Toyota Tsusho Corporation
Earnings Briefing for First Quarter of Fiscal Year Ending March 31, 2021
Condensed Transcript of Q&A Session

Date & time: Friday, July 31, 2020, 18:00–18:50

Attendees: Hideyuki Iwamoto, CFO

Masato Ozaki, Assistant to CSO

First-quarter profit was 13.3 billion yen, 17% of the forecast of 80.0 billion yen. What is your assessment of the results, on a by-division basis?

Overall, the results were worse than we anticipated. To begin with, the results from the Metals and Global Parts & Logistics Divisions were worse than expected, and in particular, the operating loss from the Global Parts & Logistics Division was wholly unexpected. In the Automotive and Africa Divisions, April automobile sales in South Africa and India were nearly zero. However, lockdowns have been lifted, and the results rebounded substantially in June, and as a result, the recovery appears to be stronger than expected. The results from the Machinery, Energy & Project, Chemicals & Electronics, and Food & Consumer Services Divisions were better than expected. However, in the Chemicals & Electronics Division, automotive electronics underperformed expectations.

Looking at Page 12 of the briefing materials, titled "Region Recovery Scenario of Gross Profit," which regions bear watching for risk and which can be expected to recover earlier than anticipated?

We think there is risk that recovery in North America and China will fall short of the scenario. However, that risk has been taken into account in the profit forecast of 80.0 billion yen. The June and July results in North America and China seem too good, and in light of factors such as U.S.-China trade friction, the U.S. presidential election, and a second wave of the novel coronavirus, it is unclear whether the 100% recovery scenario for the fourth quarter will be achieved. On the other hand, the results from India, Indonesia, Thailand, and other countries aren't good, and we have taken a conservative view with respect to the Asia/Oceania region. Our worst fear is lockdowns. All businesses come to a halt, but costs continue to accrue.

Please discuss any proactive initiatives, such as cost-cutting, the company is implementing in the current adverse circumstances caused by the novel coronavirus pandemic. Also, please share with us any internal discussions with regard to measures currently being implemented or future opportunities looking ahead to the post-pandemic era.

We have made sweeping cuts to expenses. For instance, we cut travel and transportation expenses by 4.0 billion yen, halted advertising spending, and, in a dealer-related measure, cut back on commissioned dealership personnel. We will also use the novel coronavirus crisis as an opportunity to review excess assets and implement a scrap-and-build program. With regard to future opportunities, we are further accelerating discussion of matters such as work styles and the current state of the mobility field. As a member of the Toyota Group, we intend to appropriately respond to opportunities with Toyota. Also, looking at our businesses with non-Toyota customers, the renewable energy and life & community businesses have helped underpin business performance, and we want to steadily grow our business in these fields as well.

With Toyota and other makers experiencing different recovery speeds, is the company considering ways of increasing the business at a level surpassing Toyota's improvement in business performance?

We are aware of the fact that companies with competitive strengths attract business, and we consider this a positive development. Given the limited extent of adverse impact in the present circumstances, we think that business opportunities will expand further if other makers start to recover.

The Africa Division posted a loss of 3.0 billion yen in the first quarter. What is the outlook for the second quarter and beyond? What about automobile sales outside of Africa?

Internal management accounting figures on operating profitability for the Africa Division show a loss of approximately 2.0 billion yen in April, a loss of 1.0 billion yen in May, and a profit of 3.0 billion yen in June. Sales were 50% of the prior-year level in April, 60% in May, and recovered to 80% in June. The rapid recovery in June is attributable to the lifting of the lockdown in South Africa. The importance of South Africa has increased due to the transfer of operations from Toyota and the Unitrans acquisition, and once these business are up and running they will generate profit. Meanwhile, operating profit from automobile sales outside of Africa was -0.3 billion yen in April, zero in May, and +1.0 billion yen in June. Although sales decreased approximately 40%, the Africa Division secured operating profit by rigorously controlling costs.

Can we assume that the automotive business will recover at an early stage if Toyota's relative share begins to rise?

To cite an example: When Toyota's share increases in China, Toyota Tsusho makes and sells cars and exports parts from Japan, thereby benefitting several times over. The situation in other countries is similar, and we can say with certainty that if Toyota's share increases worldwide, our automotive business will rapidly recover.

Please describe the situation with lockdowns in Africa in the April-to-June quarter and from June onward.

In addition to South Africa, our business has been substantially affected by the novel coronavirus in Algeria, Madagascar, the Republic of Congo, the Democratic Republic of Congo, Kenya, and Ivory Coast. In the Republic of Congo and Ivory Coast, the virus has affected the beer business and other businesses in addition to the automotive business. At any rate, the impact of South Africa on the business is large, and profit recovery will depend on avoiding a lockdown of this area. With regard to the results from June onward, the 65% recovery scenario for the second quarter on Page 12 of the materials, titled “Region Recovery Scenario of Gross Profit,” is a little conservative. The June results were better than expected, and the July results weren’t bad either.

The situation in South Africa in July wasn’t bad, and the assumption is that there will be no lockdowns going forward. Will the current situation continue as is?

Coronavirus infection isn’t spreading explosively in South Africa the way it is in the U.S. and Brazil, and the rate of critical cases doesn’t appear to be high. The political trend is to keep the economic market open if infection rates don’t increase. In that sense, we think a positive outlook is justified.

What is the situation with the Chemicals & Electronics Division? According to Page 14 of the materials, the rate of progress in the first quarter wasn’t bad. Don’t you expect the results to outperform the forecast going forward?

The electronics business isn’t performing well. In particular, demand for automotive electronics and profit margins aren’t increasing, and inventory isn’t decreasing either. However, non-automotive electronics, for instance memory and security-related products, performed better than expected, and as a result, profit from the electronics business was down 0.8 billion yen year on year. The results for chemicals were better than expected. Although hygiene materials are showing constant growth, in the second quarter we can’t expect results from petrochemical products to be as good as in the first quarter, partly because of the positive impact of price adjustment payments in the first quarter. If the electronics business improves, the overall results can be expected to outperform the forecast.

The Machinery, Energy & Project Division seems to be performing well. Please discuss the first-quarter results for each business.

In the machinery business, the results for equipment were poor. Since plants did not operate in the first quarter, equipment- and repair-related budgets were cut substantially. In the electric power business, although the results for renewable energy were favorable, this was limited to Japan and certain other regions. Results from the gas-fired power generation business in the U.S. were down year on year.

How much of the projected profit of 20.0 billion yen from the Machinery, Energy & Project Division do you expect to come from Eurus?

We expect a contribution of approximately 40% from the renewable energy business.