# Toyota Tsusho Corporation
# Earnings Briefing for First Quarter of Fiscal Year Ending March 31, 2023 (FY2022)
# Condensed Transcript of Q&A Session

Date & time: Monday, July 29, 2022, 18:00-19:00

Attendees: Yasushi Aida, Assistant to CFO

Q. Earnings were positive compared to the first quarter of fiscal 2021. What caused this? Will the strong earnings continue?

A. The positive earnings compared to the year-earlier quarter were due to the impact of sharply rising metals prices and the larger-than-expected growth in automobile sales, as well as soaring European electricity prices in the Machinery, Energy & Project Division. We are forecasting the number of automobiles produced to weaken for the full fiscal year, and we think that the impact will be significant after the second quarter, thus we are concerned that automobile sales may also run short. In the Machinery, Energy & Project Division, we think that electricity prices will continue to have an impact from the second quarter onward. With respect to metals prices, we were able to earn a spread through the first quarter, but we think this spread will gradually fade going forward.

Q. Inventories have increased, but is there a risk that inventory will become stagnant?

A. Semiconductor-related inventory has increased in particular. This is the result of our efforts to keep the supply chain intact, and normalizing this inventory is an urgent task for us. We are aiming to improve this, while managing inventory on an individual item basis.

Q. With respect to automobile sales, both the Automotive Division and the Africa Division posted profits exceeding the number of vehicles sold. What is the reason for this?

A. With regard to automobile sales, the situation is that we have been able to make high-margin sales against the backdrop of robust demand. In Angola, in Africa, sales of high-margin vehicle models such as non-military armored vehicles ahead of the elections, were strong. In Cambodia and Papua New Guinea, both the number of vehicles sold and profits are increasing.

Q. First quarter earnings were strong, but what do you currently view as risks?

A. We view profits based on market prices of metals and wind conditions as nearly one-off profits, and we do not see losses caused by soaring transport costs in the Food and Consumer Services Division as being a significant downside risk going forward. Based on what we are hearing unofficially, we think that there is some weakness related to automobile production. We are also concerned about supply shortages caused by production declines.

Q. In fiscal 2021, there were supply shortages due to a shortage of semiconductors. However, for fiscal 2022 you are forecasting a decline in production despite the fact that semiconductor inventory has increased. Why is this?

A. There are a wide range of types of semiconductors, and based only on the semiconductors that we handle, we are not able to fully tell if there will be a direct impact on production. However, with respect to Toyota, there is a possibility that there will be an impact on production, and the current situation is that production is not increasing, rather production is decreasing. In addition to in-vehicle semiconductors, we also handle semiconductors used in PCs and smartphones, both of which saw robust demand last year. However, that has run its course and there is now an oversupply, which has led to the current increase in inventory.

Q. There has been an increase in the inventory of in-vehicle semiconductors overall, despite the decline in the number of vehicles produced. When will this be resolved?

A. We increased inventory in preparation for a recovery in automobile production, but we have begun efforts to reduce inventory, determining which inventory we should hold on to.

Q. Will shortages of automobiles that can be sold become evident from the second quarter onward due to the decline in supply of completed vehicles caused by the decline in the number of vehicles produced?

A. There is concern about a shortage because the inventory levels of automobiles for sale will decline after peaking in the first quarter.

Q. You revised your earnings forecast for the Machinery, Energy & Projects Division, but electricity prices in Europe are expected to continue to soar, so should we view this as a factor for additional upside potential?

A. We think that electricity prices will remain firm from the second quarter onward, but we are expecting costs to arise from the third quarter onward due to replacements, so we made these changes to the earnings forecast.

Q. Can you please explain why soaring European electricity prices cause your profit to increase?

A. In Europe, our profit mainly comes from the Netherlands, Italy, and Spain. Depending on the agreement, only the floor for the sale price of electricity is decided, so electricity prices are variable. As a result, we sometimes see a positive impact if electricity prices rise.

Q. In the Metals Division, the share of profit (loss) of investments accounted for using the equity method was higher than a year ago. Was this due to lithium?

A. Your understanding is not incorrect. The impact was from the soaring price of lithium.

Q. In what areas were automobile sales strong, and what were the reasons behind this?

A. The number of automobiles sold has been growing significantly against the background of government with ample budgets, especially in oil-producing countries. In Europe, Toyota Adria has been earning profits not only by selling new cars, but also by using creative sales methods such as finance leasing and rental cars.

Q. What is reason for the increase in the tax burden in Africa, and how do you view the second quarter and beyond in Africa?

A. Each country has its own tax system, with some offering preferential tax treatment, and we also had an increase in dividend withholding tax in some countries, but the increase in the tax burden is a temporary thing. From the second quarter onward, we expect the tax burden to depend on profits.

Q. Some believe that the number of automobiles produced will recover from the second quarter onward, but your outlook is conservative. Why do you view things differently than others?

A. We are engaged in logistics and intermediary businesses for parts and raw materials prior to manufacturing. When there is a decline in production, we are not directly impacted at the exact same time. There is a time lag. We feel that companies not being able to produce will impact us from the second quarter onward.

Q. I thought that the impact from declining production would emerge with a time lag. Do you think there will be an impact?

A. Currently, manufacturers themselves have a lot of inventory due to production cuts. Therefore, even if there is an increase in production in the future, they will be able to cover the demand with the inventory that they already have, so we anticipate that this will likely have an impact on our earnings. In addition, production is not actually possible even if there is an unofficial order placed, and we are concerned about this as well.

Q. Your outlook is for a decline in automobile sales going forward due to a supply shortage, but what about demand?

A. As of now, we have not heard any talk about a decline in demand, but in our forecast, it is our view that demand will likely decline modestly as U.S. interest rates rise.

Q. What is the level of automobile sales incentives, and what is your outlook for this going forward?

A. Demand is persistent due to the strong performance of oil-producing countries as a result of rising energy prices. Although it varies from country to country, automobiles are able to be sold generally at the list price, and basically we do not think there is a need to increase incentives any further than this.

Q. What is the impact of falling iron and aluminum prices on earnings?

A. When market prices are rising, on top of securing a base profit, the spreads on top of that contribute to profit. When market prices are falling, the spread portion declines, limiting profit to the base portion which is the commission rate, so profit will decrease.