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

Date & time: Tuesday, February 2, 2021, 18:00–19:00

Attendees: Hideyuki Iwamoto, CFO

Masato Ozaki, Assistant to CSO

What is your assessment of the third quarter comparison shown on page 5 of the materials?

Earnings are currently strong with profit exceeding forecasts in all divisions except the Automotive Division. Outside of Africa, automobile sales have yet to recover, which is why profit was down roughly 20% versus last year.

Do you expect the brisk auto production seen in the third quarter to continue in the fourth quarter? If conditions in Africa remain the same as they are now, do you think profit in the fourth quarter will be on par with that of the third quarter?

Going by what our unofficial figures are telling us, we think auto production will hold firm in the fourth quarter.

In Africa, we expect earnings to be boosted by the double impact of accumulated profit from the new dealership we acquired in South Africa and more favorable conditions in the healthcare business and other non-automotive fields.

In which regions is the recovery in automobile sales taking the longest and what is the company's view of the situation?

Asia/Oceania is struggling—notably Indonesia and Cambodia. We expect that this tough market environment may continue in the fourth quarter. The situation is hard to read because as soon as we think the market is making a comeback, the negative impact of COVID-19 rears its head again.

Why do you not disclose more information about the profit contribution of your renewable energy business, your share of power generation capacity, and offshore wind power?

Our renewable energy business involves partnerships, therefore we have to be careful about what details we disclose, but we do want to steadily disclose more information about our share of power generation capacity and the projects we are currently undertaking, so we will continue to actively consider how we go about this up ahead.

Also, as already reported in the media, we have kicked off discussions regarding offshore wind power.

The planned 2 yen dividend hike means the dividend payout ratio is now close to 33%. What are your thoughts about the ratio being above 30% and what is your policy on dividends going forward?

Our policy on shareholder returns remains unchanged—we target a dividend payout ratio of at least 25% and aim to continually increase cash dividends. We want to make a point of raising the actual dividend amount every fiscal year.

Specifically what selling, general and administrative expenses are you cutting back on? Will you continue to reduce these costs up ahead?
At roughly the same time as the outbreak of COVID-19, we started taking steps to manage controllable expenses like commission payments on a case-by-case basis. Business travel expenses and meeting costs have been reduced by 80%–90%, which will likely continue in the fourth quarter. Some expenses that are essentially required, such as development costs, will arise next fiscal year, but at the same time, we will look to control travel and commuting expenses, for example, in the emerging “new normal”.

The gross profit progress forecast by region on page 13 shows 155% for East Asia in the fourth quarter. Did the results for the fourth quarter of last fiscal year reflect the impact from COVID-19?
That is right. The figure for East Asia appears high because there was a hit of 4.6 billion yen to gross profit in the fourth quarter last year.

Do you expect conditions around automobile sales to improve compared to last fiscal year?
We think being able to lower costs has been more important than sales volume, but sales of the parts and materials that we handle are currently brisk.

Deducting fourth quarter profit (attributable to owners of the parent) from your revised full-year forecast leaves 30.7 billion yen. This is considerably short of the third quarter profit of 47.6 billion yen. What is the reason for this?
Past trends show that the fourth quarter usually drops off compared to the third quarter. Coupled with the impact of COVID-19, our forecasts are somewhat conservative.

What negative factors do you anticipate in the fourth quarter?
We think COVID-19 will have the greatest impact.

Could you provide more details about Chemicals & Electronics?
Chemicals are on par with last year. Plastic automotive materials fell into the red in line with production volumes, but lifestyle-related chemicals such as bio-polyethylene, battery materials, and alcohol stayed in positive territory. All up, operating profit came to 300 million yen.
With regard to electronics, we are handling more parts for PCs, networks, game memory, and 5G smartphones mainly because of stay-at-home demand and teleworking. Electronics for automotive applications are also boosting earnings in step with higher production volume and tighter supply and demand.

In your divisional earnings forecast revisions on page 14, why do the revisions differ in size for Metals, Global Parts & Logistics, and Automotive?
Our initial forecast for the Metals Division was too ambitious. As for the Global Parts & Logistics Division and Automotive Division, we previously took a conservative view of the market, but reductions in SG&A expenses have also contributed.

What kind of impact will shipping container shortages and skyrocketing freight costs have on your operations up ahead?
The scarcity of ships and containers has already had an impact in the third quarter. We are shipping some materials and parts via air freight and doing so is starting to have an impact on costs. We think this situation will continue into the fourth quarter, but we will look to adopt measures to ensure that we can keep our production lines running.

Is it possible that advance orders driven by higher freight costs will actually mean profits are booked earlier than planned?
I think such a scenario is probable based on each company's BCP response. It is possible that first quarter profits next fiscal year could be brought forward to the fourth quarter of this year.

How long will the shortage of semiconductors last and will there be a rebound?
We think there might be a rebound from the higher freight costs and semiconductor shortage around the middle of this year. Our view is that the market will undergo a gradual correction in the first quarter and then stop pulling back in the second quarter, or thereabouts.

What is your policy on going carbon neutral in the future and what measures will you implement?
We have long been finely attuned to the idea of going carbon neutral. We are in the process of withdrawing from coal, petroleum, and gas businesses, including those that are a part of our trading operations. We will continue to focus on renewable energy as a leading company in the field.