

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

Date & time: Friday, May 1, 2020, 15:00–16:00

Attendees: Ichiro Kashitani, President/CEO

Hiroshi Tominaga, Member of the Board/CSO/CDTO

Hideyuki Iwamoto, Member of the Board/CFO

What is the outlook for recovery of overall automotive demand after the novel coronavirus outbreak subsides? What are the prospects for the company's future growth without relying on market recovery?

The outlook for recovery of automotive demand is not favorable. Although circumstances vary from country to country, we look for somewhat early demand recovery in developed countries. On the other hand, there is a risk that the novel coronavirus will spread further in emerging markets in the southern hemisphere.

Accordingly, we cannot rule out the possibility that the impact of the outbreak will be felt throughout this year. The financial impact of the outbreak in the fiscal year under review was about 4.6 billion yen on an operating income basis, and we think it will be difficult to achieve recovery in business performance in the first quarter, due to factors including the impact of production line stoppage at plants from April through June. The timing of resumption of operations at production plants will vary from country to country, and we intend to undertake supply chain restoration while watching the timing of restarts.

We don't see any need to change the company's medium- to long-term strategies. Although Toyota Tsusho's businesses do require a short-term response, since we consider our businesses necessary for meeting the needs of society and resolving societal issues over the medium to long term, we want to steadily implement our strategies in a thorough manner. We will reexamine our investment plan, even with respect to items already approved. Even if we review "go or no go" decisions, investment timing, or investment amounts during the course of the review, we believe we can link investments to medium- to long-term growth. Also, since we have businesses that have not been significantly affected by the novel coronavirus outbreak, we also consider it necessary to achieve growth in those market sectors and steadily secure business results from a portfolio perspective.

We expect business to slow in the African market, mainly in oil-producing countries. What is the company's view on Africa's growth potential, with respect to GDP growth and other indicators, over the coming five years?

Some African countries had incurred significant economic damage from low crude oil prices even before the impact of the novel coronavirus outbreak was felt. Public debt as a percentage of GDP in Africa has risen from about 37% in 2012 to about 59% in 2019, meaning that African countries are burdened with debt-to-GDP ratios of roughly 60%.

Now, the impact of the novel coronavirus has been added to low crude oil prices. We expect future growth potential to vary from country to country. It's necessary to divide countries into three categories when forecasting: Crude oil-producing countries, other resource-producing countries, and others. Whereas before the novel coronavirus outbreak we expected growth of from 0% to 2% in crude oil-producing countries and 5% or higher in other countries, we now forecast negative growth in crude oil-producing countries and growth at half the level of the prior forecast or less in other countries.

What is your thinking on dividends? The dividend for the fiscal year under review has decreased to 110 yen from the planned amount of 120 yen. What level of dividends can we expect in the new fiscal year?

We anticipate a dividend increase to 110 yen for the fiscal year under review from 100 yen in the previous year. This represents an expected dividend increase for a tenth consecutive year. Also, the planned dividend payout ratio is 28.6%, compared to the initial forecast of 28.2%.

We intend to continue to pay stable dividends unaffected by ups and downs in business performance. We believe that now is precisely the time to provide truly stable returns to our shareholders and receive recognition for Toyota Tsusho's stock as a true long-term investment. Please understand that at this time we are unable to indicate the dividend amount for the new fiscal year.

With automobile production halted from April through June, what is the outlook for first quarter business performance?

The company has plant production-related fixed assets. Although automobile production stopped in April, we still incur fixed costs. The same is true with respect to sales. Although the food, insurance, electric power, some chemicals operations, and other businesses are performing solidly, if this situation continues we expect rather poor business performance in the first quarter. With regard to the mainstay automotive operations, recovery is underway in China, and if business operations recover even a little in Europe and North America from May through June, this type of worst-case scenario will be avoided. However, since we don't know what the pace of recovery will be, we can't offer guidance at this time. Everyone has their own intuitive impression, which makes forecasting difficult.

Please clarify the information on P9 of the Three-Year Management Plan document, which shows the speed of recovery from the impact of novel coronavirus by region. What is your view on the impact of the novel coronavirus on Toyota Tsusho in China and the U.S.?

When we were preparing the document, we thought it would take a very long time for production in China to recover. However, plants were operating at full capacity in April, and we think that production is already on a recovery trend.

On the other hand, we expect it will be difficult for production plants in the U.S. to resume full-capacity operations in May. Looking at other regions as well, we think it will take until the second half of the fiscal year for recovery of business results in Africa and until the second quarter in Southeast Asia.

Has there been any change in your perception of Unitrans before and after the acquisition?

Before the acquisition, we considered Unitrans an excellent company and understood that it is highly rated by Toyota as well. Since the acquisition, we have come to understand that Unitrans has even more excellent dealers and greater sales capabilities than we had anticipated. Also, the brands of Toyota, European, and other automakers are highly distinctive, and that is currently a strength of the company. However, in the transition period from mobility to MaaS, what is important is how to achieve alignment horizontally across the organization, and our task is how to tie together highly independent, highly individual dealers and how to direct them toward new challenges.

Profitability developed in line with assumptions from January through March and now depends on recovery of the South African market. Since Unitrans has excellent sales representatives and sales and marketing capabilities, we think that personnel exchanges with operations in eastern and southern Africa with South Africa as the starting point and standardization of marketing approaches offer potential for future growth.