Toyota Tsusho Corporation
Earnings Briefing for First Quarter of Fiscal Year Ending March 31, 2020（FY2019）
Condensed Transcript of Q&A Session

Date & time: Wednesday, July 31, 2019 18:00–18:40
Attendees: Hiroshi Tominaga, Member of the Board /CSO/CIO
Hideyuki Iwamoto, Member of the Board/CFO

How much one time item was included in the first quarter profit of 55.6 billion and is the gain on the sale of the electric power business included in your forecast?

In total, the one-time items accounted for less than10 billion yen of first-quarter profit. Adjusted to exclude one-time items, the first-quarter profit was flat year on year. The gain on the sale of the electric power business is not included in our forecast.

Does the one-time gain on the sale of the electric power business have any impact on your dividend?

We think that one-time gains that involve cash inflows should be made available to fund dividends. However, given that the first quarter has only just finished and that there are uncertain element in the outlook, we cannot say anything more at this time.

Did TOYOTA's production growth have a positive impact on first-quarter earnings?

TOYOTA's domestic production growth had a positive impact, mainly in the Metals Division, but its positive impact was offset by a decrease in U.S. production.

Will the Africa Division's automotive business continue to perform well in the second quarter and beyond? Please how are Africa Division's non-automotive performing.

The automotive business performed well in West Africa and East Africa, excluding Angola. Its growth in East Africa was concentrated mainly in Kenya, where auto sales have continued to grow stably since the 2017 presidential election. Kenya is a regional economic power. We believe it is driving growth in other East African countries. West African economies have started to recover as crude oil prices have risen. We see economic recovery as a tailwind for auto sales. Among individual countries, auto sales have turned upward in Cameroon and the Republic of the Congo. We expect auto sales to remain buoyant in the African market as a whole, and we could expect good number in year-on-year growth.

The beverage business has been facing intense competition since last fiscal year. It remains profitable but its earnings are flat year on year. In the healthcare business, sales to the UN have been declining year on year. The retail business is tracking in line with its year-earlier performance. It is still unprofitable.

How much did the African sales and marketing operations that TOYOTA transferred to you contribute to your first-quarter earnings?

They added over 30 billion yen of revenue but did not contribute very much to the bottom line, partly because of duplicate SG&A expenses due to the transfer

In the Chemicals & Electronics Division, what was the factor behind the electronics business's weakness in first-quarter and will it continue?

The electronics business's profit was down about 1.5 billion yen from the year-earlier quarter. Breakdowns are Chinese economic deterioration accounted for 500 million yen of the decrease; profit margin shrinkage accounted for 300 million yen; non-recurrence of year-earlier one-off demand accounted for 300 million yen; a decrease in non-TOYOTA sales accounted for 200 million yen; and a decrease in consumer electronics sales accounted for 200 million yen. We expect the impact of margin shrinkage and Chinese economic deterioration to persist, but both date back to the previous fiscal year. So we expect their full-year impact to be smaller than their annualized first-quarter impact.

What is behind the Automotive Division's apparent weakness and what is your outlook for the division?

The Russian market took a turn for the worse. Auto sales in Russia have been adversely affected by a 2-percentage-point VAT rate hike that took effect in January 2019. Additionally, the Russian economy itself appears to have cooled, largely in response to U.S. sanctions. Outside of Russia, sales growth rates vary from modestly positive to modestly negative, but the Automotive Division's overall performance is not so bad in our view. The Automotive Division's first-quarter gross profit was equivalent to roughly 23% of our full-year forecast. Excluding Russia, we expect the Automotive Division to continue to perform in line with our forecast.

What are the factors behind the ostensible weakness in the Machinery, Energy and Projects Division and what is your outlook for the division?

Renewable energy businesses' earnings were down due to less favorable wind conditions than in the year-earlier quarter. Other businesses were down due to non-recurrence of strong performance in the previous fiscal year, but we do not consider the current situation to be unfavorable. In aggregate the division's businesses are tracking in line with our forecast. On a full-year basis, we expect earnings adjusted to exclude one-time items to be flat year on year.

Will the Food & Consumer Services Division continue to perform well in the second quarter and beyond?

The Food & Consumer Services Division performed poorly last fiscal year. It now seems to be returning to normal. We consider its first-quarter profit to be indicative of its true earnings power.

The Japanese government has designated four regions as promising locations for renewable energy generation. Will such government actions have an impact on your operations and how do you plan to approach offshore wind power?

Government policy is fickle. After an onshore wind power project we had been looking at in Tohoku was halted, we realized we must closely monitor governmental developments. In Japan, we will concentrate our renewable energy operations in northern Hokkaido and the Pacific side of the Tohoku region. With domestic wind power, we believe the key is securing access to the grid. We are currently targeting the Kanto region, and are considering offshore wind power projects off the coasts of Kujukuri, Choshi, and elsewhere.