Toyota Tsusho Corporation
Earnings Briefing for Fiscal Year Ended March 31, 2017
Condensed Transcript of Q&A Session

Date & time: May 2, 2017 (Tuesday) 15:00–16:00
Attendees:

Jun Karube, President/CEO
Hiroshi Tominaga, Managing Executive Officer
Hideyuki Iwamoto, Managing Executive Officer

What is the outlook for businesses involved in auto production?
Metal prices' ongoing recovery bodes favorably for the metal processing business. By region, we expect the status quo to persist in the US and Chinese auto production to grow. In Thailand, we expect the business environment to improve somewhat but remain challenging. We expect auto parts shipments to track in line with auto production.

What are the factors behind the year-on-year profit growth implied by your 110 billion yen profit forecast for the current fiscal year?
For the fiscal year just ended, we reported earnings on a JGAAP basis. Our forecast for the current fiscal year is on an IFRS basis. The two are not directly comparable. In June, we plan to release IFRS-basis financial statements for the previous fiscal year. At that time, we will explain the factors behind year-on-year differences between our forecast for the current fiscal year and our IFRS-basis results for the previous fiscal year. My sense is that our 110 billion yen forecast equates to year-on-year growth of around 5% attributable to recovery in auto sales and the Next Mobility business's earnings contribution.

What do you expect to drive earnings growth in each of your three business domains?
In the Mobility domain, we expect automotive electronics to contribute to profit growth in addition to solid growth in businesses involved in or peripheral to auto production. In the Life & Community domain, we expect the African retail business to turn profitable in the fiscal year ending March 2020 and contribute to profit growth accordingly. In the Resource & Environment domain, we expect the electric power business, including Eurus Energy, and the lithium and other metal resource and recycling businesses to drive profit growth.

Could you elaborate on the Next Mobility business?
We started to get involved with next-generation autos a while ago. In the current fiscal year, we established cross-divisional specialized teams to enable us to propose comprehensive solutions by concentrating expertise and collaborating across divisions. Electronics, including EVs and connectivity, is one of our strengths. We expect it to account for some five to ten billion yen of increased profits going forward. With steel set to be replaced by aluminum, carbon fiber and plastics, we see such new materials as another multibillion yen business opportunity that will be upon us in a little while. We plan to proactively propose ideas and develop businesses for the soft alliances Toyota Motor is building with partners such as Suzuki Motor, Mazda Motor and Subaru.

Your medium-term business plan's earnings figures for African operations appear to be lower than your long-term plan's corresponding figures of a year ago. Why?
The outlook for Africa alternates between optimistic and pessimistic. Although crude oil prices have returned to the vicinity of US$ 50 per barrel, recovery in African countries' economic environment has been sluggish. Last fiscal year in particular, economic conditions deteriorated substantially in seven oil-producing countries in which our Group operates. In light of such, the medium-term plan's figures are more realistic.

What is your African operations' strategy and timeline going forward?
We expect sales to recover gradually and production to recover over a three-year timeframe. While the specifics of the alliance between Toyota Motor and Suzuki Motor have yet to be finalized, it looks like they plan to expand their auto sales in Africa, with Suzuki covering the low end of the market and Toyota covering the mid/high end.

What do you expect to gain from making CFAO a wholly owned subsidiary?
When we acquired 97% of CFAO's shares through a 2012 takeover bid, we considered squeezing out the remaining minority shareholders but given CFAO's long history, we decided to maintain its stock market listing to better integrate CFAO into our Group. After largely completing the integration process and cultivating a relationship of mutual trust with CFAO over the years since acquiring it, we have now squeezed out the remaining minority shareholders. It is now crunch time in terms of CFAO's earnings. With resource prices unlikely to recover further, we want to reform CFAO's operations from within. We believe that 100% ownership of CFAO better enables us to streamline management and realize even more effective governance.

Are you planning any personnel exchanges with CFAO?
CFAO's strengths are sales and the ability to launch new businesses quickly while Toyota Tsusho's strengths are production and *kaizen* (improvement) activities. We plan to exchange personnel through temporary reassignments so both companies can learn each other's strengths, share know-how and utilize it in their future operations.

What are your approach to investment and interest-bearing debt and is there any possibility of share buybacks as a shareholder return policy?
We have identified business domains that we believe we should focus on as a company and rigorously selected investments from a long list of operating divisions' investment proposals. As a result of this process, we set our three-year medium-term business plan's two-year investment budget at 200 billion yen. This budget is not a binding constraint. Given enough good investment opportunities, we could invest more than 200 billion yen. We believe we can further improve working capital turnover. Even while funding investments, we intend to maintain positive free cash flow in the aim of reducing net interest-bearing debt to below one trillion yen. If we achieve our medium-term business plan's profit targets and maintain our current dividend payout ratio, we estimate that we would accumulate some 250 billion yen of surplus cash while reducing our net debt/equity ratio to 1.0 by 2020. We could allocate this surplus cash to new large investments. Absent sufficiently attractive investment opportunities, we would consider increasing shareholder returns through dividends. We have no plans of buying back shares as a shareholder return policy.

Do you plan to scrap and rebuild any businesses?
Our assets are now mostly high-quality, but we continue to scrap and rebuild unprofitable subsidiaries. With nearly 1,000 subsidiaries and affiliates, including indirect subsidiaries, we want to reduce this number to a manageable level.

What is your effective tax rate on a consolidated basis?
In the fiscal year just ended, it was around 17% but excluding the benefits of consolidated taxation, it was around 33%. We expect it to be about 30% in the current fiscal year.

What is your earnings' exchange-rate sensitivity?
If all currencies were to move the equivalent of one yen against the US dollar in unison, the resultant impact on our ordinary income and profit in the fiscal year just ended would have been 900 million and 500 million yen, respectively. On an IFRS-basis in the current fiscal year, these sensitivities are now one billion and 700 million yen, respectively, per one-yen-equivalent exchange rate movement.