Toyota Tsusho Corporation

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

Condensed Transcript of Q&A Session

Date & time: Friday, January 31, 2020, 18:00–18:45

Attendees: Hiroshi Tominaga, Member of the Board/CSO/CIO

Hideyuki Iwamoto, Member of the Board/CFO

With progress against targets differing from division to division, what is the probability of achieving the FY2019 profit target of 150 billion yen? Also, are there any areas of concern for FY2020?

Although ordinarily we would want to perform a more detailed revision of the by-segment targets, I'm sorry to say that this process was shelved for 3Q. Looking at progress against targets by division, the results for the Metals Division have been poor, and we think it will be difficult to achieve the revised target announced in 2Q. Factors contributing to the poor results include a steep rise in personnel expenses for production workers and new plant startup costs in North America. Also, vehicle production volume in India and Thailand is decreasing. Although we expect early recovery in India, we are concerned that the slump in Thailand may be prolonged. We think the Global Parts & Logistics Division will be able to achieve its target. However we have not factored the impact of the outbreak of the new coronavirus in China into this projection, and depending on circumstances it may be difficult to achieve. We are now confirming the financial impact from the new coronavirus and are concerned that it will have an impact on logistics and other functions. We think it will be difficult for the Automotive Division to achieve its target. Although the impact of the VAT increase in Russia was worse than expected, we think the South Korean market has bottomed out. There is concern that the coronavirus outbreak will affect both production and sales in China. We think that the Machinery, Energy & Project Division will be able to achieve its target, and it may even exceed the target if future wind conditions are favorable. Although the Chemicals & Electronics Division has a poor rate of progress at present, we think it will be able to achieve its target. The market appears to have bottomed out, and since products move well from December to March, we aren't very concerned. We think the Food & Consumer Services Division will be able to meet its target, and corn and sorghum trading volume is developing favorably. We expect the Africa Division to substantially exceed its target and expect the current favorable performance to continue.

How do you view the FY2019 results overall?

We consider the 3Q results to be somewhat lackluster. Although we expect the Chemicals & Electronics Division to return to posting solid results into FY2020, there are concerns about the Metals Division. It will be necessary to carefully watch the impact of market conditions for not only steel and aluminum, but also for lithium. With regard to lithium, we recognize profit from interests using the equity method and recognize profit from trading on the operating income line. Market conditions affect mainly profit from interests, and while profit from equity-method investments has decreased, profit from trading hasn't declined much.

Profit below the operating income line has increased substantially. Is this attributable to a rebound from poor results in FY2018? Or, have the FY2019 results been good?

It's difficult to comment about taxes because the situation is different each fiscal year since there are tax effects from impairment losses and other factors. Finance income has improved in FY2019 because of the sale of shares in an electric power business in Canada this fiscal year.

Do you expect the impact of cost increases in automotive production in North America to continue in FY2020?

Production adjustment ahead of a model change for the Highlander has had an impact at the Indiana plant, and subcontracting and other costs have been incurred at the Mississippi plant. Although we consider the impact on the two plants temporary, we are concerned about a steep rise in personnel expenses for production workers. However, since overall economic conditions in North America aren't bad, we expect a recovery going forward.

Please provide a breakdown of factors contributing to the profit increase at the Africa Division.

The FY2019 results include figures relating to a transfer of operations and Unitrans, with the transfer of operations affecting the results for nine months and Unitrans for three months. About half of the profit increase for the automotive business is attributable to the impact of these developments, with the rest coming from strong automobile sales in West Africa and East Africa. Also, the non-recurrence of foreign exchange losses in connection with local currency-denominated accrued dividends receivable recorded in FY2018 has resulted in an increase in FY2019.

What demand trend do you anticipate for the Africa Division in FY2020 and beyond?

Since demand has been recovering recently in West Africa, we think solid demand can be expected in FY2020 as well. We also expect strong demand in East Africa, particularly in Kenya.

What is the outlook for the Chemicals & Electronics Division in FY2020?

Although the profit margin in the electronics business has declined due to efforts to reduce commodity inventories, we expect it to recover in FY2020. In China, although profit from products for smartphones are decreasing, the semiconductor business is compensating for the shortfall. Overall, profit hasn't decreased very much, and we expect an equivalent level of profits again in FY2020. With regard to chemicals, since current market conditions for naphtha are stable, we think a recovery can be expected.

What is the Company’s view on parent-subsidiary listings, which have become a hot topic on the stock market?

From the recent trend on the stock market toward dissolution of parent-subsidiary listings, we believe the practice of parent-subsidiary listing is coming under fire. The share prices of Toyota Tsusho Group companies Elematec and Tomen Devices are trending up. We don’t view parent-subsidiary listings themselves as bad and think they pose no problems provided governance functions normally.