Toyota Tsusho Corporation
Earnings Briefing for First Quarter of Fiscal Year Ending March 31, 2019
Condensed Transcript of Q&A Session

Date & time: July 31, 2018 (Tuesday) 18:00–18:35
Attendees: Hiroshi Tominaga, Member of the Board/Managing Executive Officer/CSO/CIO
Hideyuki Iwamoto, Member of the Board/Managing Executive Officer/CFO

What is your assessment of each division's first-quarter results?

All divisions outperformed their forecasts. It is not a matter of where a given division did well; all divisions performed well across the board. First-quarter results were better than we had envisioned.

How do you think a trade war between the U.S. and China could affect your operating performance?

In the first quarter, the soybeans from Brazil we deal in rose in price as a result of U.S.-China trade frictions. We benefited from their price increase to the tune of hundreds of million yen. Our automotive businesses were not materially affected.

Looking ahead, we expect our second-quarter aluminum and steel transactions involving U.S. and Chinese parties to be mostly unaffected because we have already received commitments. On the downside, we are concerned about European markets being inundated by low-priced Chinese products as a repercussion of U.S.-China trade frictions. Specifically, we are worried that exports of our products to Europe will be affected by European tariff increases.

Our biggest concern is how the NAFTA renegotiations will play out. Depending on their outcome, we are looking at a potential over-billion-yen negative impact in the current fiscal year. At present, we have not quantified the impact on our transactions involving exports from Japan to the U.S. in detail, but we expect to be more affected by decreased volumes than by cost increases due to tariffs.

Of the increase in the Global Parts & Logistics Division's demand/trading volume, what is the breakdown between Toyota versus non-Toyota?

The increase is attributable to Kyowa Sangyo, a newly consolidated domestic subsidiary that deals in sun visors. Kyowa Sangyo supplies not only Toyota but a wide range of other Japanese automakers, including Mazda, Suzuki and Honda. The increase in non-Japan Asia and Australia is within the Toyota domain. It is linked mainly to Toyota's production volume in Thailand. In Mexico, the increase is split roughly 50:50 between Toyota and non-Toyota.

Regarding vehicle trading volume, what is the reason for and earnings impact of the large decreases in both retail sales and exports to China?

Last fiscal year, exports of the Toyota Land Cruiser Prado from Japan to China increased substantially in response to a reduction in China's sales tax on vehicles. The first-quarter decrease in exports was largely a snapback decline from an elevated year-earlier level. Additionally, in the current fiscal year Chinese consumers have been holding off on vehicle purchases in anticipation of a reduction in import tariffs on autos. The earnings impact of the decrease in exports is limited, not major.

The decrease in retail sales volume is due to the closure of unprofitable dealerships. Because the closed-down dealerships were unprofitable, profitability was not adversely affected.

How sustainable is the Machinery, Energy & Project Division's first-quarter trading volume growth?

The increase in machinery exports to North America consisted largely of exports of dies for Toyota Corolla production in the U.S. and RAV4 production in Canada. The increased machinery plant exports to Iraq were plant exports for electrical substations. The increase in renewable energy trading volume was mainly attributable to favorable wind conditions in Europe.

The plant exports to Iraq were a one-off transaction confined to the first quarter. In North America, however, plant construction is still ongoing. We accordingly expect increased machinery exports to North America to keep contributing to profits in the second quarter and beyond, though we do not know by how much. I cannot give you any definitive guidance on the renewable energy business because it will incur new development expenses, but we expect it to continue to perform well.

In the Chemicals & Electronics Division, what are the specifics of the electronics business's first-quarter profit growth and what is your outlook going forward?

The network-related increase was partly due to one-off demand related to Microsoft Office 365 upgrades. The increases related to cell phones and car electronics were driven mainly by NEXTY Electronics, Elematec and Tomen Devices. We expect profit growth driven by growth in trading volumes related to cell phones and car electronics to continue in the second quarter and beyond.

Can you give us an update on your African automotive operations?

West Africa is a mixed bag with some countries in good shape and others in bad shape. In non-resource-producing countries such as Ivory Coast and Senegal, the automotive business continues to perform well, like last fiscal year, even relative to plan. Additionally, conditions are getting better in the formerly depressed Republic of Congo also, with the auto business turning profitable in the wake of recovery in resource prices. The country in worst shape is Cameroon, where economic conditions have unexpectedly deteriorated as a result of a separatist movement in one part of the country.

In East Africa, Kenya has been recovering. Kenyan domestic consumption is recovering as economic conditions have stabilized in response to the outcome of last year's presidential election.

What are the factors behind the deterioration in the Africa Division's beverage and healthcare businesses' performance? Also, what would be the impact of Toyota transferring its African sales and marketing operations to you?

The beverage business remains beset by adverse conditions. In the Republic of Congo, rivals have been resorting to price competition and our market share has dropped to 75% from 80% as of the end of last year. Price competition is likewise raging in Ivory Coast also. Profits are down even more than we had projected, but the beverage business remains profitable in the Republic of Congo. The healthcare business is performing well, though its first-quarter performance was not as good as in the year-earlier quarter.

The retail business is performing in line with its forecast, but its first-quarter earnings were down year on year due to the impact of depreciation charges on a shopping mall that was opened last fiscal year.

Regarding the impact of Toyota transferring its African sales and marketing operations to us, we aim to complete the transfer in January 2019. We are currently conferring with Toyota about how to best leverage our strengths in the African region. We have not yet quantified the transfer's earnings impact in detail.