 bps	25.0%	22.0%	19.0%	-5.478 / +5.478	Base does not assume a structural tax benefit

Share count is the largest tested mechanical swing, followed by the normalized tax rate and Machinery margin. This is a warning against treating buybacks as guaranteed EPS growth: paying a higher price retires fewer shares, while acquisitions and funding needs can crowd out repurchases. On operations, Machinery margin matters more than Food top-line growth because Food's low margin mutes revenue sensitivity. Metals & Minerals and Energy & Chemicals remain important univariate risks outside this compact table; their scenario spread is already embedded in the Bear/Base/Bull segment results.

11. Combined earnings summary

Scenario probabilities are 25% Bear, 55% Base, and 20% Bull. Base receives the majority weight because the TTM statutory bridge and Q1 evidence show broad operating resilience but not a five-year acceleration. Bear receives more weight than Bull because commodity, construction-material, acquisition, financing, and disclosure risks can be correlated. Bull remains possible but requires multiple independent segments to deliver simultaneously.

Case	Revenue, JPY B	OI, JPY B	OI margin	NI, JPY B	EPS, JPY per listed unit	Probability	EPS × 15	Versus JPY 2,226	Cumulative dividends/share
Bear	15,102.934	438.044	2.90%	423.173	62.967	25%	944.505	-57.57%	158.000
Base	17,493.511	829.478	4.74%	946.841	142.419	55%	2,136.285	-4.03%	220.000
Bull	19,376.493	1,167.495	6.03%	1,364.684	205.791	20%	3,086.865	38.67%	245.000
Probability-weighted	17,272.463	799.223	4.63%	899.493	135.231	100%	2,028.465	-8.87%	209.500

Probability-weighted EPS is the sum of full-precision scenario EPS multiplied by 25%, 55%, and 20%. The displayed scenario EPS values produce JPY 135.230 because each input is first rounded to three decimals; the full-precision calculation renders to JPY 135.231. Probability-weighted cumulative dividends per share are JPY 209.500, but downstream return work must add each scenario's own JPY 158, JPY 220, or JPY 245 to its terminal share value before weighting terminal wealth. Neither weighted EPS nor weighted distributions are a fourth operating case. The Base EPS-times-15 value remains below the current price, so the P/E-15 gate is unchanged.

The key positive is that Base operating income rises to JPY 829.478 billion even after Metals & Minerals normalizes and The 8th's transferred historical earnings disappear from its operating forecast. Food, Machinery, ICT, and Energy & Chemicals offset those drags. The key negative is that the below-line associate and gain complex remains indispensable: Base attributable net income of JPY 946.841 billion depends on JPY 410 billion of associate/JV earnings, while the evidence does not support importing announced acquisitions into Trading income. This is still a conglomerate with substantial accounting-perimeter and capital-allocation risk, not a pure operating-margin compounder.

Tie-out checks — 11 of 11 passed

- **Reported-financial and statutory-bridge tie-out — PASS.** FY2026: JPY 727.656 billion segment Trading income less JPY 25.768 billion corporate equals JPY 701.888 billion statutory operating income. TTM: JPY 762.601 billion less JPY 25.993 billion equals JPY 736.608 billion. TTM revenue: JPY 15,015.843 billion plus JPY 124.172 billion equals JPY 15,140.015 billion. All residuals are zero and within sealed tolerance. Sources: `statutory_bridge.json`, `quant_foundation.md` P4, and `data_package.md` §2.

- **NI / shares / listed unit / FX equals EPS — PASS.** The identity was rerun for all 15 annual scenario observations. Illustratively, Base 2027 is 840.144 × 1,000 / 6,911.391 = JPY 121.559 and Base 2031 is 946.841 × 1,000 / 6,648.260 = JPY 142.419. Terminal Bear and Bull reproduce JPY 62.967 and JPY 205.791. Multiplication by the 1.000000 financial-shares-per-listed-unit factor and 1.000000 JPY/JPY FX factor leaves every EPS unchanged.

- **Segment sum tie-out at the horizon — PASS.** Named segments sum to JPY 14,978.762 billion, JPY 17,369.339 billion, and JPY 19,252.321 billion in Bear/Base/Bull. Adding the explicitly named JPY 124.172 billion revenue adjustment produces JPY 15,102.934 billion, JPY 17,493.511 billion, and JPY 19,376.493 billion. Named segments are 99.18%, 99.29%, and 99.36% of the consolidated totals, within 1% with the gap fully named.

- **Product-to-segment roll-up — PASS.** Textile, Food, and The 8th are single disclosed/modelled revenue lines and reconcile 100%. Machinery's displayed bucket sums differ from segment totals by at most JPY 0.1 billion. Metals & Minerals, Energy & Chemicals, General Products & Realty, and ICT report displayed-rounding residuals below 0.1%. Each reviewed appendix explicitly confirms no plug and ties its product or analytical buckets to the segment total within the 1% requirement.

- **Weighted-margin check — PASS.** Machinery's reconstructed margins are 72.8 / 1,564.8 = 4.65%, 126.6 / 1,898.9 = 6.67%, and 165.3 / 2,126.6 = 7.77%. Metals & Minerals reconstructs to 6.02%, 9.11%, and 12.25%; Energy & Chemicals to 2.04%, 3.91%, and 5.25%; General Products & Realty to 3.20%, 4.98%, and 6.15%; ICT to 8.05%, 10.91%, and 12.74%. All are revenue-weighted from same-basis Trading-income rows. Single-line segments are not triggered for a multi-product weighted-average test.

- **Share count, security-unit, and distribution path — PASS.** Starting 6,990.376434 million shares times the sealed split factor of 1 equals quote-basis diluted shares. Dividing by the 1 × 1 depositary and class factors gives the same listed-unit equivalents. Each five-year scenario satisfies start plus 18.750 million cumulative compensation issuance less disclosed/modeled share retirement equals terminal shares. For every year, average eligible shares equal beginning plus ending shares divided by two, and dividend pool equals that average multiplied by the governed per-share dividend. Cumulative gross distributions are exactly JPY 158, JPY 220, and JPY 245 per share in Bear/Base/Bull. Buybacks are excluded from those sums and the path is never run in ADR units.

- **Growth plausibility — PASS.** Textile, Food, General Products & Realty, and ICT Base growth remain below 1.2 times their disclosed recent segment growth. Machinery, Metals & Minerals, and Energy & Chemicals exceed a simple historical cap in selected modeled sleeves, but their reviewed appendices explicitly justify the result through service/infrastructure mix, coal and aluminum normalization, and power/chemicals mix rather than unsupported extrapolation. The 8th has no comparable post-transfer history; its 10% Base rate is explicitly a small-base post-transfer analyst model. No exception is silent.

- **Historical and forward arithmetic — PASS.** Every reviewed revenue cadence compounds exactly five periods from 30 June 2026 to 30 June 2031. Examples include Textile Base JPY 679.140 billion to JPY 836.634 billion, Food Base JPY 5,677.580 billion to JPY 6,518.163 billion, and The 8th Base JPY 13.600 billion to JPY 21.903 billion. Annual Trading-income rows reproduce the reviewed appendices, except Machinery where the disclosed driver schedule is applied to each reviewed annual revenue and the reviewed terminal Trading-income amount is retained exactly. Product-row residuals remain below 0.1%; no row compounds six years or solves backward from EPS.

- **Recency anchor — PASS.** Base first-forward-year revenue is JPY 15,511.786 billion versus TTM JPY 15,140.015 billion, a 2.46% increase. Base first-forward-year operating income is JPY 679.987 billion versus reported TTM JPY 736.608 billion, a 7.69% decline. Base first-forward-year attributable profit is JPY 840.144 billion versus constrained normalized TTM JPY 845.000 billion, a 0.57% decline; EPS rises 0.86% to JPY 121.559 because shares fall. Every comparison is inside 10% and follows the published annual schedules.

- **Period and horizon integrity — PASS.** The TTM uses FY2026 less the comparable April-June 2025 quarter plus April-June 2026. Revenue, Trading income, pretax income, tax, and attributable profit all tie. The forecast starts 30 June 2026 and ends 30 June 2031, exactly 5.0 calendar years later. Food and The 8th proxy labels are preserved; neither is falsely called reported TTM revenue.

- **Valuation, unit bridge, packet hashes, normalization, distribution, and probability arithmetic — PASS.** Quote and statutory packet hashes match the mandated values. XJPX:8001, ordinary-share price JPY 2,226, split factor 1, unit factors 1, and FX 1 all reproduce. Reported TTM EPS is JPY 129.812039; normalized statutory-equivalent EPS is JPY

120.525578 and current normalized P/E is 18.469109x, explicitly constrained rather than fully cycle-neutral. Annual and terminal EPS reproduce from NI and shares. Per-share dividends sum to JPY 158, JPY 220, and JPY 245; probability-weighted cumulative distributions equal 25% × 158 + 55% × 220 + 20% × 245 = JPY 209.500. Probabilities sum to 100%. The Base case still controls the P/E-15 result and produces a -4.03% cushion; distributions do not alter EPS or that gate.

Synthesis conclusion

The repaired model clears its arithmetic and statutory gates but fails the P/E-15 entry-price test in Base. Current normalized statutory-equivalent EPS is JPY 120.525578 and the constrained normalized current P/E is 18.469109x. Base first-forward-year attributable profit is JPY 840.144 billion and EPS is JPY 121.559. Base 2031 revenue is JPY 17,493.511 billion, statutory operating income is JPY 829.478 billion, attributable net income is JPY 946.841 billion, and EPS is JPY 142.419 per listed ordinary share. Required EPS at the current JPY 2,226 price is JPY 148.400. The cumulative gross dividend inputs for downstream total-return work are JPY 158 Bear, JPY 220 Base, and JPY 245 Bull. They resolve S's zero-distribution omission without changing terminal EPS, the locked P/E method, exit multiples, probabilities, or the P/E-15 gate.

The earnings mix is more important than the headline growth. Food, Machinery, and ICT provide credible non-resource support, yet Food's starting perimeter is a proxy and The 8th's historical FamilyMart earnings cannot be carried forward. Metals & Minerals normalizes in Base, Energy & Chemicals needs power and specialty mix to offset mature fossil exposures, and associate/JV earnings remain a major part of attributable profit. Management and moat both entered synthesis as YELLOW, appropriately reflecting strong long-term execution alongside succession concentration, disclosure opacity, and the need to prove returns on a large acquisition pipeline.

```
SYNTHESIS CLEARED — 11/11 TIE-OUTS PASSED
```

```
P/E 15 gate: FAIL — cushion -4.03%
```

Appendix CS - Compounder Score

ITOCHU — Compounder Score

Ticker: 8001.T **Exchange / security:** XJPX:8001, Tokyo Stock Exchange ordinary common share **Analysis date:** 28 September 2026 **Reporting and quote currency:** JPY **Current price:** JPY 2,226 at the 28 September 2026 completed close **TTM anchor / horizon:** 30 June 2026 / 30 June 2031, exactly 5.000 years **Authority:** false; trade execution authorized: false; portfolio mutation authorized: false

1. Executive Verdict

Compounder Score: 46/100. Business Quality Score: 42/80. 20% Return Underwriting/Stretch Score: 4/20. Score-implied classification: Reject. This is a diagnostic conclusion, not an instruction to sell or trade. ITOCHU has a strong record of per-share value creation, good cash conversion, disciplined repurchases, and credible operating platforms in CTC, FamilyMart, food logistics, machinery service, and selected resource assets. The evidence does not support the dream-compounder threshold because acquisition-inclusive ROIIC is not calculated, the disclosed long-run non-resource investment return is only about 10%, the consolidated moat and 2046 tests are YELLOW, and the current price capitalizes much more than the locked terminal valuation bridge delivers.

The valuation result is decisive. The cleared preflight fixes P/E as the primary method, normalized current EPS at JPY 120.525578416, normalized current P/E at 18.469108626x, and exit P/Es of 8.0x / 11.5x / 14.0x. Using the repaired synthesis terminal EPS of JPY 62.967 / 142.419 / 205.791 and governed cumulative gross cash dividends of JPY 158 / 220 / 245 per share produces gross JPY IRRs of -21.54% / -3.55% / 7.03%. The probability-weighted return is -4.03%, calculated as the CAGR of probability-weighted terminal shareholder wealth, not the average of scenario IRRs. Even the Bull case does not approach 20%.

The synthesis repair now provides a governed annual per-share dividend schedule anchored to TTM cash dividends of JPY 42.033046 per share. It sums to JPY 158 / 220 / 245 in Bear/Base/Bull. These distributions are added once to terminal P/E share value; buybacks remain excluded because they are already reflected in terminal diluted shares and EPS. The rebound preflight binds the repaired synthesis SHA while preserving the locked method, normalized anchor, share paths, terminal EPS, exit multiples and probabilities; strict evidence-file validation passes.

Confidence is **Medium**. The statutory income, share path, P/E method, denominator bridge, and exit multiples are validated and hash-bound. Confidence is capped by the absence of acquisition-inclusive ROIIC, segment capital bases, long-run FCF histories, a scenario dividend schedule, and investor-specific tax/account facts.

2. Data Source Map

Evidence need	Controlling source	Period / retrieval	Use and limitation
Price, listing, share-unit bridge	`C:\Users\Admin\OneDrive\GPT\ER 2.0\ITOCHU\quote_packet.json`	Close 2026-09-28	JPY 2,226; XJPX:8001; one financial share per listed unit
Preflight valuation foundations	`C:\Users\Admin\OneDrive\GPT\ER 2.0\ITOCHU\valuation_preflight.json`	2026-09-28	Primary method, normalized anchor, claims, shares, exit multiples
Historical income, cash flow, balance sheet	`quant_foundation.md` and `data_package.md`	FY2022-FY2026 and TTM 2026-06-30	Official-source-controlled history; five years, not ten
Statutory reconciliation	`statutory_bridge.json`	FY2026 and TTM	Zero-residual segment-to-statutory bridge
Terminal scenarios	`appendix_synthesis.md`	2027-2031	Repaired statutory cadence, EPS and shares
Segment economics	Eight reviewed `appendix_B_*.md` files	FY2022-FY2026 / 2031	Runway and unit-economics evidence; segment invested capital generally absent
Management / capital allocation	`appendix_management.md`	Through 2026-09-28	Management gate YELLOW
Moat / 2046 durability	`appendix_moat.md`	Through 2026-09-28	Moat gate YELLOW; 2046 test YELLOW

Evidence need	Controlling source	Period / retrieval	Use and limitation
Current JPY/SGD and tax evidence	`raw/pulse-cio-20260928T200149+0800/cs_fx_evidence.md`	2026-09-28	Entry FX evidence, scenario FX stresses, costs, 15.315% dividend withholding
Market opportunity / competitors	Official issuer materials and peer data summarized in reviewed appendices	Current	Context only; no broad TAM treated as audited demand

The preflight file SHA-256 is `2ca4f9ade38c726c249fe0e14feeda046446effac70e8a56ad649e675a9d7912`. The validator returned `VALUATION_PREFLIGHT_VALID` with evidence-file checking, status is `CLEARED`, all five foundations passed, and the blocker list is empty. Every locked input below reproduces that artifact exactly.

3. Key Financial and Quality Metrics

Metric	1-year / TTM	3-year	5-year	10-year	Scoring treatment
Revenue growth	FY2026 +0.7%	Not separately audited	4.79% CAGR	Insufficient evidence	Positive but mature
Attributable net-income growth	FY2026 +2.3%	Not separately audited	2.35% CAGR	Insufficient evidence	Event-heavy and associate-dependent
Free-cash-flow growth	FY2026 +8.3%	Not separately audited	7.86% CAGR	Insufficient evidence	Stronger than earnings
Calculated ROIC	11.16% FY2026	12.02% median	12.02% median	Insufficient evidence	Moderate, not >20%
ROIIC	Insufficient evidence	Insufficient evidence	Insufficient evidence	Insufficient evidence	Zero points; no invented capital base
Acquisition-inclusive ROIIC	Insufficient evidence	Insufficient evidence	Insufficient evidence	Insufficient evidence	Zero points; material acquisition gap
FCF / attributable net income	80.52% TTM	Not separately audited	91.28% average	Insufficient evidence	Healthy, with annual variability
CFO / attributable net income	109.10% TTM	Not separately audited	Not calculated	Insufficient evidence	Supports earnings quality
Share-count growth	-0.32% TTM proxy	Not separately audited	-1.32% CAGR	Insufficient evidence	Net repurchases create per-share value
Trading-income margin	4.87% TTM	4.74% median	4.74% median	Insufficient evidence	Stable group result hides segment erosion
Net debt / FY2026 EBITDA	2.59x indicative	—	—	—	Period/perimeter mismatch; not a primary KPI
TTM FCF yield	4.71%	—	—	—	Based on JPY 15.560tn market cap
TTM dividend yield	1.89%	—	—	—	Historical only; excluded from forward diagnostic
SBC / revenue and SBC / FCF	Not separately disclosed	—	—	—	Vendor zero not treated as economic zero

Market capitalization is JPY 15.5595 trillion from the live provider quote. An indicative current enterprise value is JPY 20.1301 trillion, calculated as market capitalization plus JPY 5.2440 trillion gross debt including leases less JPY 0.6734 trillion cash. It is contextual only: EV/NOPAT was rejected because no supportable scenario terminal capital-structure bridge exists.

4. Rubric Scorecard

Category	Score	Maximum	Evidence-led conclusion
1. Incremental Returns on Capital	8	25	ROIC is 11%-13%; ROIIC and acquisition-inclusive ROIIC are not supportable
2. Reinvestment Runway	11	20	Multiple avenues exist, but scale reinvestment depends on unproven acquisitions
3. Durability of Moat	8	15	Real pockets of advantage; blended moat and 2046 gate are YELLOW
4. Accounting and Financial Quality	8	10	Cash supports earnings; one-offs and associates complicate quality
5. Capital Allocation Discipline	7	10	Strong record; succession and deal-return evidence cap points
Business Quality Score	**42/80**	**80**	Good company, not proven high-ROIIC compounder

Category	Score	Maximum	Evidence-led conclusion
6. Price and 20% Return Underwriting	4	20	Governed dividends help, but all locked scenarios miss 20% and Base/PW remain negative
Compounder Score	**46/100**	**100**	**Reject under this diagnostic rubric**

Category 1 receives 2/5 for normalized ROIC, 0/8 for ROIIC, 1/3 for ROIIC trend, 2/3 for unit economics, 2/3 for cash conversion, and 1/3 for accounting-artifact protection. The score is capped because associate/JV income, disposal gains, acquisitions, and segment capital requirements prevent a clean marginal-capital calculation. Management's disclosed JPY 2.28 trillion of non-resource investment producing about JPY 220 billion of FY2026 profit contribution implies roughly 10% ROI, useful but far below the >35% ROIIC rubric threshold and not a complete acquisition-inclusive return series.

Category 2 receives 4/5 for opportunity breadth, 2/5 for proven reinvestment at scale, 2/4 for organic growth, 1/3 for repeatability, 1/2 for structure, and 1/1 for avoiding an assumed ROIC collapse. Food/FamilyMart, CTC, machinery service, private label, power, specialty chemicals and logistics offer runway. The score is not higher because FY2027 is a step-change investment year, ACG and Dentsu Soken have not proved cash returns, and mature trading pools dilute platform economics.

Category 3 receives 3/4 for identifiable advantages, 1/3 for pricing power, 2/3 for competitive evidence, 1/2 for stickiness, 1/2 for stress resilience, and 0/1 for disruption risk. CTC integration, FamilyMart distribution, physical logistics, licenses, mine/infrastructure access and relationship capital are real. They coexist with benchmark commodity exposure, pass-through trade, AI pressure on BPO/integration labor, China/CITIC risk, and weak-to-moderate blended pricing power.

Category 4 receives 8/10. Five-year FCF averaged 91.28% of attributable profit, TTM CFO exceeded net income, share dilution is small and overwhelmed by repurchases, liquidity is adequate, and no material restatement or internal-control failure was identified. Deductions reflect event-heavy investment gains, imperfect product/segment return disclosure, and the difficulty of separating recurring cash returns from portfolio actions.

Category 5 receives 7/10. ITOCHU has a strong historical allocator record, formal investee reviews and exit rules, a progressive dividend, and meaningful repurchases. The score is capped by compensation centered on net profit and share price rather than explicit multi-year ROIC/FCF, unresolved Okafuji succession, and the absence of realized cash returns on the current acquisition cohort.

Category 6 receives 0/6 for Base IRR, 2/4 for independently justified exit multiples that are below normalized current P/E but still cannot clear the hurdle, 0/3 for Bear protection, 0/3 for a beatable reverse hurdle, 0/2 for entry-price slack, and 2/2 for cash returns because the governed dividend path adds meaningful distributions while buybacks help the denominator. Total: 4/20.

5. ROIIC and Reinvestment Analysis

Standard industrial ROIIC is only partially meaningful for a *sogo shosha*. Consolidated earnings include controlled subsidiaries, equity-method associates, commodity assets, financing activities and portfolio gains; consolidated revenue can change with principal-versus-agent accounting. A defensible ROIIC calculation needs opening and closing invested capital by comparable perimeter, acquisition consideration, disposal proceeds, normalized NOPAT, working capital, leases, and capitalized intangibles. Those elements are not available as a complete five-year ledger.

The evidence therefore does not support a numerical three- or five-year ROIIC. It also does not support acquisition-inclusive ROIIC, which is particularly important now. The JPY 1.5 trillion investment step-up, ACG aircraft-leasing stake, Dentsu Soken proposal, HCM position, privatizations and associate structures are material. Awarding generous points before cash returns, impairments, PPA effects, and funding costs are observable would violate the rubric.

The useful substitutes are narrower. Calculated ROIC stayed between 11.16% and 12.71% over FY2022-FY2026. Management says JPY 2.28 trillion invested in non-resource businesses over FY2016-FY2024 contributed JPY 220 billion of FY2026 profit, around 10% ROI versus an 8% reference cost of capital. FCF rose 7.86% annually while net income rose 2.35%, and average shares fell 1.32% annually. These are positive. They show value creation above a hurdle, not the >20%-35% incremental returns demanded of an elite compounder.

6. Runway Analysis

The runway is broad but uneven. CTC has enterprise relationships, backlog and managed-service potential; FamilyMart links retail traffic, food logistics, first-party data and media; machinery benefits from installed-base service and financing; food and

specialty chemicals can deepen private-label and distribution economics; and transition infrastructure can replace some legacy fossil exposure. The Bull synthesis demonstrates operating leverage if these engines compound concurrently.

The Base synthesis is more sober: revenue grows only 2.93% annually from the TTM anchor to JPY 17.494 trillion and operating margin returns to 4.74%. Terminal EPS reaches JPY 142.419 mainly through modest profit growth and share retirement. The Bear case shows the vulnerability of the same breadth: operating margin falls to 2.90%, associate/JV earnings fall, funding cost rises, and terminal EPS declines to JPY 62.967. This is a portfolio of runways, not one repeated high-return unit rollout.

7. Moat Analysis

The moat can be explained in one paragraph: ITOCHU combines trusted procurement and partner access, Japanese consumer and logistics density, mission-critical multi-vendor IT integration, qualified physical supply chains, selected rights and concessions, and disciplined portfolio recycling. These advantages reduce switching risk in CTC, machinery service, food logistics and some infrastructure while providing access to deals and customers across Asia. They do not create universal pricing power. Benchmark commodities, wholesale, basic sourcing, auctions and BPO remain contestable, and much of the value belongs to specific investees or physical assets rather than the parent brand.

The Moat gate and 2046 test are both YELLOW. The evidence supports a plausible future ITOCHU, but only if FamilyMart traffic and franchise economics remain healthy, CTC moves up the AI value chain, resource assets are replaced economically, CITIC/China capital remains recoverable, and the group continues to exit weak assets. The roughly one-third erosion case in the moat appendix is too material for a high durability score.

8. Accounting and Capital Allocation Analysis

Accounting quality is acceptable, but normalized earnings require work. Reported TTM EPS is JPY 129.812038574. The preflight removes JPY 60.107 billion of actual-period extraordinary gains/losses and a JPY 5.000 billion temporary chemical-price uplift, yielding normalized statutory-equivalent EPS of JPY 120.525578416. That denominator is still explicitly not fully commodity-cycle- or FX-neutral. Current normalized P/E is therefore a constrained reference, not a terminal cap.

Cash quality is a strength. FY2022-FY2026 FCF rose from JPY 644.021 billion to JPY 871.754 billion, and TTM FCF was JPY 732.829 billion. Repurchases reduced shares, and the repaired synthesis explicitly carries the September 2026 tender, future repurchases and compensation issuance into each scenario's terminal diluted shares. Stock-based compensation is not separately disclosed in cash flow; vendor zero is not treated as an economic zero.

Capital allocation earns respect but not a clean bill of health. Okafuji's record is strong and ITOCHU has acted on weak assets, but the combined chairman/CEO structure, missing transition timetable, accounting-profit-heavy incentives, and large post-anchor deal cohort justify the Management YELLOW gate. The main monitoring evidence is cash return on the new acquisition cohort, not announced synergy or reported profit alone.

9. 20% Return Underwriting

Primary valuation method: P/E. The method is frozen across Bear, Base, Bull, probability weighting, reverse-return, max-buy-price and net-SGD. EV/NOPAT is rejected because terminal cash, debt, leases, NCI and non-operating assets are not available by scenario. P/B-ROE is rejected because ITOCHU is not a balance-sheet-led financial issuer and no zero-residual parent-common-equity roll-forward exists. No net cash/debt adjustment is made after EPS × P/E.

Item	Bear	Base	Bull	Probability-weighted
Probability	25%	55%	20%	100%
Terminal diluted shares, million	6,720.585	6,648.260	6,631.413	Scenario-specific
Terminal statutory diluted EPS, JPY	62.967	142.419	205.791	135.231 operating diagnostic
Exit P/E	8.0x	11.5x	14.0x	Not blended
Terminal equity value/share, JPY	503.736	1,637.8185	2,881.074	Not separately weighted
Cumulative gross distributions/share, JPY	158.000	220.000	245.000	209.500
Terminal shareholder wealth/share, JPY	661.736	1,857.8185	3,126.074	1,812.448975

Item	Bear	Base	Bull	Probability-weighted
Gross JPY IRR	-21.54%	-3.55%	7.03%	-4.03%
Net cash/debt after P/E value	N/A / no adjustment	N/A / no adjustment	N/A / no adjustment	N/A

Probability-weighted gross IRR equals `(JPY1,812.448975 / JPY2,226)^(1/5) - 1 = -4.027209%`. Expected wealth is `25% × JPY661.736 + 55% × JPY1,857.8185 + 20% × JPY3,126.074`. It is not an arithmetic average of scenario IRRs.

Exit-multiple integrity

Test	Result
Reported current P/E	17.147870293x on official TTM statutory EPS JPY129.812038574
Normalized current P/E	18.469108626x on constrained normalized EPS JPY120.525578416
Terminal denominator	Scenario statutory diluted EPS at 2031-06-30 on same listed-unit basis
Denominator comparable	Yes; current anchor remains not fully resource-cycle/FX neutral
Bear evidence	8.0x versus historical trough cluster, cycle and impairment discount
Base evidence	11.5x near ITOCHU recent through-cycle median, below peer current median
Bull evidence	14.0x near large-peer current median, below ITOCHU FY2026 ratio
Raw current multiple used as cap	No
Excessive optimism challenge	Passed; every exit P/E is below normalized current P/E
Excessive bearishness challenge	Passed; Bear retains positive value and Base uses through-cycle evidence
Independent justification	Passed before return calculation
Double-count check	Passed; no cash/debt addition, governed distributions counted once, buybacks only in shares/EPS

Net-SGD diagnostic

Entry FX is SGD 0.008121 per JPY. The diagnostic uses exit FX of 0.0065 / 0.0073 / 0.0085 SGD per JPY, 0.50% entry cost, 0.50% exit cost, and 15.315% Japanese withholding on dividends. Entry cost is applied to the SGD purchase outlay; exit cost is applied only to terminal equity sale proceeds; withholding is applied only to gross dividends, not capital gains. No Singapore capital-gains tax or investor-specific treaty benefit is assumed.

Item	Bear	Base	Bull	Probability-weighted
Exit SGD per JPY	0.0065	0.0073	0.0085	Scenario-specific
Gross dividends/share, JPY	158.000	220.000	245.000	209.500
Dividends after 15.315% withholding, JPY	133.802300	186.307000	207.478250	177.416400
Net terminal wealth/share, SGD	4.12762753	13.25633577	26.13024848	13.54894125
Net-SGD IRR	**-25.65%**	**-6.11%**	**7.54%**	**-5.70%**

Probability-weighted net-SGD IRR is the CAGR of expected net terminal SGD wealth: `(SGD13.548941255 / SGD18.167732730 entry outlay)^(1/5) - 1 = -5.697995%`. It is not an average of scenario net-SGD IRRs.

Reverse 20% hurdle and maximum buy price

At the Base exit P/E of 11.5x and JPY 220 cumulative distributions, JPY 2,226 must become JPY 5,539.00032 in five years to earn 20% annually. Required terminal equity value is JPY 5,319.00032 and required terminal EPS is JPY 462.521767, implying 30.86% annual growth from normalized current EPS of JPY 120.525578. The repaired Base terminal EPS is only JPY 142.419. Same-method maximum entry prices for a 20% gross JPY return are JPY 265.937 Bear, JPY 746.616 Base and JPY 1,256.299 Bull. The Base maximum buy price is 66.46% below current.

10. Hard Veto Checklist

Veto	Status	Evidence
ROIIC below cost of capital	Watch	ROIIC unsupported; disclosed non-resource ROI is around 10% versus 8% hurdle
ROIC is artificial small-capital artifact	Pass	Broad-capital ROIC is only 11%-13%; no inflated claim
Growth requires persistent external finance	Watch	FCF supports returns, but acquisition wave raises funding needs
Material dilution without per-share creation	Pass	Shares declined; compensation issuance is small
Large acquisitions without disclosed returns	Watch	Current deals are material and cash returns remain unproven
FCF structurally lags earnings	Pass	Five-year average FCF/net income is 91.28%
Cyclicality or leverage can impair equity	Watch	Resource, China/CITIC, consumer and acquisition risks are material
20% case requires multiple expansion	Pass as phrased	Multiples contract; hurdle fails because required EPS is implausibly high
Flawless execution needed at today's price	Fail / hard veto	Even Bull delivers only 7.03% gross JPY and 7.54% net SGD
Moat cannot be explained	Pass	Clear, but blended durability remains YELLOW
Accounting/governance impairs trust	Watch	No fraud flag; succession and portfolio opacity remain
Balance sheet could wipe out equity	Pass	Ratings and positive Bear value; leverage still monitored

The hard veto is valuation and execution dependence: current price does not permit a plausible 20% return under any locked scenario. This is independent of the ER2 P/E-15 gate, which also FAILS with a -4.03% Base cushion.

11. Final Decision

Score-implied classification: Reject. ITOCHU is a capable, cash-generative allocator with genuine assets and a strong historical stewardship record. It is not presently underwritten as a >20% ROIIC compounder at a price that supports 20% shareholder returns. The evidence gaps are not cosmetic: acquisition-inclusive ROIIC, long-run segment capital returns, acquisition cash returns and the post-Okafuji record are central to the thesis.

Compounder Score note: 46/100 — governed dividends improve the return bridge, but missing ROIIC proof, YELLOW durability gates and negative Base/probability-weighted returns still dominate. **Business Quality Score note:** 42/80 — broad platforms and stable group margins are valuable, but average ROIC is about 12%, acquisition-inclusive returns are unproven and blended pricing power is limited. **20% Return UW Score note:** 4/20 — the dividend-repaired P/E bridge produces -3.55% Base gross JPY IRR, -4.03% weighted gross JPY IRR and a Base 20% max-buy price of JPY 746.62.

12. Machine-Readable JSON

The full-precision scoring, scenario-return bridges, exit-multiple integrity, probability-weighted method, reverse hurdle, max-buy-price diagnostics, net-SGD assumptions and authority flags are in `C:\Users\Admin\OneDrive\GPT\ER 2.0\ITOCHU\compounder_score.json`.

Appendix CSA - Scoring Audit

ITOCHU — Independent Scoring Audit

Audit date: 2026-09-29 **Run ID:** `pulse-cio-20260928T200149+0800` **Audit marker:** `ER2_ITOCHU_CSA_AUDIT_R2_20260929T010150+0800` **Ticker:** 8001.T **Price anchor:** JPY 2,226 at 2026-09-28 **TTM / horizon:** 2026-06-30 / 2031-06-30, exactly 5.0 years **Audit status:** CLEARED, with a two-point Business Quality reduction, dividend-inclusive returns, and one non-foundational peer-median wording correction. **Authority:** false. This audit does not authorize a trade, portfolio mutation, sizing proposal, or owner action.

1. Original vs Audited Scores

Item	Original	Audited	Notes
Business Quality Score / 80	42/80	40/80	Two points lacked direct support: ROIIC trend and proof that growth does not require ROIC deterioration
Valuation / 20% Return UW Score / 20	4/20	4/20	Governed dividends merit full cash-return credit, but no scenario approaches 20%
Total Score / 100	46/100	44/100	Still well below every investable-now threshold
Classification	Reject	Reject	Diagnostic classification only; it does not replace the ER2 gates

The original score is directionally skeptical and substantially evidence-led. It correctly refuses to manufacture ROIIC, does not let management's historical reputation substitute for a capital-return ledger, and separates business quality from valuation. The audited score is lower because the rubric forbids awarding points without evidence. A stable reported ROIC series is not proof that incremental returns on invested capital are stable, and a modest operating forecast is not proof that acquisition-inclusive growth avoids ROIC erosion when the acquisition and reinvestment ledger is missing.

2. Score Reductions and Reasons

The first reduction is **Category 1C, ROIIC not deteriorating sharply, from 1/3 to 0/3**. Three-year, five-year, and acquisition-inclusive ROIIC are all explicitly unavailable. The source package reports calculated ROIC of 11.18%, 12.71%, 12.46%, 12.02%, and 11.16% for FY2022–FY2026, but that is an average-return measure, not an incremental-return series. Without comparable opening and closing invested capital, acquisition consideration, disposals, working capital, leases, and normalized NOPAT, the evidence cannot establish the direction of ROIIC. Category 1 therefore falls from 8/25 to 7/25.

The second reduction is **Category 2F, growth does not require ROIC collapse, from 1/1 to 0/1**. The segment forecasts show modest Base revenue growth and a broadly stable group operating margin, which makes a collapse less likely, but this subcategory is explicitly a capital-efficiency claim. The current JPY 1.5 trillion investment step-up, ACG and Dentsu Soken commitments, associate/JV dependence, and missing segment capital bases prevent a clean conclusion. Category 2 therefore falls from 11/20 to 10/20.

All other original points are preserved. Category 1A remains 2/5 because the five-year calculated ROIC range is consistently in the rubric's 10%–15% band, although the underlying file does not provide all requested including-goodwill/excluding-goodwill variants. Category 1B remains 0/8. Cash conversion is supported: FY2022–FY2026 free cash flow divided by attributable net income averaged 91.284661%, and the aggregate-period ratio is 91.360313%. FCF CAGR independently replays to 7.863245%, attributable net-income CAGR to 2.354205%, and average-share CAGR to -1.323475%.

Categories 3, 4, and 5 remain 8/15, 8/10, and 7/10. The moat evidence supports real but localized advantages in CTC switching costs, FamilyMart distribution, logistics density, licenses, installed-base service, and relationship access. It does not support broad pricing power, and both the Moat and 2046 gates are YELLOW. Financial quality is helped by cash conversion, net repurchases, investment-grade funding access, and no identified restatement or material-control failure, but complicated by event-heavy gains, equity-method earnings, and missing separate SBC data. Capital allocation earns credit for the long realized record, investee review rules, exits, dividends, and repurchases, while Okafuji succession, accounting-profit-heavy incentives, and unseasoned acquisitions cap the score.

3. Unsupported Claims

The evidence does not support a numerical three-year, five-year, or acquisition-inclusive ROIIC. It also does not support a ten-year comparable FCF-conversion series, a complete segment invested-capital history, or a fully normalized through-cycle current EPS that removes every commodity and FX effect. The normalized JPY 120.525578 EPS anchor is nevertheless a valid constrained statutory-equivalent anchor: it removes the source-bound JPY 60.107 billion actual-period extraordinary amount and JPY 5.000 billion temporary chemical-price uplift with a zero residual. It is properly described as not fully commodity-cycle- or FX-neutral.

SBC cannot be treated as zero merely because the vendor field is zero or unavailable. The scorer handles this correctly by treating compensation issuance explicitly in forward share counts and recording SBC ratios as missing. The missing separate SBC expense prevents a stronger claim about compensation economics, but it does not invalidate the share-count bridge.

The repaired synthesis now supplies a governed annual dividend schedule anchored to TTM cash dividends of JPY 42.033046 per share. Cumulative gross dividends are JPY 158/JPY 220/JPY 245 in Bear/Base/Bull. Each amount is added once to terminal P/E share value. Buybacks are excluded from distributions because they already reduce terminal shares and increase per-share EPS. Under the net-SGD overlay, 15.315% Japanese withholding is applied only to dividends; terminal equity sale proceeds receive only the stated exit-cost haircut. This distribution and count-once logic independently reconciles.

4. Calculation Errors

The P/E return model itself has no arithmetic error. The exact VP SHA-256 is `2ca4f9ade38c726c249fe0e14feeda046446effac70e8a56ad649e675a9d7912`; the exact CS JSON SHA-256 is `9d61e6723e248719359cba9f1e9420a9630cdb7d58daa033c2f983ecad56fe0c`. The repository validator returned `VALUATION_PREFLIGHT_VALID`; status is `CLEARED`, all five foundation objects have `passed=true`, and blockers are empty. CS exactly reproduces primary method `PE`, normalized EPS JPY 120.525578416, normalized P/E 18.4691086262021x, Bear/Base/Bull exit P/Es of 8.0x/11.5x/14.0x, and governed dividends of JPY 158/220/245. The bound repaired-synthesis SHA-256 is `61621a87b4e01ca127e4e90aad4f024174de845083905f30775fd6e1ca687877`. No VP-controlled input was repaired or changed.

One evidence-description calculation is corrected. The live provider-native TTM peer P/Es are 10.611957x, 13.778866x, 15.299997x, 13.803752x, and 19.907446x. The median of all five is 13.803752x. Excluding smaller Sojitz leaves four observations and a median of 14.551874x, not 13.80x. This wording error does not break the locked Bull 14.0x P/E: 14.0x remains approximately the all-five median, lies below the correctly computed ex-Sojitz median, and is below ITOCHU's FY2026 provider-native 15.425781x. The Base 11.5x anchor remains close to ITOCHU's recent five-year median of 11.209291x. The Bear 8.0x remains within the historical 6.282593x–15.425781x range and above the trough cluster. The scenario multiples therefore remain independently supportable without changing them.

Two stale sentences remain in the resealed scorer Markdown even though its JSON and return tables are dividend-inclusive: the confidence paragraph still refers to a missing scenario dividend schedule, and the double-count row still describes the pre-repair distribution treatment. They are presentation defects, not return-model inputs. This audit uses the resealed JSON, repaired synthesis, and VP-bound distribution instrument; it does not carry either stale statement forward.

The scenario bridge independently replays as follows:

Scenario	Probability	Terminal EPS	Exit P/E	Terminal value/share	Distributions	Terminal wealth/share	Audited gross JPY IRR
Bear	25%	JPY 62.967	8.0x	JPY 503.7360	JPY 158.0000	JPY 661.7360	-21.542960%
Base	55%	JPY 142.419	11.5x	JPY 1,637.8185	JPY 220.0000	JPY 1,857.8185	-3.551467%
Bull	20%	JPY 205.791	14.0x	JPY 2,881.0740	JPY 245.0000	JPY 3,126.0740	7.027361%

Terminal equity value also ties after multiplying by diluted listed-equivalent shares: Bear JPY 3,385.400606 billion on 6,720.585 million shares; Base JPY 10,888.643221 billion on 6,648.260 million shares; Bull JPY 19,105.591578 billion on 6,631.413 million shares. Under P/E, no cash, debt, leases, NCI, or non-operating asset is added or subtracted after EPS times P/E. Interest and NCI are already reflected in statutory attributable EPS. Buybacks affect the share denominator once. Gross dividends enter terminal shareholder wealth once. The double-count check passes.

Probability-weighted terminal wealth is `25% × 661.736 + 55% × 1,857.8185 + 20% × 3,126.074 = JPY 1,812.448975`. Its five-year CAGR from JPY 2,226 is **-4.027209%**. This is not an arithmetic average of scenario IRRs.

The 20% reverse hurdle also ties. Required terminal wealth is `2,226 × 1.2^5 = JPY 5,539.000320`; after subtracting Base cumulative dividends of JPY 220, required terminal equity value is JPY 5,319.000320. At 11.5x, required terminal EPS is JPY 462.521766957, a 30.861107% CAGR from normalized EPS. The Base maximum buy price is `1,857.8185 / 1.2^5 = JPY 746.615588`.

5. Missing Data

The most important missing evidence is a comparable acquisition-inclusive ROIIC ledger. Also missing are segment invested capital, a long-duration cash-conversion series, post-closing cash returns and funding/PPA effects for the current deal cohort, separate SBC expense ratios, and investor-specific Singapore broker/account/treaty facts. These gaps lower confidence to Medium. They do not prevent finite security-level gross or net-SGD diagnostics.

6. Hard-Veto and Threshold Test Audit

The diagnostic investable-now thresholds all fail except the no-expansion test. Audited total score is below 80/100, Business Quality is below 65/80, Valuation is below 15/20, ROIIC plus runway is only 17/45, Base IRR is below 20%, Bear IRR is far below 8%–10%, and a hard veto remains because even the locked Bull case cannot approach the hurdle. The multiple-expansion test passes because every exit P/E is below comparable normalized current P/E. That pass does not rescue the investment: poor returns driven by starting price, slow Base EPS growth, and multiple contraction are still poor returns.

The excessive-optimism challenge passes. Bull requires concurrent segment delivery and is limited to 20% probability; its 14.0x multiple is below normalized current P/E and below the corrected ex-Sojitz peer median. The excessive-bearishness challenge also passes. Bear's simultaneous EPS compression and 8.0x P/E are severe but traceable to observed historical valuation lows and explicit operating stresses. Base 11.5x is anchored near ITOCHU's recent five-year median rather than chosen to manufacture a negative return. Bull 14.0x is not capped by the raw current multiple and is supportable from peer/history evidence. The dividend repair removes the earlier artificial omission of cash distributions, but returns remain poor. Low returns therefore do not validate the multiples by themselves; independent evidence does.

7. Final 20% Hurdle Pass/Fail

FAIL. Audited gross JPY IRRs are Bear -21.542960%, Base -3.551467%, Bull 7.027361%, and probability-weighted -4.027209%. The net-SGD overlay uses the same P/E terminal values, entry FX SGD 0.008121 per JPY, 0.50% entry and exit costs, and scenario exit FX of 0.0065/0.0073/0.0085. The Wise 2026-09-28 historical page supports the entry fixing; the Japanese National Tax Agency supports 15.315% nonresident withholding on listed-share dividends, subject to exceptions and treaty procedures. Withholding is applied only to gross dividends: JPY 24.197700/JPY 33.693000/JPY 37.521750 in Bear/Base/Bull. It is not applied to terminal equity sale proceeds or capital gains.

Scenario	Net terminal SGD wealth/share	Audited net-SGD IRR
Bear	SGD 4.127627530	-25.65%
Base	SGD 13.256335775	-6.11%
Bull	SGD 26.130248480	7.54%
Probability-weighted	SGD 13.548941255	-5.70%

Entry outlay is SGD 18.167732730 per share after entry cost. Net dividends after withholding are JPY 133.802300/JPY 186.307000/JPY 207.478250. Exit cost applies only to terminal equity sale proceeds; distributions receive only the withholding adjustment. Probability-weighted net-SGD IRR is the CAGR of expected net terminal SGD wealth, not an average of scenario returns. Exit FX rates are analyst stresses, not forecasts. Investor-specific wrapper facts remain unavailable.

8. Dream Business / Dream Investment Classification

Neither. ITOCHU is a capable, cash-generative allocator with observable moat pockets and a strong historical stewardship record. It is not proven to be the rubric's dream business because incremental and acquisition-inclusive returns are not measured, average ROIC is around 12%, and Management/Moat/2046 remain YELLOW. It is not a dream investment because no dividend-inclusive locked scenario reaches the 20% return hurdle and Base and probability-weighted returns remain negative.

9. Stage 7 Scorecard Notes

- **Compounder Score note:** 44/100 — governed dividends improve terminal wealth, but unsupported ROIIC claims, unresolved durability, and weak modeled returns dominate.
- **Business Quality Score note:** 40/80 — diversified moat pockets and disciplined history do not prove high incremental returns or acquisition-efficient growth.
- **20% Return UW Score note:** 4/20 — the dividend-inclusive P/E bridge gives -3.55% Base and -4.03% probability-weighted gross JPY IRRs; Base max-buy price is JPY 746.62.

10. Auditor JSON

Full-precision audited returns, method flags, return bridges, probabilities, exit-multiple integrity, net-SGD calculations, score changes, missing data, and authority flags are in `C:\Users\Admin\OneDrive\GPT\ER 2.0\ITOCHU\compounder_score_audit.json`.

Appendix RT - Independent Red Team

ITOCHU (8001.T) — Production ER2 Red Team

Run ID: `pulse-cio-20260928T200149+0800` **Evidence cutoff:** 29 September 2026 **Valuation-preflight SHA-256:** `2ca4f9ade38c726c249fe0e14feeda046446effac70e8a56ad649e675a9d7912` — independently recomputed and matched **Audited score:** Compounder Score **44/100**; Business Quality Score **40/80**; 20% Return Underwriting/Stretch Score **4/20**; audited classification **Reject Red-team status: RED TEAM CLEARED — IMMATERIAL OPEN ITEMS Return-model objection status: MATERIAL_RESOLVED**

The arithmetic is not the problem. The repaired, audited P/E bridge reproduces exactly: Bear/Base/Bull gross JPY annualized returns are **-21.5429597840305% / -3.55146737402638% / 7.02736144868292%**, and the CAGR of probability-weighted terminal wealth is **-4.02720877626611%**. The same P/E method produces audited net-SGD returns of **-25.6501744885747% / -6.10887284852875% / 7.53963583214259%**, with probability-weighted net-SGD of **-5.69799523309954%**. The primary method stays P/E, no cash or debt is added after EPS times P/E, buybacks affect the share denominator once, governed dividends enter terminal wealth once, and probability weighting is performed on terminal wealth rather than on scenario IRRs.

The former publication blocker is resolved. S now supplies a governed annual distribution schedule anchored to TTM cash dividends of JPY42.033046 per share and cumulative Bear/Base/Bull gross dividends of **JPY158 / JPY220 / JPY245**. VP binds that schedule as a counted-once common-shareholder distribution; CS includes it once in terminal wealth; CSA independently applies 15.315% Japanese withholding only to dividends and does not tax terminal equity sale proceeds. Buybacks remain excluded from distributions because their effect is already in terminal shares and EPS. No material return-model objection remains unresolved.

1. The most fragile assumption

The most fragile operating assumption is not The 8th's tiny standalone profit. It is the Base case's ability to hold the below-line associate/JV and acquisition complex together while funding a regime-change investment program. Stage 5 assumes JPY410 billion of terminal equity in earnings of associates and JVs, JPY50 billion of investment gains, JPY65 billion of dividends received and JPY145 billion of interest expense. That supports terminal attributable income of JPY946.841 billion. The TTM associate/JV line is JPY371.269 billion, so the JPY410 billion outcome is only about 2% annual growth; it is not arithmetically heroic. Economically, however, the path spans the approximately US$1.946 billion ACG investment, the proposed JPY215.173 billion Dentsu Soken investment, the 33.4% Hitachi Construction Machinery position, other privatizations, and a FY2027 net-investment plan of roughly JPY1.3 trillion against about JPY1.0 trillion of core operating cash flow.

The missing acquisition-inclusive ROIIC ledger matters. The audit correctly removes two score points because stable average ROIC around 12% is not evidence that marginal capital earns an adequate return. If Base terminal attributable income were JPY100 billion lower—roughly the gap between its JPY410 billion associate/JV line and a JPY310 billion stressed realization—EPS would fall by about JPY15.04 and dividend-inclusive Base gross JPY IRR would fall from -3.55% to approximately **-5.42%**, a **1.87-point** deterioration. That is decision-relevant but below the mandatory two-point return threshold and does not change actionability. A JPY125 billion shortfall would cross two points, but that would take the associate/JV outcome below the locked Bear assumption and is not a supportable correction to Base; it is a Bear recast. The JPY320 billion Bear associate/JV line, JPY175 billion interest expense, impairment stresses and 25% Bear probability already contain that downside family. The remaining lack of observable post-closing cash returns, funding/PPA effects and impairment experience is an evidence gap reflected in the 40/80 Business Quality Score, not an unresolved valuation foundation.

2. The Stage 5 number most likely to prove optimistic

The most likely central-case number to be revised unfavorably is the **Base terminal diluted share count of 6,648.260 million**. It assumes the executed 82.735750 million-share tender plus JPY170 billion of annual repurchases in years two through five, offset by only 3.750 million shares of annual compensation issuance. Historical buybacks support the order of magnitude, and the executed tender is hard evidence. The weakness is forward cash competition: ACG, Dentsu Soken, HCM, privatizations, capex, progressive dividends and higher funding costs all compete with repurchases.

This is not the publication blocker by itself. Stage 5 discloses the risk and its ±5% share-count sensitivity changes Base EPS by about -JPY6.78/+JPY7.50. Eliminating the modeled years-two-through-five repurchases would worsen the Base return, but by less than two percentage points and would not rescue or reverse the Reject/PASS actionability conclusion. The correct

red-team treatment is **IMMATERIAL to the audited return status but material to the P/E-15 gate**, because a sufficiently favorable share path could move Base EPS across the JPY148.40 entry-gate threshold. An investment case that depends on buying back expensive stock while leverage is rising is weaker than one driven by operating cash growth.

3. Strongest bear case, stated as a short seller would state it

ITOCHU is changing from a proven recycler of mature assets into a buyer of large, long-duration and associate-accounted assets just as its key allocator approaches succession. The conglomerate can continue meeting headline profit through equity-method income, bounded investment gains and portfolio actions even while cash returns on new capital disappoint. At the same time, Metals and Energy remain benchmark-price exposures, CITIC is a state-linked, hard-to-exit concentration, FamilyMart's traffic and franchise economics face mature-market pressure, and CTC/BPO economics face AI price deflation. Within two to four years, the first warning would be rising net DER and associate earnings that do not remit cash; the accounting profit would remain present longer than the economic return.

The bear becomes validated when operating deterioration and capital-allocation strain appear together: consolidated Trading-income margin falls below 4.0%, associate/JV cash distributions lag recognized earnings, and the new acquisition cohort fails to demonstrate cash returns above the stated 8% portfolio hurdle. In that environment, the current 18.47x constrained normalized P/E loses the "best allocator" premium, while the terminal earnings base is simultaneously lower. Multiple compression and EPS compression are correlated, not independent.

4. Cross-examination of management commentary

Management says, **"We also feel that our organic growth is gaining clear momentum."** The statement is reproduced in `data_package.md` §7 from the Q1 FY2027 Q&A. It may be true at CTC and selected consumer platforms, but "organic" is not reconciled for acquisitions, FX, reporting-perimeter changes or one-offs. The first contrary signal would be Base first-year operating income declining more than the modeled 7.69% from TTM while headline attributable profit is maintained by investment gains or associates.

Management also says, **"Our company-wide forecast remains unchanged at JPY950.0 billion."** The same source shows that the unchanged total conceals segment revisions and a reduced Others plan. A group target can be met by portfolio offsets while a specific acquisition or segment thesis fails. The earliest warning would be a second reporting cycle in which core profit misses internal or prior guidance by more than 10% while extraordinary or disposal gains preserve the headline commitment.

For ACG, management's current priority is **"to enhance earnings on the existing asset base."** That is appropriately cautious, but it is not evidence of acquisition synergy or cash ROI. Aircraft scarcity can support lease rates and residual values until manufacturer supply normalizes, airline credits weaken or funding costs rise. The first disconfirming evidence would be weaker cash distributions or residual-value marks despite accounting earnings, particularly if the associate requires additional capital.

Finally, "Earn, Cut, Prevent" and proactive asset replacement are credible operating disciplines, but they can also make disposal gains look like repeatable earnings quality. FY2025 already demonstrated that reported profit can meet commitment while core profit falls short. The test is cash returned on invested capital after impairments and funding, not the size of reported gains.

5. Stage 5 tie-out reverification and perimeter attack

The recency anchor is mechanically sound: FY2026 less Q1 FY2026 plus Q1 FY2027 produces the TTM ended 30 June 2026, and the horizon is exactly five years to 30 June 2031. Base first-year revenue is only 2.46% above reported TTM, operating income is 7.69% below it, and attributable profit is 0.57% below the JPY845 billion constrained normalized anchor. This is not a stale trend-line disguised as growth.

The Food/The 8th transfer also survives a direct double-count attack. Food starts from an explicitly labeled Q1 FY2027 times four new-perimeter revenue proxy of JPY5,677.580 billion. It never divides the sealed JPY115.926 billion hybrid TTM Trading-income amount by that proxy. The 8th forecasts only continuing post-transfer operations from a JPY13.6 billion annualized sizing proxy; the old JPY83.903 billion hybrid TTM Trading income is not carried forward. The 70% FamilyMart management attribution to The 8th is neither added to Trading income nor inserted below the line. This objection is **MATERIAL_RESOLVED**: the audited model incorporates the correct single-count perimeter.

The remaining Food risk is estimation, not classification. Base assumes 2.8% revenue CAGR and a 2.8% terminal Trading-income margin without a same-perimeter TTM history. Q1's roughly 4.1% margin is not annualized into the terminal case, which is appropriately conservative. The synthesis sensitivity shows a ±200-basis-point Food revenue CAGR change moves Base EPS by only about -JPY1.92/+JPY2.08. The 8th's Base JPY0.657 billion terminal Trading income is immaterial to group valuation. Both should remain monitored, but neither breaks the return foundation today.

Machinery is more consequential: a ±200-basis-point terminal Trading-income margin changes Base EPS by ±JPY4.277. The Base 6.67% margin assumes service, aerospace and infrastructure mix while excluding ACG revenue and HCM associate earnings from Trading income. That accounting treatment is correct; the operating leverage still needs to be earned.

6. The 20% return claim most likely to be wrong

The audit concludes that the 20% case does not clear, and the red team agrees. The repaired reverse hurdle subtracts Base cumulative dividends of JPY220 from required terminal wealth of JPY5,539.000320, leaving required terminal equity value of JPY5,319.000320. At 11.5x, required Base terminal EPS is JPY462.521767, implying 30.86% annual EPS growth from normalized current EPS, versus modeled JPY142.419. No reasonable change to probabilities, FX, buybacks or distributions closes that gap.

The prior score-derived defect was the missing distribution schedule. It is now **MATERIAL_RESOLVED**. S anchors the schedule to the sourced TTM JPY42.033046 dividend per share and applies explicit annual paths that sum to JPY158/JPY220/JPY245 in Bear/Base/Bull. VP binds the exact cumulative amounts. CS and CSA produce the following fully repaired bridge:

Return field	Gross dividends/share	Terminal wealth/share	Audited gross JPY IRR
Bear	JPY158	JPY661.736	-21.54%
Base	JPY220	JPY1,857.8185	-3.55%
Bull	JPY245	JPY3,126.074	7.03%
Probability-weighted	JPY209.5 expected	JPY1,812.448975 expected	-4.03%

The dividend amounts enter shareholder wealth once. Buybacks are not included in the distribution row because they already reduce terminal shares. Under net-SGD, withholding is JPY24.197700/JPY33.693000/JPY37.521750 and applies only to dividends. Exit cost applies only to terminal equity sale proceeds. This closes the exact defect that previously blocked RT; no audited score or return field was overwritten by the red team.

7. Two-sided valuation challenge

Strongest reason the model is too optimistic

The Base P/E value assumes that JPY946.841 billion of attributable income is a sustainable terminal denominator even though JPY410 billion comes from associates/JVs and JPY50 billion from investment gains, while acquisition-inclusive ROIIC is unavailable. A JPY100 billion terminal attributable-income shortfall reduces EPS by about JPY15.04 and lowers dividend-inclusive Base gross JPY IRR to about -5.42%, a 1.87-point deterioration from the audited -3.55%. This is the cleanest quantified optimistic challenge. It is not proof the Base case is wrong: the TTM associate/JV line is already JPY371.269 billion, and the model does not consolidate ACG or Dentsu Soken revenue. It is a warning that accounting profit must be corroborated by cash remittance and post-deal returns.

Strongest reason the model is too bearish

The repaired model's strongest remaining bearish choice is the Bear combination of EPS compression to JPY62.967 and an 8.0x exit P/E, even after JPY158 of distributions. A 9.5x Bear multiple, close to ITOCHU's eight-year historical median of 9.54x, would improve Bear IRR from -21.54% to approximately -19.42%, a 2.12-point change. That is material as a sensitivity but not a valuation defect: 8.0x remains above the documented 6.28x-7.88x trough cluster and is explicitly tied to simultaneous cycle, China/CITIC, impairment, acquisition-funding and disclosure stress. VP selected it before returns, documented the evidence range and passed both directional challenges. The multiple objection is therefore **MATERIAL_RESOLVED** by the locked evidence.

The probability weights are consequential but adequately disclosed. Moving ten probability points from Bear to Bull changes weighted gross IRR from -4.03% to about -1.55%, a 2.48-point swing. The 25%/55%/20% set is nevertheless directionally supported by correlated commodity, acquisition and disclosure risks, while Bull requires concurrent success across segments.

This is **MATERIAL_RESOLVED** as a documented underwriting judgment, not a hidden arithmetic choice; no plausible reweighting makes returns meet the owner's 10%–15% net-SGD target.

The net-SGD layer is also assumption-sensitive. Holding JPY/SGD flat at the entry fixing would improve repaired Bear net-SGD IRR by about 3.39 points and Base by about 2.02 points, while reducing Bull by about 0.98 points. The published 0.0065/0.0073/0.0085 exit rates are explicitly labeled analyst stresses, costs are applied once, and the same P/E wealth plus net dividends is translated in every scenario. This is **MATERIAL_RESOLVED** as a bounded diagnostic rather than a foundation defect: the stresses are transparent, scenario-specific, method-consistent and do not change CIO PASS actionability. The final report must not present them as forecasts. Investor-specific wrapper and treaty facts remain unavailable.

8. Resource, CITIC and capital-allocation cross-examination

Metals & Minerals and Energy & Chemicals are not hidden secular compounders. Base 2031 Metals Trading income of JPY127.4 billion is approximately FY2026's level and below TTM; Energy & Chemicals Base reaches JPY136.585 billion but depends on specialty and power mix replacing depleted or transferred upstream economics. The Bear cases compress both margins and profits, while below-line impairments remain separate. This treatment is coherent.

CITIC remains the more important tail. ITOCHU's CTB equity and shareholder loan totaled about JPY731.4 billion at March 2026, while half of the quoted underlying CITIC stake was roughly JPY701.5 billion. No impairment was recorded because estimated recoverable value exceeded carrying value, but the auditor treated valuation as a key audit matter and China exposure was JPY1.909 trillion. The return model captures aggregate associate weakness and a lower Bear multiple, but it does not publish a CITIC-specific cash-remittance or impairment schedule. That is an evidence gap, not a detected double count. It should be monitored through dividends received, associate cash conversion, carrying-value headroom and any change in regulatory assumptions.

Buybacks are counted once and not deducted from earnings. The executed tender is hard evidence; later repurchases are assumptions. Their main risk is that the model rewards the EPS denominator while P/E valuation does not separately show the cash and balance-sheet cost. That is permitted under P/E because the cash cost affects future interest income/expense and funding capacity, but it raises the burden on the acquisition and cash-return monitoring plan.

9. Signal that forces an exit

Exit signal: consolidated Trading-income margin below **4.0% for two consecutive reported half-year or annual periods**, with the decline present in at least two non-resource engines rather than caused only by one resource mark.

The time window is the next four half-year reporting points. This threshold is below the FY2022–FY2026 consolidated range of 4.64%–5.03% and below the Base terminal 4.74% margin. Repeating it would show that diversification, Food/FamilyMart integration, CTC services and machinery mix are no longer offsetting resource, construction-material and funding pressure. It would invalidate the "stable group spread plus disciplined recycling" thesis rather than merely signal a bad quarter. A simultaneous net DER move above 0.7x or disposal gains bridging more than 10% of a core-profit miss would make the exit immediate rather than waiting for a second period.

10. Conviction and routing

The business thesis survives only conditionally: ITOCHU remains a capable allocator with real moat pockets and a conservative audited operating range, but no audited scenario reaches the required return hurdle at the current price. The strongest optimistic attack is the unproven cash return on the acquisition/associate complex; the strongest bearish challenge is the deliberately punitive 8.0x Bear exit multiple, which is nevertheless source-supported and resolved. Food/The 8th taxonomy, governed distributions, P/E method, denominator bridge, share-unit bridge, exit-multiple evidence and double-count controls survive this review.

The return appendix **clears**. The former dividend blocker was repaired in S, bound into VP SHA `2ca4f9ade38c726c249fe0e14feeda046446effac70e8a56ad649e675a9d7912`, and independently replayed by CS and CSA. The missing `appendix_valuation_preflight.md` narrative remains an immaterial documentation gap because the controlling `valuation_preflight.json` is present, validator-cleared and hash-matched. The CS Markdown cleanup is complete at SHA `5e801c78032099936f89a50b28e232e6bf91ce946d7437d46a2e8178249731e2`; its prose, tables and JSON now consistently reflect the dividend-inclusive audited bridge.

Final status: RED TEAM CLEARED — IMMATERIAL OPEN ITEMS.

Evidence and provenance

- `C:\Users\Admin\OneDrive\GPT\ER 2.0\ITOCHU\valuation_preflight.json` — controlling five-foundation valuation lock; SHA-256 shown above.
- `C:\Users\Admin\OneDrive\GPT\ER 2.0\ITOCHU\appendix_synthesis.md` — statutory cadence, segment consolidation, share paths and sensitivity table.
- `C:\Users\Admin\OneDrive\GPT\ER 2.0\ITOCHU\appendix_compounder_score.md` and `compounder_score.json` — original return bridge.
- `C:\Users\Admin\OneDrive\GPT\ER 2.0\ITOCHU\appendix_scoring_audit.md` and `compounder_score_audit.json` — controlling audited scores and full-precision returns.
- `C:\Users\Admin\OneDrive\GPT\ER 2.0\ITOCHU\data_package.md` §§6–7 and §11 — capital allocation, management statements and normalization ledger.
- `C:\Users\Admin\OneDrive\GPT\ER 2.0\ITOCHU\appendix_management.md` and `appendix_moat.md` — succession, acquisition, CITIC, durability and monitoring gates.
- All eight reviewed `appendix_B_*.md` files — Food/The 8th perimeter, Machinery sensitivity, resource exposures, ICT/financial acquisition boundaries and segment risk cases.

Appendix D - Source Data Package

ITOCHU — Production ER2 Data Package

Ticker: 8001.T **Run ID:** `pulse-cio-20260928T200149+0800` **As of:** 28 September 2026 **Reporting currency:** Japanese yen; tables state whether amounts are ¥ billion or ¥ million **Fiscal year-end:** 31 March **Latest complete quarter:** Q1 FY2027, ended 30 June 2026 **TTM convention:** FY2026 less Q1 FY2026 plus Q1 FY2027, ending 30 June 2026 **Exact underwriting horizon:** 30 June 2031

This is the evidence package for the ER2 underwriting stage, not an investment recommendation. ITOCHU is treated as a diversified trading and investment conglomerate. Financial Modeling Prep's segment and product endpoints returned empty arrays, so the segment, product, resource, country-risk and capital-allocation inventory below is built from newly fetched ITOCHU releases and exchange/regulatory materials. No local warehouse or cache was used. The official foreign-issuer filing controls where an aggregator is incomplete or uses a different definition.

P0 — Temporal anchors and perimeter

The latest audited complete year is FY2026, ended 31 March 2026. The latest complete interim period is Q1 FY2027, ended 30 June 2026. The TTM bridge is therefore FY2026 − Q1 FY2026 + Q1 FY2027, not a mix of calendar years. The company has not issued a five-year earnings forecast through 2031; any FY2031 forecast used later in ER2 must be an explicitly labelled analyst estimate. The current company forecast is only for FY2027.

A material perimeter break begins in FY2027. ITOCHU integrated the former Power & Environmental Solution Division into the Energy & Chemicals Company. It also transferred primary responsibility for FamilyMart from The 8th Company to the Food Company. FamilyMart's assets, liabilities and profit now sit in Food, while 70% of its net-profit contribution is allocated to The 8th Company for management reporting. ITOCHU reclassified the prior-year Q1 comparison and 31 March 2026 assets in its Q1 FY2027 statement. Therefore:

- The sealed statutory bridge is reproduced exactly and is not rewritten to suit the new perimeter.
- Q1 and TTM Food/The 8th profit lines use the company's reclassified comparable-quarter delta, as supplied in the sealed bridge.
- Historical Food and The 8th revenue must not be paired with reclassified profit to calculate a margin. Such combinations are marked not comparable.
- The published five-year segment revenue series remains useful, but it reflects the then-current historical perimeter.

P0a — Source hierarchy, retrieval record and anti-fabrication controls

Primary sources are ITOCHU's [FY2026 annual results](https://www.itochu.co.jp/en/ir/financial_statements/2026/__icsFiles/afieldfile/2026/05/01/26_ended_01_e.pdf), [Q1 FY2027 results](https://www.itochu.co.jp/en/ir/financial_statements/2027/__icsFiles/afieldfile/2026/08/06/27_1st_01_e.pdf), the [FY2026 Fact Book](https://www.itochu.co.jp/en/files/FIR2026E.pdf), ITOCHU's [downloadable financial data](https://www.itochu.co.jp/en/ir/finance/financial_data/index.html), and the [ITOCHU DAY 2026 materials](https://www.itochu.co.jp/en/ir/doc/presentation/ir_day/index.html). Fresh FMP stable endpoints supplied consolidated statements, ratios, quote, profile, enterprise values and peer identifiers. Newly pulled official PDFs, scripts, Q&A documents and eight official spreadsheets were retained under the run-specific raw directory.

Controls performed for this package:

- The statutory bridge was validated before drafting. Its SHA-256 is `97d763c7c2b858f45dec2262263e347e013c2bf636d8161d7563cb3882a16317`, matching the QFR-sealed hash. The quote packet hash is `97c92efbb577232fcd885cf1e2d6bf69b334d7f5153c5f74ce6f89e09db0712e`.
- The annual FY2026 revenue spot check ties at ¥14,823.087 billion in FMP and the official annual dataset. The bridge's FY2026 operating profit of ¥701.888 billion also ties to the statutory statement.

- The largest Q1 revenue segment, Food, was spot-checked directly in the new filing: ¥1,419.395 billion versus reclassified ¥1,416.769 billion, or approximately 0.2% growth.
- Management quotations were included only where the official script or Q&A text was freshly fetched. They are short, attributed, and distinguish management opinion from measured fact.
- FMP product and segment endpoints were attempted for annual and quarterly periods and returned `[]`. No synthetic product revenue was created to fill that gap.
- A fresh line-item comparison found one visible aggregator mismatch: FMP reported FY2025 operating income of ¥684.495 billion, while ITOCHU's statutory filing reports **Trading income of ¥683.915 billion**. The official foreign-issuer figure and exact label control throughout this package.

1 — Consolidated financial history and quality of earnings

Amounts in the first table are ¥ billion except per-share data and percentages. FMP's annual statement date convention maps FY2022–FY2026 to years ended March 2022–March 2026. Free cash flow is operating cash flow less reported capital expenditure. ROIC is a transparent calculation—NOPAT divided by average invested capital—and is not an ITOCHU-reported KPI. It uses the effective tax rate shown below, so readers should not confuse it with management's investment hurdle rates.

Metric	FY2022	FY2023	FY2024	FY2025	FY2026
Revenue	12,293.348	13,945.633	14,029.910	14,724.234	14,823.087
Trading income	582.522	701.913	703.275	683.915	701.888
Trading-income margin	4.74%	5.03%	5.01%	4.64%	4.74%
Net profit attributable to ITOCHU	820.269	800.519	801.770	880.251	900.283
Basic EPS attributable to ITOCHU, split-adjusted, ¥	110.57	109.22	110.60	123.13	128.00
Average common shares outstanding, million	7,418.5	7,329.4	7,249.2	7,149.0	7,033.5
Capital expenditure	157.142	194.081	202.546	192.634	260.083
Free cash flow	644.021	743.977	775.562	804.644	871.754
Effective tax rate	23.57%	23.69%	22.25%	19.22%	21.84%
Calculated ROIC	11.18%	12.71%	12.46%	12.02%	11.16%

Revenue grew at roughly 4.8% CAGR over FY2022–FY2026, while attributable earnings grew only about 2.4% CAGR because the starting year included unusually strong contributions and the conglomerate's below-operating-line equity-method earnings matter heavily. Free cash flow rose faster than earnings, from ¥644.0 billion to ¥871.8 billion, despite FY2026 capital expenditure increasing to ¥260.1 billion. The cash conversion is encouraging, but investors should not value the company using consolidated operating profit alone: equity-method profit was ¥323.5 billion in FY2026, nearly 46% of operating profit.

At 31 March 2026, FMP reported cash of ¥593.766 billion, short-term investments of ¥54.671 billion, total debt of ¥4,758.069 billion and net debt of ¥4,164.303 billion. ITOCHU's own interest-bearing-debt definition was lower: gross interest-bearing debt of ¥3,672.7 billion and net interest-bearing debt of ¥3,024.3 billion, with net DER of 0.46 times. This is a definition difference, not a hidden reconciliation plug: FMP total debt includes liabilities outside ITOCHU's stated interest-bearing debt perimeter. At 30 June 2026 the official figures were cash of ¥673.4 billion, interest-bearing debt of ¥4,161.2 billion, net interest-bearing debt of ¥3,435.1 billion, parent equity of ¥6,770.8 billion and net DER of 0.51 times. The quarterly increase reflects investment and working-capital timing and should be monitored against the full-year cash plan.

FMP carried ¥1,228.428 billion of intangible assets and no separate goodwill balance at FY2026. That classification must not be interpreted as evidence that acquisitions carry no goodwill; the statutory notes and purchase-price allocations control. FMP also reports FY2026 EBITDA of ¥1,763.772 billion, but that metric is of limited analytical use for a trading company with large equity-method earnings and financial businesses.

2 — Exact statutory bridge reproduction

The following tables reproduce every label, classification and sign in the QFR-sealed bridge. Amounts are ¥ million. “Others, eliminations and unallocated” is kept outside the named-segment sum. The running subtotal makes all arithmetic auditable.

FY2026 bridge, year ended 31 March 2026

Line	Classification	Amount	Running subtotal
Textile	segment_profit_line: Trading income	28,584	28,584
Machinery	segment_profit_line: Trading income	90,949	119,533
Metals & Minerals	segment_profit_line: Trading income	127,577	247,110
Energy & Chemicals	segment_profit_line: Trading income	103,783	350,893
Food	segment_profit_line: Trading income	114,401	465,294
General Products & Realty	segment_profit_line: Trading income	76,448	541,742
ICT & Financial Business	segment_profit_line: Trading income	102,474	644,216
The 8th	segment_profit_line: Trading income	83,440	727,656
segment_profit_sum	segment_profit_sum	727,656	727,656
Others, Adjustments & Eliminations	corporate_unallocated	-25,768	701,888
consolidated_segment_profit_metric / statutory_operating_income	Trading income	701,888	701,888
Gains (losses) on investments	other_non_operating	175,214	877,102
Gains (losses) on property, plant, equipment and intangible assets	other_non_operating	-12,831	864,271
Other-net	other_non_operating	8,806	873,077
Interest income	interest	48,707	921,784
Dividends received	other_non_operating	59,778	981,562
Interest expense	interest	-105,610	875,952
Equity in earnings of associates and joint ventures	other_non_operating	323,514	1,199,466
pretax_income	pretax_income	1,199,466	1,199,466
Income tax expense	tax	-262,008	937,458
Net profit attributable to non-controlling interests	noncontrolling_interests	-37,175	900,283
net_income	net_income	900,283	900,283

TTM bridge, year ended 30 June 2026

Line	Classification	Amount	Running subtotal
Textile	segment_profit_line: Trading income	31,711	31,711
Machinery	segment_profit_line: Trading income	92,962	124,673
Metals & Minerals	segment_profit_line: Trading income	137,902	262,575
Energy & Chemicals	segment_profit_line: Trading income	117,366	379,941
Food	segment_profit_line: Trading income	115,926	495,867
General Products & Realty	segment_profit_line: Trading income	76,303	572,170
ICT & Financial Business	segment_profit_line: Trading income	106,528	678,698
The 8th	segment_profit_line: Trading income	83,903	762,601
segment_profit_sum	segment_profit_sum	762,601	762,601
Others, Adjustments & Eliminations	corporate_unallocated	-25,993	736,608
consolidated_segment_profit_metric / statutory_operating_income	Trading income	736,608	736,608
Gains (losses) on investments	other_non_operating	82,814	819,422
Gains (losses) on property, plant, equipment and intangible assets	other_non_operating	-11,391	808,031
Other-net	other_non_operating	14,855	822,886
Interest income	interest	50,783	873,669
Dividends received	other_non_operating	57,560	931,229

Line	Classification	Amount	Running subtotal
Interest expense	interest	-107,847	823,382
Equity in earnings of associates and joint ventures	other_non_operating	371,269	1,194,651
pretax_income	pretax_income	1,194,651	1,194,651
Income tax expense	tax	-245,826	948,825
Net profit attributable to non-controlling interests	noncontrolling_interests	-38,718	910,107
net_income	net_income	910,107	910,107

Both reconciliations have zero residual. TTM operating profit increased ¥34.7 billion from FY2026, but attributable profit increased only ¥9.8 billion because the FY2026 investment-gain base rolled down materially. That distinction is important for “core” versus reported earnings analysis.

`STATUTORY_BRIDGE_STATUS: VERIFIED — CLEARED FOR FORECASTING`

3 — Segment and product history

External revenue by operating segment

The official five-year spreadsheet provides a consistent external-revenue series. Amounts are ¥ billion. Percentages in the last column are FY2026 share of consolidated revenue.

Segment	FY2022	FY2023	FY2024	FY2025	FY2026	FY2026 mix
Textile	444.8	530.1	535.2	631.3	679.140	4.6%
Machinery	1,194.0	1,393.5	1,478.9	1,529.969	1,500.536	10.1%
Metals & Minerals	1,043.1	1,268.1	1,212.6	1,278.771	1,231.499	8.3%
Energy & Chemicals	2,864.1	3,389.0	3,044.5	3,129.473	3,026.231	20.4%
Food	4,293.5	4,626.3	4,863.0	5,015.134	5,121.655	34.6%
General Products & Realty	1,037.0	1,263.5	1,380.8	1,520.195	1,528.334	10.3%
ICT & Financial Business	864.0	875.1	864.3	984.699	1,103.075	7.4%
The 8th	457.9	467.1	515.2	510.990	512.437	3.5%
Others, adjustments and eliminations	95.0	133.0	135.4	123.7	120.180	0.8%
Consolidated	12,293.3	13,945.6	14,029.9	14,724.2	14,823.087	100.0%

Food is the largest revenue pool, but revenue does not equal economic weight because resource businesses and equity-accounted investees can generate high profit on little consolidated revenue. Energy & Chemicals and Metals & Minerals together produced 28.7% of FY2026 revenue. ICT & Financial Business had the strongest visible five-year revenue growth among the named segments, while Energy & Chemicals revenue declined from the FY2023 commodity-price peak.

Trading income by segment

The current downloadable workbook contains four observations, but the FY2022 statutory segment note supplies the missing year under the same eight-company taxonomy. Amounts are ¥ billion. “Others” is shown separately so named-segment sums are not mistaken for consolidated Trading income; FY2023 and FY2024 segment lines are rounded to one decimal in the historical workbook.

Segment	FY2022	FY2023	FY2024	FY2025	FY2026
Textile	13.669	20.0	25.1	25.087	28.584
Machinery	57.254	71.7	84.9	88.084	90.949
Metals & Minerals	162.126	202.2	174.7	149.770	127.577
Energy & Chemicals	100.020	153.1	102.6	99.816	103.783
Food	74.221	65.9	102.2	109.753	114.401
General Products & Realty	65.651	79.9	86.1	83.072	76.448

Segment	FY2022	FY2023	FY2024	FY2025	FY2026
ICT & Financial Business	78.522	69.4	79.1	91.830	102.474
The 8th	42.140	46.1	67.1	67.618	83.440
Others, adjustments and eliminations	-11.081	-6.4	-18.5	-31.115	-25.768
Consolidated Trading income	582.522	701.913	703.275	683.915	701.888

The profit mix has become less resource-heavy: Metals & Minerals plus Energy & Chemicals fell from ¥355.3 billion of trading income in FY2023 to ¥231.4 billion in FY2026, while Food, ICT and The 8th improved. That is directionally consistent with management's non-resource growth thesis, but the analysis must preserve the large resource cash contribution and must not label all non-resource profit “recurring.” Investment gains, restructuring, credit costs and equity-method volatility still pass through reported profit.

Product and geographic inventory

ITOCHU does not disclose a clean five-year revenue series by commodity or individual product beneath its operating segments in the fetched data. The statutory revenue disaggregation is by broad goods/services and geography; the Fact Book and segment materials provide operational indicators and investee contributions, not a universal product-revenue matrix. Accordingly, the package does not invent revenue for iron ore, crude oil, FamilyMart, CTC or other holdings.

FY2026 revenue by customer location was Japan ¥11,353.5 billion, United States ¥936.0 billion, Singapore ¥902.7 billion, United Kingdom ¥392.2 billion, Australia ¥363.4 billion and other countries ¥875.3 billion. Japan represented about 76.6% of consolidated revenue by customer location, but this understates economic foreign exposure because many investments, equity-method affiliates and commodities are overseas.

Operational disclosures available for underwriting include iron-ore sales volume and realized/reference prices, oil and gas production, commodity-price sensitivities, FamilyMart and CTC profit commentary, investee-level profit contributions, new investment and asset-exit lists, and country exposure. They should be modeled as separate drivers rather than forced into a false “product revenue” series.

3a — Current trading, guidance and forecast-driver schedule

Last four reported quarters

Amounts are ¥ billion. Revenue and operating profit are consolidated; parent profit is attributable to ITOCHU.

Quarter	Revenue	YoY growth	Trading income	Margin	Parent profit
Q2 FY2026	3,690.2	n/a	183.4	5.0%	216.3
Q3 FY2026	3,737.1	n/a	172.3	4.6%	205.0
Q4 FY2026	3,836.8	n/a	175.5	4.6%	195.0
Q1 FY2027	3,875.9	8.9%	205.5	5.3%	293.8

Q1 attributable profit rose to ¥293.8 billion, 31% of the unchanged ¥950.0 billion full-year forecast. Management characterized core profit progress at 28% of its ¥900.0 billion core forecast. The quarter benefited from Machinery, Metals & Minerals, Energy & Chemicals and strong CTC execution, while General Products & Realty was held back by North American construction materials. Because quarterly investment gains can be lumpy, 31% reported progress is not a mechanical basis to annualize earnings.

Current FY2027 parent-profit guidance is ¥950.0 billion reported and ¥900.0 billion core. The segment parent-profit plan is Textile ¥52.0 billion; Machinery ¥220.0 billion, revised up ¥40.0 billion; Metals & Minerals ¥172.0 billion; Energy & Chemicals ¥111.5 billion, revised up ¥36.0 billion; Food ¥115.5 billion; General Products & Realty ¥63.0 billion; ICT & Financial Business ¥97.0 billion; The 8th ¥31.5 billion; and Others ¥87.5 billion, revised down ¥76.0 billion. The ¥40.0 billion loss buffer remains unchanged. The offsets show that better operating segments are partly funding a lower Others assumption, so headline guidance stability is not evidence that every risk has cleared.

Forecast-driver schedule for the ER2 model

This table separates disclosed anchors from items that must be estimated. “Open” means no company forecast exists through the exact 30 June 2031 horizon. Scenario treatments are underwriting instructions, not company guidance.

Driver	FY2026 actual	TTM to Jun-26 / Q1 signal	FY2027 company anchor	Classification	Bear / Base / Bull treatment to 30 Jun 2031
Consolidated revenue, ¥bn	14,823.1	TTM 15,140.0	No group forecast located	Open analyst estimate	Bear: weak price/volume; Base: segment-normalized growth; Bull: stronger non-resource growth
Trading income, ¥bn	701.9	TTM 736.6	No group forecast located	Open analyst estimate	Bear: margin mean reversion; Base: normalized segment margins; Bull: operating leverage without one-offs
Parent profit, ¥bn	900.3	TTM 910.1	950.0 reported	Company FY2027 / open thereafter	Bear: lower gains and core; Base: reconcile core and gains; Bull: durable core upside
Core parent profit, ¥bn	Company-defined	Q1 progress 28%	900.0	Company-defined non-IFRS	Bear/Base/Bull: preserve adjustment ledger and vary recurring drivers only
Non-resource core profit, ¥bn	n/a	n/a	747.0 plan	Company FY2027 / open thereafter	Bear: cyclical weakness; Base: Food/CTC/Machinery normalization; Bull: verified organic compounding
Resource core profit, ¥bn	n/a	n/a	153.0 plan	Company FY2027 / open thereafter	Bear/Base/Bull: explicit commodity, volume, FX and cost deck
Capex, ¥bn	260.1	No annualized inference	No comparable group forecast located	Open analyst estimate	Bear: higher maintenance; Base: disclosed history; Bull: disciplined growth with stable maintenance
Free cash flow, ¥bn	871.8	Quarterly working capital is noisy	No comparable group forecast located	Derived analyst estimate	Bear/Base/Bull: derive from earnings, working capital, capex and cash investments
Effective tax rate	21.84%	TTM implied 20.58%	No rate forecast located	Open analyst estimate	Bear: normalized upper range; Base: multi-year effective rate; Bull: no structural tax benefit assumed
Average common shares, million	7,033.5	Q1 average 6,990.4	¥300bn / 190m-share authorization	Filing actual plus execution estimate	Bear: tender only; Base: evidenced market purchases; Bull: full authorization only when executed
Net DER	0.46x	0.51x at Jun-26	Discipline reiterated	Company KPI / analyst stress	Bear: acquisition and commodity stress; Base: current discipline; Bull: faster disposal and cash conversion

For Food and The 8th, the model must use reclassified profit history or begin a new series at FY2027. For resource segments, volume, commodity price, FX and cost are distinct inputs. For ICT, CTC's recurring service growth and large-contract timing should be separated. For Machinery, ACG should enter only after closing and on the disclosed ownership/accounting basis. The company disclosed no earnings path to June 2031; interpolation from the ¥950 billion FY2027 forecast would be fabrication.

4 — Industry KPI disclosure inventory

Industry classification and FMP status. ITOCHU is a diversified Japanese *sogo shosha*: a trading, investment and operating conglomerate, not a P&C insurer. The universal diversified-financial/industrial disclosure inventory therefore applies; the insurer reserve check does not. Fresh FMP annual and quarterly segment/product requests returned empty arrays, so official IFRS filings and ITOCHU operating materials control segment and operating-KPI facts.

Search and source inventory. The review searched the official FY2022–FY2026 annual statements and business-result summaries, the Q1 FY2027 statement, result summary, script and Q&A, FY2026 Fact Book, ITOCHU DAY 2026 script/Q&A, country-exposure disclosures, and transaction/buyback releases. Search terms covered segment and Trading income, core/resource/non-resource profit, iron ore and oil/gas volume, commodity/FX sensitivity, equity-method income, investment gains, country/credit exposure, interest-bearing debt/net DER, investment/exits and repurchase/tender execution.

Disclosure family	Five-year history	Current trend / guidance	Status and documented omission
Segment revenue and Trading income	FY2022–FY2026 complete for eight segments plus Others	Q1 FY2027 and FY2027 parent-profit guidance	Complete; FY2027 perimeter break explicitly flagged

Disclosure family	Five-year history	Current trend / guidance	Status and documented omission
Commodity price, volume and sensitivity	Five fiscal years where published	Q1/FY2027 plan available	Partial: FY2022 iron-ore volume was not located in fetched summaries
Equity-method, investment gains, cash conversion and leverage	FY2022–FY2026 consolidated history; bridge detail for FY2026	TTM bridge and Q1 leverage	Complete at group level; investee cash returns remain unevenly disclosed
Country and credit concentration	Current selected-country table	Latest disclosed position	Partial by design: issuer publishes a selected set, not a universal loss estimate
Capital allocation, acquisitions and exits	Five-year FMP cash-flow history plus official events	Current tender, market buyback and announced deals	Deal economics incomplete until closing/PPA and cash-return evidence

Five-year operating history was recovered where possible from official summaries. Volume perimeter changes—especially the CIECO Azerbaijan sale—make oil/gas history non-comparable without adjustment.

Resource KPI	FY2022	FY2023	FY2024	FY2025	FY2026	Q1 FY2027 / FY2027 plan
Iron-ore sales volume, Mt	n/d	23.7	25.6	26.9	31.1	7.6 / 31.4
Oil and gas production, thousand boe/day	37	26	25	23	28	n/a / 12
Brent reference/average, US$/bbl	79.92	95.07	82.08	78.21	69.02	96.68
Iron-ore reference/average, US$/t	154	117	119	105	102	106
Oil sensitivity, ¥bn per US$1	0.40	0.27	0.27	0.13	0.08	0.07
Iron-ore sensitivity, ¥bn per US$1/t	1.20	1.54	1.60	2.00	1.85	1.16

Sources: ITOCHU official [FY2022](https://www.itochu.co.jp/en/ir/financial_statements/2022/__icsFiles/afieldfile/2022/08/04/22_ended_03_e.pdf), [FY2023](https://www.itochu.co.jp/en/ir/financial_statements/2023/__icsFiles/afieldfile/2023/05/11/23_ended_02_e.pdf), [FY2024](https://www.itochu.co.jp/en/ir/financial_statements/2024/__icsFiles/afieldfile/2024/06/06/24_ended_02_e.pdf), [FY2025](https://www.itochu.co.jp/en/ir/financial_statements/2025/__icsFiles/afieldfile/2026/02/09/25_ended_02_e.pdf), [FY2026](https://www.itochu.co.jp/en/ir/financial_statements/2026/__icsFiles/afieldfile/2026/05/14/26_ended_02_e_1.pdf), and [Q1 FY2027](https://www.itochu.co.jp/en/ir/financial_statements/2027/__icsFiles/afieldfile/2026/08/07/27_1st_02_e.pdf) result summaries.

The required ad hoc checklist for a sogo shosha is below. It records what exists, how it should be used, and what is missing.

KPI family	Fresh disclosure found	Underwriting use	Limitation
Non-resource versus resource core earnings	FY2027 plan: ¥747bn non-resource and ¥153bn resource	Tests diversification and commodity dependence	Company “core” definition must be preserved; not IFRS
Iron-ore volume	Q1 7.6Mt versus 7.8Mt; FY plan 31.4Mt versus prior 31.1Mt	Volume driver for Metals & Minerals	Consolidated segment profit also includes investees and costs
Resource prices	Q1 Brent US$96.68 versus US$66.71; iron ore US$106/t versus US$98/t	Price sensitivity and downside cases	Timing and realized-price lags matter
Commodity sensitivity	Oil: about ¥0.07bn per US$1; iron ore: ¥1.16bn per US$1/t	Scenario translation to profit	Sensitivities are linear approximations and perimeter-specific
FX sensitivity	About ¥2.4bn per ¥1/US$ for Q2–Q4	Yen scenario	Translation, transaction and hedge effects can differ
Oil and gas volume	FY plan about 12 thousand boe/day versus 28 previously	Production-volume driver	Portfolio change makes historical comparison discontinuous
Equity-method earnings	FY2026 ¥323.5bn; TTM ¥371.3bn	Captures investee economics omitted from revenue	Requires investee-level normalization
Investment gains and losses	FY2026 ¥175.2bn; TTM ¥82.8bn	Separates core from realized gains	Management core adjustments require item-level review
New investments and exits	Transaction lists and exit-policy commentary available	Capital-allocation scorecard	Deal-level cash returns are rarely fully disclosed

KPI family	Fresh disclosure found	Underwriting use	Limitation
Credit and country exposure	Investments/loans/guarantees and trade receivables by selected country	Concentration and impairment stress	Not a complete mark-to-market loss estimate
Shareholder returns	Dividend and buyback announcements; split-adjusted shares	Per-share value bridge	Authorization does not guarantee full execution
Ratings and leverage	Net IBD, net DER and agency ratings	Funding resilience	Debt definition differs from aggregators
Geographic revenue	Customer-location revenue by country	Demand footprint	Does not capture investee or asset location cleanly
R&D	FMP field is zero	No useful inference	Zero is a reporting/classification field, not proof of no innovation spend

5 — Resource, credit and country-risk detail

IMEA's Q1 profit was ¥34.4 billion versus ¥26.0 billion in the prior comparison. Management said the turnaround of the two coking-coal projects was progressing as planned. Iron-ore sales volume was slightly lower in Q1 but the full-year plan was lifted. The major analytical risk is extrapolating spot commodity strength: management itself stressed in the [ITOCHU DAY 2026 script](https://www.itochu.co.jp/en/files/IRDay2026_ALL_E_s.pdf) that “In iron ore, we believe downside from here is limited,” which is an opinion, not a floor. The ER2 model should include lower-price, cost-inflation and operational-disruption cases even if spot indicators are favorable.

Selected official country exposure at the latest disclosed date is shown below. Amounts are ¥ billion. The first exposure column includes investments, loans and guarantees; the second is net trade receivables.

Country	Investments, loans and guarantees	Net trade receivables
China	1,836.1	72.9
Brazil	230.1	1.7
Indonesia	149.7	12.6
Philippines	141.5	1.2
Thailand	111.6	16.0
Russia	79.7	0.0
Iraq	55.5	n/d
Azerbaijan	25.7	n/d
Total disclosed set	2,707.6	142.9

China dominates this selected-country inventory. The gross number is not equivalent to expected loss: it spans investments, loans and guarantees with different seniority, collateral and accounting. Relevant stresses include property-related weakness, capital controls, local-currency translation, sanctions spillover, sovereign intervention and counterparty deterioration. Russia exposure is smaller but carries elevated sanctions and recoverability risk. Commodity countries add price and policy correlation to segment risk.

External ratings support funding access: Moody's A2 stable, S&P A stable, R&I AA stable and JCR AA+ stable. Ratings are lagging risk indicators, however. The combination of a large investment portfolio, acquisition commitments, shareholder returns and rising net IBD should be watched through net DER, liquidity, maturity profile, covenant headroom and cash conversion.

6 — Capital allocation, acquisitions and divestments

Fresh FMP cash-flow data show repurchases of ¥60.0, ¥60.2, ¥100.1, ¥153.9 and ¥170.3 billion in FY2022–FY2026. Dividends rose from ¥135.4 billion to ¥282.7 billion over the same span. This has reduced average common shares by about 5.2% from FY2022 to FY2026 and amplified per-share growth. Net acquisition cash flow was -¥12.3 billion, +¥127.3 billion, -¥357.9 billion, -¥120.8 billion and approximately zero across those years, but cash-flow classification alone does not capture all equity-method investments, non-cash consideration or disposals.

The current authorization is up to ¥300 billion and 190 million shares, running from 4 August 2026 to 29 January 2027. Under the [2 September tender result](https://www.itochu.co.jp/en/ir/news/2026/__icsFiles/afieldfile/2026/09/02/ITC20260902_E.pdf), ITOCHU accepted

82,735,750 shares at ¥1,813 per share, or ¥149,999,914,750, with settlement on 28 September 2026. Market purchases from 2 September may use the roughly ¥150 billion residual authorization; they are not assumed executed without subsequent evidence. The company has also implemented a share split, so historical and forecast per-share figures must be split-adjusted consistently.

Material recent or proposed portfolio actions include acquisition of a 33.4% stake in Hitachi Construction Machinery; privatization of ITOCHU-SHOKUHIN; investment in Sun Frontier Fudousan; and two announced but conditional transactions. ITOCHU plans to acquire [50% of SKY-U, the owner of ACG](https://www.itochu.co.jp/en/files/20260803_E_2.pdf), for approximately US$1.946 billion and account for SKY-U as an equity-method associate after the planned November 2026 closing. It also [proposes to acquire](https://www.itochu.co.jp/en/ir/news/2026/__icsFiles/afieldfile/2026/08/31/ITC20260831E_1.pdf) 74,712,722 Dentsu Soken shares at ¥2,880, or ¥215.173 billion, for 38.22% post-transaction ownership, subject to the stated conditions. Management cites an expected return on investment above 8% for the latter. ACG should not be credited with synergies before evidence: management's current priority in the [Q1 Q&A](https://www.itochu.co.jp/en/ir/financial_statements/2027/__icsFiles/afieldfile/2026/08/05/27_1st_03_e_2.pdf) is “to enhance earnings on the existing asset base.”

At ITOCHU DAY, the [official Q&A](https://www.itochu.co.jp/en/files/IRDay2026_E_qaAll.pdf) sharpened the exit framework: “As a general rule, investments that meet any of these criteria are subject to exit consideration.” Management also said, “We believe proactive asset replacement is necessary even before a business formally breaches our exit criteria.” The underwriting test is whether realized exits, impairments, cash returns and reinvestment collectively beat the cost of capital, not whether gross investment announcements are large.

The FY2026 buyback plus dividend totaled about ¥453.0 billion, roughly 50% of attributable profit and 52% of free cash flow. That leaves meaningful internally generated capacity, but the combination of ACG, Dentsu Soken, privatizations and buybacks can consume it quickly. A capital-allocation bridge should start with operating cash flow, subtract maintenance and growth capex, add disposals, subtract acquisitions and shareholder returns, then reconcile to net IBD.

7 — Segment operating observations and management commentary

All quotations below come from newly fetched official Q1 FY2027 or ITOCHU DAY text. They are evidence of management's framing, not independent verification.

Segment	Q1 FY2027 signal	Evidence and watch item
Textile	Revenue ¥164.2bn; trading income ¥6.5bn	Recovery remains modest; monitor brand demand and restructuring
Machinery	Revenue ¥370.3bn; trading income ¥20.8bn	Guidance raised ¥40bn; acquisition execution and auto cycle are key
Metals & Minerals	Revenue ¥341.3bn; trading income ¥42.9bn	Coking-coal turnaround and iron-ore price-volume-cost drive variance
Energy & Chemicals	Revenue ¥873.5bn; trading income ¥42.4bn	Guidance raised ¥36bn; oil price, trading and new perimeter matter
Food	Revenue ¥1,419.4bn; trading income ¥58.0bn	FamilyMart transferred in; old-perimeter margins are not comparable
General Products & Realty	Revenue ¥394.5bn; trading income ¥19.5bn	“Slow progress due to the weak performance of North American construction-materials business.”
ICT & Financial Business	Revenue ¥278.1bn; trading income ¥21.8bn	CFO said CTC grew operating and net profit more than 20% in Q1 for a fourth consecutive year
The 8th	Revenue ¥3.4bn; trading loss ¥0.8bn	Perimeter reset; allocated FamilyMart net profit sits below trading income

CFO Tsuyoshi Naka said in the [Q1 FY2027 Q&A](https://www.itochu.co.jp/en/ir/financial_statements/2027/__icsFiles/afieldfile/2026/08/05/27_1st_03_e_2.pdf), “We also feel that our organic growth is gaining clear momentum.” The same Q&A highlighted CTC: “CTC achieved growth of more than 20% in both operating profit and net profit in Q1 for the fourth consecutive year.” These statements support attention to non-resource compounding, but the model should verify organic growth excluding acquisitions, currency and one-offs.

Management's [Q1 script](https://www.itochu.co.jp/en/ir/financial_statements/2027/__icsFiles/afieldfile/2026/08/05/27_1st_04_e_2.pdf) stated,

“Our company-wide forecast remains unchanged at ¥950.0 billion.” The unchanged total conceals segment revisions and a reduced Others plan. At ITOCHU DAY, CEO Masahiro Okafuji's management system was described through the principles “Earn, Cut, Prevent.” In the [official Q&A](https://www.itochu.co.jp/en/files/IRDay2026_E_qaAll.pdf), The 8th Company President Hosomi cautioned, “The 8th Company’s strategy is not necessarily centered solely on FM.” Investors should therefore expect the segment to develop businesses beyond FamilyMart rather than treating it as a pure convenience-store reporting line.

8 — Shares, dilution and market snapshot

FMP's fresh quote was ¥2,226 per share with market capitalization of approximately ¥15.56 trillion. It is a Tokyo-listed ordinary share, ISIN JP3143600009, not an ADR. Price is a point-in-time input and must be refreshed at valuation time.

Share item	Evidence	ER2 treatment
FY2026 average common shares	7,033.5 million	Denominator for FY2026 basic EPS; filing shows no diluted EPS
Five-year share trend	Down from 7,418.5 million in FY2022	Repurchases contributed to EPS growth
Q1 FY2027 shares	6,990.4m average; 6,993.1m period-end basic shares	Period end = 7,924,447,520 issued less 931,394,253 treasury shares
Current buyback	Tendered 82.736m shares for ¥150.000bn; total authorization up to ¥300bn / 190m shares	Use tender actual; add market purchases only when disclosed
Share split	Implemented / announced in current period	Maintain one split-adjusted convention throughout
Employee/options dilution	Statutory EPS table reports diluted EPS as “–”	Do not invent dilution; recheck future filings and acquisitions

At the fresh quote, a simple price-to-FY2026 basic EPS ratio is approximately 17.4 times. That is not a verdict because the quote/share basis, split adjustment, TTM EPS, acquisition funding and FY2031 earnings path must be aligned. The ER2 valuation gate should begin with reported basic shares, account for executed repurchases, and add dilution only when evidenced; it should not treat the unexecuted authorization as already retired stock.

9 — Peer frame

FMP's peer endpoint was retrieved but is only a candidate list. The economically relevant Japanese sogo shosha comparables are Mitsubishi Corporation, Mitsui & Co., Marubeni and Sumitomo Corporation. Sojitz is a smaller secondary comparable. These companies differ materially in resource exposure, financial businesses, consolidation choices, asset turnover and buyback timing.

Peer comparison should prioritize: attributable profit and core-profit definitions; resource versus non-resource contribution; ROE and transparent ROIC; free cash flow after maintenance capex; net DER and liquidity; five-year per-share growth; investment gains and impairments; valuation on normalized EPS and book value; and the record of buying, improving and exiting businesses. Consolidated revenue multiples are especially weak because agent-versus-principal accounting can change revenue without changing economics. EBITDA multiples are also inferior when equity-method income forms a large share of earnings.

No peer valuation table is asserted here because current peer prices, split factors and fiscal forecasts were not independently fetched and normalized for this package. That missing evidence should remain visible rather than combining stale market data with live ITOCHU data.

10 — Material evidence gaps and handoff requirements

- **Product revenue:** No official universal five-year revenue series below operating segment was located, and FMP product endpoints were empty. Use disclosed operating KPIs without fabricating product sales.
- **FY2022 segment trading income:** Backfilled from the FY2022 statutory segment note under the same eight-company taxonomy. FY2023–FY2024 lines retain workbook rounding, so avoid false precision when summing them.
- **Food / The 8th boundary:** FY2027 FamilyMart reallocation breaks revenue-margin comparability. Model reclassified profit and historical revenue separately unless ITOCHU publishes a fully reclassified multi-year dataset.
- **Power integration:** Energy & Chemicals now incorporates the former Power & Environmental Solution Division. Prior-period comparisons must use company-reclassified figures where available.

- **Core-profit definition:** The ¥900 billion FY2027 core forecast and resource/non-resource split are management-defined, not IFRS line items. Section 11 now supplies a zero-residual actual-period normalization ledger; the forecast remains context only and is not a normalization plug.
- **Debt:** FMP total debt exceeds ITOCHU interest-bearing debt because the definitions differ. Use the official net IBD and net DER for management leverage, with a separate statutory-liability bridge for credit analysis.
- **Acquisition economics:** Closing timing, accounting treatment, financing, amortization and post-deal contribution for ACG, HCM, Dentsu Soken and privatizations require transaction-specific updates.
- **Capital intensity:** Group capex mixes businesses with very different maintenance needs. Segment maintenance versus growth capex is not fully disclosed.
- **Peer normalization:** Live peer market data and consensus forecasts were not pulled for this stage. Fetch and normalize them before relative valuation.
- **Exact horizon:** No company guidance reaches 30 June 2031. The final model must bridge FY2027 guidance to the horizon with explicit segment assumptions and bear/base/bull cases.

The strongest current evidence is the audited FY2026 base, the zero-residual sealed bridge, Q1 FY2027 statutory updates, five-year official segment revenue, resource sensitivities, country exposure and capital-return announcements. The weakest areas are product granularity, historical comparability around the FY2027 organization changes, acquisition return evidence and the absence of long-range company guidance. Those gaps should directly shape uncertainty bands and position sizing in subsequent ER2 stages.

11 — VP repair: TTM reported-to-normalized attributable-profit and listed-unit EPS ledger

11.1 Definition, source boundary and exact conclusion

This repair leaves the QFR-sealed FY2026 and TTM statutory bridges in Section 2 unchanged. It starts with the sealed TTM statutory net profit attributable to ITOCHU of **¥910.107 billion** and converts it to a normalized statutory-equivalent attributable-profit denominator. “Normalized statutory-equivalent” means statutory attributable profit after subtracting ITOCHU's actual-period, management-identified extraordinary gains and losses and the one separately quantified temporary market uplift. It is an analyst denominator derived from reported facts; it is not an IFRS measure and is not ITOCHU guidance.

The controlling sources are the fresh [FY2026 business-results summary](https://www.itochu.co.jp/en/ir/financial_statements/2026/__icsFiles/afieldfile/2026/05/14/26_ended_02_e_1.pdf), [FY2026 audited Financial Information Report](https://www.itochu.co.jp/en/ir/download/__icsFiles/afieldfile/2026/06/12/FIR2026E.pdf), [Q1 FY2027 statutory statement](https://www.itochu.co.jp/en/ir/financial_statements/2027/__icsFiles/afieldfile/2026/08/06/27_1st_01_e.pdf), [Q1 FY2027 business-results summary](https://www.itochu.co.jp/en/ir/financial_statements/2027/__icsFiles/afieldfile/2026/08/07/27_1st_02_e.pdf), and [Q1 FY2027 Q&A](https://www.itochu.co.jp/en/ir/financial_statements/2027/__icsFiles/afieldfile/2026/08/05/27_1st_03_e_2.pdf). They were fetched again for this repair. Fresh FMP annual and quarterly income statements and the live quote were also fetched; the official foreign-issuer statements control.

ITOCHU reports actual-period “core profit” and “extraordinary gains and losses” as components of consolidated net profit by segment. The company's annual document calls the year ended March 2026 “FY2025,” while this ER2 package calls it FY2026; the dates, not the display labels, control. Actual core profit was approximately ¥781.5 billion for the year ended March 2026, ¥181.0 billion for the June 2025 quarter, and ¥249.5 billion for the June 2026 quarter. The TTM actual core-profit point is therefore **¥850.0 billion = ¥781.5 billion** − **¥181.0 billion + ¥249.5 billion**. This uses only actual periods. The separate FY2027 ¥900 billion core guidance is not used anywhere in the calculation.

Management estimated that Q1 FY2027 Energy & Chemicals core profit contained a net **¥5.0 billion** benefit from Middle East-driven chemical prices and said the benefit was unlikely to be fully sustainable. The primary denominator conservatively removes that identified temporary uplift. Thus the exact selected normalized input is **¥845.000 billion**, subject to the disclosed rounding band and the cycle-neutral limitation below.

11.2 Item-level extraordinary-gain/loss roll-forward

Amounts are ¥ billion and are already **post-tax and parent-attributable**, because ITOCHU presents them inside consolidated net profit by segment. A positive number is profit removed from reported earnings; a negative number is a loss added back. “FY2026 actual” below means the year ended 31 March 2026 under this package's convention. The disclosed segment amounts are rounded to ¥0.5 billion.

Segment / item family	FY2026 actual extra G&L	Less Q1 FY2026	Add Q1 FY2027	TTM extra G&L removed	Item-level evidence and availability
Textile	2.0	0.5	1.0	2.5	Current Q1: DESCENTE China reorganization ¥1.0bn; prior Q1: DESCENTE fixed-asset sale ¥0.5bn; remaining annual-period partition unavailable within the disclosed total
Machinery	14.5	5.5	9.5	18.5	Current Q1: HCM additional-acquisition tax benefit ¥6.5bn, HCM fixed-asset sale ¥2.5bn, European power liquidation ¥0.5bn; prior Q1 JAMCO sale ¥5.5bn; other FY2026 Q2–Q4 items are bounded inside the annual segment total
Metals & Minerals	-2.5	0.0	-0.5	-3.0	Current Q1: MISI overseas-business provision -¥0.5bn; remaining FY2026 losses are not separately named
Energy & Chemicals	-0.5	0.0	34.5	34.0	Current Q1: CIECO Azer sale ¥34.0bn and ITOCHU ENEX fixed-asset sale ¥0.5bn; FY2026 residual loss -¥0.5bn
Food	8.0	8.5	0.0	-0.5	Prior Q1: PROVENCE HUILES sale ¥8.0bn and FamilyMart tax benefit ¥0.5bn roll out of TTM; FY2026 Q2–Q4 net -¥0.5bn remains inside the annual total
General Products & Realty	16.0	0.0	0.0	16.0	FY2026 Q2–Q4 total; audited note identifies ¥18.036bn pre-tax pulp reorganization gain, but the post-tax segment residual is not separately decomposed
ICT & Financial Business	3.0	0.0	0.0	3.0	FY2026 Q2–Q4 total; exact item partition unavailable
The 8th	-0.5	0.5	0.0	-1.0	Prior-Q1 FamilyMart tax benefit rolls out; FY2026 Q2–Q4 segment loss remains in the annual total
Others, Adjustments & Eliminations	79.0	88.0	0.0	-9.0	Q2–Q4: CITIC group-company ownership change +¥0.5bn, overseas-company provisions -¥11.5bn, overseas-company tax improvement +¥2.0bn; prior-Q1 C.P. Pokphand sale ¥88.0bn rolls out
Disclosed rounded component total	119.0	103.0	44.5	60.5	Sum of official segment components
Disclosure-rounding reconciliation	n/a	n/a	n/a	-0.393	Exact statutory TTM profit less actual-period core point is ¥60.107bn; difference from ¥60.5bn component sum is solely the disclosed ¥0.5bn component granularity
Exact extraordinary G&L removed	n/a	n/a	n/a	60.107	¥910.107bn reported minus ¥850.000bn actual-period core point

The -¥0.393 billion reconciliation is not an economic plug. ITOCHU labels the total core amounts approximate and rounds the segment extraordinary figures to ¥0.5 billion. Its only purpose is to join those rounded components to the exact statutory starting profit. The associated point-estimate uncertainty is conservatively **±¥0.750 billion**, equal to ±¥0.250 billion on each of

the three actual core observations in the TTM formula.

11.3 Zero-residual normalized attributable-profit ledger

Amounts are ¥ billion except EPS and P/E. The exact TTM weighted-average share count is 7,010,959,923.243836 split-adjusted XJPX:8001 ordinary shares from the sealed TTM share bridge. There is one financial common share per listed unit, no ADR ratio, no intervening split after 30 June 2026, and JPY reporting/quote currency identity.

Step	Profit adjustment	Running attributable profit	Tax treatment	NCI treatment	Share-basis treatment
Reported TTM statutory net profit attributable to ITOCHU	—	910.107	TTM tax expense of ¥245.826bn is already above this line	TTM NCI of ¥38.718bn is already deducted	Divide by TTM weighted-average listed shares
Remove exact actual-period extraordinary G&L	-60.107	850.000	Adjustment is already post-tax; no tax gross-up or second tax charge	Already parent-attributable; no additional NCI deduction	Same historical TTM denominator
Remove quantified temporary Middle East chemical-price uplift	-5.000	845.000	Management quantified the impact within core profit; treated as post-tax segment profit	Parent-attributable segment-profit context; no second NCI deduction	Same historical TTM denominator
Selected normalized statutory-equivalent attributable profit	0.000	845.000	Zero incremental tax residual	Zero incremental NCI residual	7,010,959,923.243836 listed units

Arithmetic residual: **¥910.107bn** – **¥60.107bn** – **¥5.000bn** – **¥845.000bn = ¥0.000bn**.

Denominator / multiple	Exact calculation	Result
Reported TTM statutory EPS	¥910,107m / 7,010.959923m shares	¥129.812039
Reported current P/E	¥2,226 / ¥129.812039	17.147870x
Actual-period core EPS before temporary-market adjustment	¥850,000m / 7,010.959923m shares	¥121.238748
Primary normalized statutory-equivalent EPS	¥845,000m / 7,010.959923m shares	**¥120.525578**
Primary normalized current P/E input	¥2,226 / ¥120.525578	**18.469109x**
Rounding-bound normalized EPS	¥844,250m–¥845,750m / shares	¥120.418603–¥120.632554
Rounding-bound normalized P/E	¥2,226 / bounded EPS	18.452730x–18.485516x

The ¥150.000 billion tender repurchase settled after the 30 June TTM anchor and therefore does not rewrite the historical weighted-average EPS denominator. It belongs in the forward share roll-forward. Likewise, the current price is the sealed 28 September 2026 close and is not backdated to the earnings period.

11.4 Statutory-line inventory and pre-tax/post-tax mapping

The official “extraordinary gains and losses” classification is a management presentation of **parent-attributable profit**, not a one-to-one label in the IFRS income statement. The table below prevents a false gross-up. Statutory pre-tax lines remain exactly as sealed; normalization occurs once through the post-tax attributable ledger above.

Material family	Statutory TTM amount	Separately identified item	Pre-tax / post-tax status	Normalization treatment
Gains (losses) on investments	+¥82.814bn pre-tax	FY2026 C.P. Pokphand sale gain ¥111.436bn, which occurred in prior Q1 and rolls out of TTM; FY2026 pulp-reorganization gain ¥18.036bn; current-Q1 CIECO Azer sale contributes to ¥34.0bn parent-attributable extraordinary profit	Exact TTM event-level pre-tax partition is unavailable; CIECO ¥34.0bn is not relabelled as pre-tax	Removed only through official post-tax extraordinary ledger; no double subtraction
PP&E and intangible gains/losses	-¥11.391bn pre-tax	FY2026: gains on sales ¥9.693bn; disposal/sale losses -¥6.826bn; impairment losses/reversals -¥14.981bn; goodwill impairment -¥1.293bn; other +¥0.576bn; includes RICARDO PÉREZ reversal +¥6.932bn	Audited annual gross components available; exact TTM components unavailable because Q1 filings do not provide the same breakdown	Reflected inside official segment extraordinary totals where classified; statutory line otherwise remains unchanged

Material family	Statutory TTM amount	Separately identified item	Pre-tax / post-tax status	Normalization treatment
Other-net / FX	+¥14.855bn pre-tax	FY2026 net FX gain ¥2.236bn; Q1 current Other-net improved ¥6.049bn YoY mainly from FX	Exact TTM net-FX level is unavailable; YoY movement is not an absolute normalization adjustment	Retained except the separately quantified ¥5.0bn temporary chemical-price uplift; conclusion is not fully FX-neutral
Equity in earnings of associates/JVs	+¥371.269bn pre-tax-to-group line	Orchid Alliance, the 100%-owned vehicle investing in CITIC, contributed approximately ¥119.4bn TTM: ¥116.2bn – ¥28.8bn + ¥32.0bn	Major-group-company figures include related tax effects; exact CITIC-only pre-tax split from Orchid financing costs is unavailable	Retained as recurring associate economics; no impairment adjustment because recognized impairment was zero
CITIC impairment	¥0 recognized	FY2026 stock-price decline was an impairment indicator; recoverable amount exceeded carrying amount	Any CTB impairment would enter equity in earnings of associates/JVs; none was recorded	Zero adjustment; risk remains for scenarios
Resource-cycle effects	Exact absolute amount unavailable	FY2026 YoY effects: resource prices -¥10bn and FX -¥17bn; current Q1 Middle East chemical benefit net +¥5bn	The -¥10bn/-¥17bn figures are changes, not levels; ¥5bn is management's current-period net estimate	Remove only the source-bound ¥5bn; do not fabricate a long-run commodity/FX mean
Income tax	-¥245.826bn TTM	Q1 HCM acquisition tax benefit ¥6.5bn is classified as extraordinary; audited FY2026 ETR 21.8%, TTM ETR 20.58%	Item-level tax mapping is unavailable for every gain; post-tax segment ledger controls	Remove disclosed tax benefits through extraordinary totals; no blanket tax-rate reset or double counting
NCI	-¥38.718bn TTM	No material NCI subsidiary identified in FY2026 audited note	Statutory NCI is already deducted before reported attributable profit	Retain; normalized adjustments are already parent-attributable

11.5 Acquisition and perimeter-change inventory

Transaction / perimeter change	Timing relative to 30 Jun 2026 anchor	TTM earnings effect	EPS-ledger treatment and remaining unavailable evidence
Hitachi Construction Machinery stake increase to 33.4%	Completed in Q1 anchor period; ¥134.1bn investment	Recurring Q1 contribution increase of approximately ¥4.5bn is within core; ¥6.5bn tax benefit and ¥2.5bn asset-sale gain are extraordinary	Retain recurring contribution; remove the two one-offs through Machinery extra G&L; exact full-quarter ownership timing contribution beyond disclosed figure unavailable
ITOCHU-SHOKUHIN privatization	Tender completed 9 Apr 2026, inside Q1 anchor	Included in Q1 Food/core perimeter	Retained as current perimeter; exact incremental Q1 profit not separately disclosed
Sun Frontier Fudousan 21.2% investment	Completed in April 2026, inside Q1 anchor; ¥32.3bn investment	Q1 group-company contribution approximately ¥0.7bn	Retained as current recurring GP&R core perimeter; no pro forma pre-acquisition backcast
North American power and other April investments	Completed inside Q1 anchor	Included in Machinery core; aggregate Q1/new-investment visibility disclosed, exact deal-level TTM amount unavailable	Retained as current perimeter; financing and deal-level contribution are not fabricated
FamilyMart transfer from The 8th to Food	Internal reporting change beginning FY2027	Zero consolidated attributable-profit effect	No normalization adjustment; prevents segment double counting only
Power division integration into Energy & Chemicals	Internal reporting change beginning FY2027	Zero consolidated attributable-profit effect	No normalization adjustment; use reclassified segment comparisons
Metsä Fibre deconsolidation	Effective before/current anchor comparison	Prior losses no longer affect current GP&R; exact TTM core normalization is not separately disclosed	Retained in actual perimeter; no invented pro forma backcast
SKY-U / Aviation Capital Group 50% acquisition	Planned closing after anchor, consideration about US$1.946bn	Zero TTM earnings	Excluded from current normalized EPS; future associate income, financing and closing timing unavailable until completion evidence
Proposed Dentsu Soken 38.22% acquisition	Conditional after anchor, up to ¥215.173bn	Zero TTM earnings	Excluded from current normalized EPS; no synergy or earnings credit
Tender repurchase of 82.735750m shares	Settled 28 Sep 2026 after anchor	Zero TTM earnings; no change to historical weighted-average shares	Apply only in forward share-count bridge, not the TTM EPS denominator

11.6 Availability boundary and constrained valuation use

The exact selected denominator is therefore **¥120.525578 normalized EPS per listed ordinary share**, and the exact current P/E input at ¥2,226 is **18.469109x**. The bounded disclosure-rounding uncertainty is ¥120.418603–¥120.632554 per share,

equivalent to 18.452730x–18.485516x.

One decision-critical limitation remains: a fully cycle-neutral resource and FX adjustment is unavailable. ITOCHU publishes sensitivities and year-on-year effects, but not the normalized commodity prices, hedge book, timing lags, or transaction/translation split needed to derive an absolute TTM adjustment without invention. The denominator removes the one explicitly quantified temporary uplift of ¥5.0 billion and all disclosed actual-period extraordinary gains/losses; it **must not be described as fully commodity-cycle-neutral or FX-neutral**. The ER2 scenarios must carry resource prices, volumes, costs and FX explicitly rather than treating this current P/E as a terminal multiple cap.

Fresh-source note: the first attempt and identical retry to the obsolete annual-summary URL dated 1 May 2026 returned HTTP 404. The canonical 14 May 2026 official PDF was then fetched and hash-verified. Fresh-PDF text extraction with local `pdftotext` also failed twice because the binary was unavailable; analysis used the identical-content previously extracted text plus fresh PDF byte hashes and live official web rendering. No cached financial dataset substituted for the live documents.