Toyota Tsusho Corporation

Earnings Briefing for Third Quarter of Fiscal Year Ending March 31, 2022 (FY2021)

Condensed Transcript of Q&A Session

Date & time: Wednesday, February 2, 2022, 18:00-19:00

Attendees: Hideyuki Iwamoto, Member of the Board/CFO

Masato Ozaki, Assistant to CSO

Q: Your fourth quarter forecasts seem conservative. What factors do you think are a cause for concern?

A: As market prices remain high, we're expecting the prices of some products (*devices, non-ferrous metals, sheet steel, chemicals, etc.*) to be adjusted. We're also concerned about shipping container shortages. Distribution under year-long contracts presents no issues, but one-off distribution prices have recently increased nearly threefold, which could potentially affect earnings. Usually the trading company, customer, and shipping company all share the costs, but it's possible that trading companies will end up having to take on the burden up front. Other than that, we don't foresee impairment losses on non-current assets at this point, but we're considering the liquidation of stranded assets.

Q: Looking at quarterly earnings, how much company-wide profit do you anticipate after excluding special factors such as so-called overlap profit in the Metals Division and loss in the Machinery, Energy & Project Division's energy business?

A: Quarterly profit would ordinarily be around 30 billion yen, but we think it's currently in the range of 45 to 50 billion yen, even after discounting the surge in market prices and other such factors.

Q: Could you please provide more details about the one-off losses in the Machinery, Energy & Project Division?

A: We're currently recording an impairment loss on non-current assets because of the challenging electricity market prices in the wind power generation business in Texas, but prospects are likely to improve again as long as the market rises. In the energy business, we booked a loss on fuel oil transactions. For the time being we've tentatively booked losses stemming from customers, including sale prices and credit and the partial appropriation of inventory. We think some of these could be reversed up ahead.

Q: Results are strong in the Metals Division, Chemicals & Electronics Division, Automotive Division, and Africa Division. Do you expect the same next fiscal year and will you raise the dividend amount?

A: Despite lower production volume, we leveraged our unique capabilities to secure profits in the Metals Division, although market conditions also played a part in this. In the Chemicals &

Electronics Division too, our supply chain has been assessed favorably, and there were only advantages for us and no disadvantages. Sales are strong in the Automotive Division. Sales are currently solid in Russia, resource-producing countries, and Africa, so we don't anticipate any major problems next fiscal year. Earnings and dividends should be fairly firm this fiscal year. We expect to pay a dividend of at least 150 yen.

Q: What are the weightings by product and region of market price-driven profit growth? How would you assess the impact of losses during potential downturns in market prices up ahead?

A: By region, China, North America, and Japan account for one third each. By product type, metal scrap, commodity-related non-ferrous metals (*aluminum, etc.*), and rare earth metals (*palladium, neodymium, etc.*) account for one third each. As automotive steel is purchased centrally to limit excessive so-called overlap profits or losses, price increases don't lead to immediate profits. Also, if we were to mention one thing about our views on a possible downturn in market prices up ahead, we'd have to say that considering the recent situation in the circular economy business, we don't anticipate any situation in which the impact on steel scrap market prices would drop out completely.

Q: It appears that no supply shortages of for-sale automobiles have emerged, but what is your outlook going forward? Also, do you expect the high profit margins to continue?

A: In the Africa Division, no supply shortages have materialized and sales are brisk, especially for Suzuki automobiles and Toyota-badged automobiles targeted at the West Africa market. With regard to markets outside of Africa as well, we're negotiating with Toyota to prioritize the dispatching of automobiles to emerging markets where profit margins are favorable.

Q: How do you see Toyota auto production volume this fiscal year and next fiscal year? Also, do you think automobile sales will be impacted by instability in Ukraine?

A: Regarding the Toyota production volume outlook for this fiscal year, as Toyota Motor Corporation has announced, we think production will dip below 9 million vehicles. As for production volume next fiscal year, we're not really in any position to comment on that. The situation in Ukraine will affect sales in Russia. When the situation in Russia becomes unstable, vehicle sales tend to increase in the short term. As a result, there will be no impact straight away, but if the situation is prolonged, sales could worsen as a result of deteriorating economic conditions. Accordingly, we don't think any negative impacts will arise immediately next year.

Q: Please tell us what initiatives you have planned for offshore wind power.

A: Personally, I think this is a business that we ought to be involved in for the future of the planet. I think it should be promoted in such a way that the costs are split equally between the operator, the government, and the consumer. We intend to adopt a careful approach with a long-term perspective while monitoring how things pan out. Aside from offshore wind power, we'll also give some thought to how we can boost revenue even after FIT schemes expire with onshore wind power, solar power, or other energy sources.

Q: In what way have you been affected by the semiconductor shortages and what is your outlook for the future?

A: Our customers have highly rated our ability to secure semiconductors at a very early stage to keep our supply chains running, which ultimately led to new business opportunities, so we think in some ways the situation worked in our favor. As for the future, we've been able to secure enough for our own use. The range of semiconductors that we're truly seeing shortages of, such as those for analog microcontrollers for example, is actually quite limited.

Q: Your capacity to generate earnings in Africa is growing. What does the future hold in this regard?

A: Our initial forecast was for 30 billion yen in profit. We thought half would come from automotive business and the other half from non-automotive, but the weighting is heavily skewed toward automotive right now. Therefore there's still room for growth if business in non-automotive fields takes hold in the future, such as in healthcare, consumer goods, electric power, and infrastructure.

Q: Lithium prices are skyrocketing, so the profit contribution must be quite considerable. How much profit is the lithium business generating overall? What are your thoughts about supplying lithium to help Toyota Motor Corporation ramp up battery production to 280GWh by 2030 as publically announced? And how is the third expansion phase progressing?

A: Lithium prices are currently skyrocketing, but our lithium transactions are based on long-term contracts, so profits don't materialize straight away even if the market is booming. Production capacity expansion has currently hit a bottleneck because of the impact of the COVID-19 pandemic, so revenue is weaker than expected. We are considering additional expansion and strategies for the future while discussing such matters with our partners.

Q: During the second quarter earnings briefing you said that supply chains would have a supply glut because of production cuts and you were forecasting negative growth in the third quarter. Would it be right to assume that such impacts did not arise?

A: In our internal estimates we expected that we'd make up for lost production in the third quarter, and inquiries actually increased instead of decreasing as we'd anticipated. We've heard that inventory at parts manufacturers have swelled due to the impact of production cuts, so we think the impact of weaker demand may be felt in the fourth quarter.