Toyota Tsusho Corporation

Earnings Briefing for Second Quarter of Fiscal Year Ending March 31, 2020 (FY2019)

Condensed Transcript of Q&A Session

Date & time: Friday, November 1, 2019, 14:00–15:00

Attendees: Ichiro Kashitani, President/CEO
Hiroshi Tominaga, Member of the Board/CSO/CIO
Hideyuki Iwamoto, Member of the Board/CFO

What was the total value of the one-time items included in the first-half profit? What is the background to the impairment losses newly recognized in the second quarter in the metal resources business and overseas food business, and what is the value of those losses?

One-time items, recorded below the operating income line, had a net positive impact of about 1.5 billion to 2.0 billion yen in the first-half results. In the Metals Division, impairment loss occurred in connection with worse-than-expected market conditions for lithium, and a production slump in North America led to impairment loss in the aluminum forging business.

The total amount exceeded 8.0 billion yen, including a little over 6.0 billion yen attributable to lithium and a little under 1.5 billion yen attributable to the aluminum business.

Impairment losses of more than 2.0 billion yen were recognized in the food business as well, as a result of a review of future cash flows.

What factors contributed to the results from the operating divisions that performed well in the second quarter, and what is the future outlook for those divisions?

The Global Parts & Logistics Division delivered strong results by expansion of business with non-TOYOTA customers. Another contributing factor is that the trading volume of parts procured from Japan has not decreased, despite the strong yen. In the Machinery, Energy & Project Division, machinery trading volume was strong, accompanying construction of new plants in Alabama and elsewhere, and is expected to remain strong in the second half. In the renewable energy business, we expect improved wind conditions in the second half compared to the first half. We get the impression that the business of the Food & Consumer Services Division has returned to normal in the current fiscal year. In the Africa Division, we expect new earnings contributions from the acquisition of auto dealers in South Africa, among other factors. We think that achievement of the initial forecast of 150.0 billion yen will depend on the performance of the Metals Division, Automotive Division, and Chemicals & Electronics Division.

What is the current situation and second-half outlook for automobile production and sales?

We are not optimistic about automobile production in the second half. By country, production is declining in India, Thailand, and Indonesia. Although sales are strong in the U.S., production is slowing. On the other hand, since TOYOTA’s sales are strong in China, the slowdown in production has had no negative impact on sales, and we do not expect weak sales in the second half, either.

The Automotive Division is not making good progress. Is there anything promising in the outlook for the second half?

Although first-half performance was weak in Russia and Pakistan, we believe the Russian market will return to its previous form in the second half. However, since we were planning for year-on-year profit increases in Hong Kong and South Korea, markets where performance is weak, we believe it will be difficult for the Automotive Division to achieve its targets.

What is the backdrop to the strong performance of the Africa Division, and what is the future outlook? Also, what impact has foreign exchange had on the results?

Economic growth in non-oil-producing countries has led to particularly strong results in the sub-Saharan region. Non-oil-producing countries have established economic structures that do not rely on petroleum and they are becoming politically stable as well. The current economic growth rate in sub-Saharan Africa currently exceeds 3%, and we are aiming for profit growth of at least 5-7%. Foreign exchange affected the results once again in the first half. Although profit is increasing on a local currency basis, yen appreciation has resulted in sluggish profit growth on a yen basis.

You have announced profit targets of 150.0 billion yen for FY2019 and 170.0 billion yen for FY2021. What future profit growth factors do you foresee amid the current unfavorable economic conditions?

The Africa Division's automotive business is expected to continue to perform well in West Africa and East Africa, mainly in Kenya. We do not expect any further worsening in the beverages business, which will act as a positive factor going forward.

With regard to the African growth strategy, I get the impression that the knock-down business is making progress. What sort of time scale should we expect for this business, and what level of earnings do you envision?

Although knock-down production in Africa is currently about 2,000 units per year, we want to increase it to about five times the current level by year 2022. The level of earnings will vary according to the regions where parts are procured. We have export capabilities worldwide and a dealer network that spans all of Africa. Our strength, therefore, is the ability to earn profits at every stage of the automotive value chain, from parts procurement to the sale of completed vehicles.

With respect to “African Growth Strategy: Expand Automotive Value Chain” on page 9 of the Mid-term Business Plan materials, what is the investment amount and level of profit for each business?

With regard to the automotive value chain, since AUTOMARK will utilize our current branches, there will be no direct additional investment. Similarly, there will be no particular additional investment for general-purpose parts, since we will introduce new parts in our existing network. There will be no major additional investment at AutoFast, which will merely add signboards, maintenance equipment, and other items at 5,000 service stations operated by TOTAL. We will refrain from disclosing a specific profit amount.

With regard to “Renewable Energy: Future Expansion” on page 18 of the Mid-term Business Plan materials, what is the investment amount and level of profit?

We are considering investments of approximately 180 billion yen in renewable energy, including project financing, over the coming three years. With regard to profits, we want to exceed the minimum profit margin, taking into account our cost of capital and other factors.

In the event that non-cash profit-and-loss items occur, what impact on the dividend do you expect?

It is extremely difficult to determine a dividend policy that covers the occurrence of non-cash profit-and-loss items. For the current term, we want to at least increase the dividend amount above the prior-year level and achieve a dividend payout ratio of 25% or more.