Toyota Tsusho Corporation

Earnings Briefing for First Quarter of Fiscal Year Ending March 31, 2024 (FY2023)
Condensed Transcript of Q&A Session

Date & time: Friday, July 28, 2023, 17:00-17:50
Attendees: Hideyuki Iwamoto, CFO
Shigeo Obata, Assistant to CSO
Yasushi Aida, Assistant to CFO

Q. I would like to ask about the revision of earnings forecasts. For the four divisions (Metals, Mobility, Food & CS, and Africa) that have revised their earnings forecasts upward, what impact do they see after revising the exchange rate assumptions to a weaker yen? I can see that these divisions showed a high progress rate compared to the revised forecast. Are they simply conservative or do they see any risks?

A. Overall, we expect the exchange rate to weaken by 10 yen, with profit up by 15 billion yen compared to the previously announced forecast. We would like to refrain from disclosing information by each division.
Divisions that will be impacted significantly will be Africa, which trades mainly in euro, and Metals, which has a large trading volume.
We enjoyed very good results in 1Q, but it is uncertain whether this situation will continue in the future, so our forecasts are somewhat conservative. In terms of vehicle production, our initial plan was conservative, but performance has been strong. However, we expect that this strong performance will be more or less offset by the appreciation of the yen, and thus we have not reflected it much in the revised plan.
As for risks, market conditions are not expected to deteriorate further. However, for Africa Division, our forecast is conservative taking into account country risk.

Q. You plan to increase the dividend in association with the revision of the earnings forecast. What are you currently discussing in terms of a change in your shareholder returns policy?

A. We understand that the market expects us to review our shareholder returns policy. Based on that, management is currently in the middle of discussions about the matter.

Q. You explained that sales in Africa overperformed in 1Q. Why is your forecast conservative? You expect a decline in demand or tight supply? Additionally, please provide an explanation for other areas.

A. We have secured sufficient inventory for sales. Sales are particularly strong in West African States such as Mauritania, Guinea, Mali and Chad, and we feel that motorization is progressing in Africa. Country risk is a persistent concern.
In addition, South Africa showed positive performance compared to the same period last year due to the flooding last year, but the recovery was not as strong as expected.

Outside of Africa, sales to the Caucasus and Adriatic regions, where we have a good track record, are strong. Cambodia and Papua New Guinea showed poor performance compared to the same period last year because sales overperformed last year. Sales margins have not fallen as much as initially expected.

Q. BS has become very robust and I would like to ask again about your shareholder returns policy.

A. Due to the strong performance in 1Q, and as we expect to further increase shareholder equity due to an increase in Toyota's production volume, we would like to continue internal discussions on dividend returns.

Q. Production volume exceeded the forecast. What impact does this have on each segment? Please provide an explanation for other divisions.

A. Metals Division has maintained lean inventories, benefiting from higher volumes.
Global Parts & Logistics Division enjoyed strong performance in 1Q, but we do not think it will increase further. Mobility Division was strong due to securing margins and the positive impact of foreign exchange rates. Chemicals & Electronics Division secured margins by raising prices for semiconductors, but we do not expect this to continue. Food & CS Division was able to secure margins as export prices were strong against a rich harvest in Brazil. For Africa Division, it is unclear how business confidence and country risk will unfold, and we are conservative in this regard.

Q. I would like to ask about automobile sales in Africa. You said that you have sufficient inventories. If country risk emerges, will there be no impact on profit and loss due to inventory retention? Can it be covered by sales to other countries, etc?

A. We cannot easily bring vehicles produced for Africa to Europe or Southeast Asia due to issues with right/left-hand drive and approval procedures that vary by country. However, the Toyota cars we sell there are highly valued in the market and do not lose value. So, even if the market collapses and it takes a long time to sell them, I think harm to profit and loss would be small. However, we may suffer from the impact of local currency devaluation.

Q. I think Machinery, Energy & Project Division handles products that are different in nature: machines and energy. What is your evaluation for 1Q and your future outlook for each of them?

A. The performance of equipment for vehicle factories included in the machinery section is very strong, and it is expected to exceed the plan as we have received future orders. As for energy, we are not in the business of fossil fuels and currently handle bunker fuel oil only.
In terms of power, we cannot predict electricity prices in Europe. We have strong sales in the Netherlands, Italy and Spain. As it is very hot this summer, profit will recover as demand increases and electricity prices recover. But we expect that prices will weaken in the future so we remain conservative. We haven't seen a big positive for solar power yet.

We have budgeted development costs for future offshore wind power and the next new energy development (hydrogen and other alternative fuels). Any delay in development may be favorable to us.
This Division depends on the strong performance of machinery.

Q. Is it correct to understand that there are three possible risks in the future: (1) risk of strong yen, (2) country risk in Africa, and (3) lower margins related to automotive electronics?

A. Your understanding is correct. When it comes to risk, we may also add interest rates. At today's Monetary Policy Meeting, the BOJ governor did not state that the BOJ would stop controlling the yield curve, so we do not expect interest rates to rise sharply. However, a sharp rate hike could affect the Company. If procurement costs for automotive electronics rise in the future, there may be concerns over pressure to reduce prices.

Q. It is my understanding that inventory has increased from the end of March even excluding the impact of foreign exchange rates. Please explain the trends in inventory by segment. In addition, Toyota is expected to produce about 10.2 million vehicles this fiscal year. Can you expect profit corresponding to Toyota's production?

A. In the case of food and semiconductors, their business model is to build up inventory in 1Q and then clear inventory toward the end of March, so 1Q is a period of increasing inventory. Considering these factors, we estimate that inventory has increased only 40 billion yen, excluding the impact of exchange rates. In particular, the automotive business of Metals Division has adopted a lean business model with a low inventory level. The inventory turnover period of the company as a whole is 40 days. We have no problem securing margin.