

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

Date & time: Monday, November 2, 2020, 13:30–14:30

Attendees: Ichiro Kashitani, President & CEO
Hiroshi Tominaga, CSO/CDTO
Hideyuki Iwamoto, CFO

What is the background to the year-on-year increase in second-quarter (three-month) gross profit from the Africa Division? Is there risk in thinking that this profit level will continue in the second half?

What has changed substantially from the previous first quarter is that we acquired Unitrans in South Africa in the second half of the previous fiscal year. In addition, the results from pharmaceutical-related business and other businesses were solid even amid the COVID-19 crisis, and the results from the beverage and retail businesses improved year on year. In the second half, we foresee a certain amount of profit provided there is no COVID-19 lockdown.

What was Unitrans' operating income in the first half?

The results were affected by the lockdown in South Africa. Gross profit was approximately 7.0 billion yen, and operating loss was approximately 1.0 billion yen.

Profit was 135.5 billion yen in FY2019, before the COVID-19 pandemic, and about 140.0 billion yen when one-time losses are excluded. When we compare the figure of 140.0 billion yen with the 150.0 billion yen forecast for FY2022, how will profit build up toward the 150.0 billion yen target?

We assume that gross profit will increase by 5% to 6% each year leading up to FY2022. The projected growth will come from factors such as increases in economic growth rates and automobile production volume. On the other hand, although this will depend on the COVID-19 situation, we do not expect selling, general and administrative expenses, which usually increase in proportion to sales and gross profit, to return to the previous level and we believe it is necessary to engage in management aimed at ensuring that they don't. Also, in Africa, there is the Unitrans factor.

Page 11 of the Mid-Term Business Plan briefing document shows a projection that the gross total of renewable energy power generation will reach 3,500 MW in FY2020. How much power do you plan to generate in the future and how much profit do you plan to earn from it?

It depends on whether or not power generation at current projects will begin two years from now. For instance, the Hokkaido project is currently under development for completion in FY2023. We have not incorporated this in the 150.0 billion yen profit target in the Mid-Term Business Plan.

First-half profit from the Africa Division was 2.4 billion yen. Please comment on the outlook for

the second half in greater detail.

Although profit declined in the first-quarter, it recovered in the second quarter, partly due to a rebound effect. Also, rather than curbing selling, general and administrative spending in the first quarter, it was more a case of SG&A expenses not being incurred, and this situation continued in the second quarter. Loss has improved except for in CFAO's automotive business, and major restructuring effects have been achieved. We consider the situation in the second quarter results to be the normal state of affairs. If nothing out of the ordinary happens, we expect this level of business performance in the third and fourth quarters.

Was gross profit favorable? Or, did you cut selling, general and administrative expenses? What was the situation for the automotive and non-automotive businesses?

The automotive business in South Africa returned to the previous level faster than expected. The automotive business in South Africa has had a major impact on the results.

Do you expect the Suzuki project in Africa to be profitable? Are there any benefits other than automobile sales?

It has been decided to introduce the Suzuki Baleno, a Suzuki automobile made in India, in the African market as the Toyota Starlet. CFAO has already been selling Suzuki-branded vehicles for some ten years, and sales have reached the scale of several thousand units at present. Now, CFAO will sell a Suzuki vehicle carrying the Toyota badge. Since CFAO was unable to capture the growing middle-income user segment with Toyota-branded vehicles, we think this will enable us to reliably meet market needs and we will engage in marketing to ensure that the Starlet sells well across all of Africa as quickly as possible. We will engage in not only new car sales, but also the parts and after-sales service businesses, and we expect to be able to enter the used car business as well by offering trade-ins.

Looking at Page 5 of the Mid-Term Business Plan briefing document, Earnings Recovery Scenario by Region, which regions out-performed the scenarios in the second quarter? Also, what is the reason for decreasing the full-year recovery assumptions for Asia/Oceania and emerging markets?

The percentages on the top rows are the assumptions as of the first quarter, and the arrows below are the current assumptions. In the second quarter, the result for East Asia was in line with the assumption, and the results for other regions all exceeded the assumptions. Although we had assumed recovery would peak in the fourth quarter, at this time we expect it to peak in the second and third quarters.

We are being cautious in our outlook for Asia/Oceania and emerging markets. Business recovery has been slow, mainly in India, Indonesia, and Thailand. In Thailand, in particular, there is also political uncertainty. Meanwhile, there are no signs of abatement of the COVID-19 crisis in some emerging markets, and we expect recovery to take time.

Second-quarter (three-month) profit from the Africa Division exceeded 5.0 billion yen. If earnings are at a similar level in the third and fourth quarters, full-year earnings can be expected to reach

20.0 billion yen. Can we expect a major contribution to earnings in FY2022?

The profit figure of 5.4 billion yen includes a rebound from the first quarter, and we think business performance returned to the prior level in the second quarter. We envisage the situation in the third and fourth quarters will be one of business performance returning to the level of a year or two ago plus the acquisition of Unitrans in South Africa, rather than one of growth.

To what degree did profit from the Africa Division return to the previous level in the second quarter? Do you expect it to trend similarly in the third and fourth quarters?

Although the figures include exports from Japan, gross profit was 27.2 billion yen in the first quarter and 40.4 billion yen in the second quarter. Profit for the period was minus 3.0 billion yen in the first quarter and plus 5.4 billion yen in the second quarter. Although we are currently analyzing how gross profit and expenses are related, these are the results. We foresee a certain amount of profit if there is no COVID-19 lockdown.

What automobile production volume figures were used in formulating the Mid-Term Business Plan?

We should avoid commenting on Toyota Motor's automobile production volume figures. Also, the impact of automobile production volume can't be measured using only Toyota automobile production figures. We expect that production volume pertaining to our business will rise to the highest levels in FY2022.

What seasonal factors affect earnings?

In the past, excluding dividends, particularly at Eurus, a company in the Machinery, Energy & Project Division, earnings would increase in winter, when wind conditions are favorable. Recently, they have also begun solar power generation and are increasingly able to equalize summer and winter earnings. We have achieved seasonal balance in other businesses as well and think that seasonal differences have become less significant than in the past.