

Toyota Tsusho Corporation
Earnings Briefing for First Quarter of Fiscal Year Ending March 31, 2022 (FY2021)
Condensed Transcript of Q&A Session

Date & time: Friday, July 30, 2021, 18:00-18:50

Attendees: Hideyuki Iwamoto, CFO

Masato Ozaki, Assistant to CSO

Q. What are your views on the viability of the Metals Division and Chemical & Electronics Division going forward? It seems like market metal prices (platinum-group metals, aluminum, scrap, etc.) will remain high, but is that assumption correct? Also, will the current profit levels of the Chemical & Electronics Division stay the same?

A. We think that the Metals Division will continue to perform at the levels seen recently since there has been no decline in the unofficial internal numbers for automobile production volume, and market prices have not declined. As for the Chemical & Electronics Division, conditions remain strong for consumer electronics and automotive materials. For naphtha, we think that the current profit levels will continue in the second quarter because crude oil prices levels are remaining stable.

Q. You said that matters for concern from the second quarter onward included the resurgence of COVID-19, the shortage of shipping containers, and the semiconductor shortage. However, it seems like there was no impact from these in the first quarter. Should we assume that the impacts from COVID-19 will push down earnings?

A. There wasn't a substantial impact from COVID-19 in the first quarter. On the other hand, as has been reported recently, COVID-19 has had an impact on parts suppliers in Thailand and Vietnam, and there are concerns about production, so we're keeping a close eye on this. There was somewhat of an impact in the first quarter from the shortage of shipping containers, and there is a possibility of a rise in costs due to switching to other shipping methods including air freight. Regarding the impact from the shortage of semiconductors, we had been thinking that the impact of this would peak in the second quarter, but we are now forecasting that the impact will continue through to the end of the year, and we think that there will be an impact on vehicle models in North America and Japan.

Q. In the past, we had heard that the impact from the shortage of semiconductors was a positive for Toyota Tsusho, but has this positive impact actually emerged? Also, are you not struggling to secure semiconductors?

A. The shortage of semiconductors has led to a rise in demand, and we have been able to profit from this. We think that this trend will continue through to the end of the year. Stocks of some products are beginning to run low, however, so we are drawing on our capabilities as a trading company to

keep the supply chain going, and we have been able to secure parts and materials.

Q. It looks like the automobile sales momentum has dropped off compared to the fourth quarter. Are there any negative factors going forward?

A. Vehicle sales have remained strong since the fourth quarter, especially in Russia and Papua New Guinea, and the oil-producing countries of Africa. This has been supported partially by market prices, and we have not seen a decline from the fourth quarter. However, we are anticipating a struggle in Central and South America and the Caribbean due to COVID-19, and the situation in South Africa is also uncertain.

Q. You announced your carbon neutrality target on July 8. Am I right in understanding that this target will apply to Toyota Tsusho Corporation and consolidated subsidiaries, and will not apply to equity-method affiliates? Also, can you please tell us how you are going to reduce emissions by 50%?

A. In accordance with Science Based Targets (SBT) criteria, “Scope 1” and “Scope 2” targets will cover Toyota Tsusho Corporation and consolidated subsidiaries. We are considering making “Scope 3” targets cover equity-method affiliates also. Our greenhouse gas emissions in 2019 totaled 740,000 tons and our target is to cut this in half by 2030. We are currently considering concrete ways to achieve this reduction. Emissions resulting from metal melting, for example, are substantial, and it is certainly a challenging target, but we are currently studying ways to achieve it.

Q. What is your outlook for Toyota Motor Corporation’s automobile production volume?

A. We are expecting the production volume in the second quarter to be on par with that of the first quarter.

Q. SG&A expenses increased, but should we view this as simply a return to the pre- COVID-19 levels?

A. It is my understanding that SG&A expenses have been kept down. There has also been an impact from appreciation of the euro. Therefore, the amount of money we are using itself has not increased from the period when the impact from COVID-19 was most pronounced. I think this will continue through to the end of the year.

Q. Please discuss tax rates in Africa. They were around 20% in the fourth quarter and remained low in the first quarter, but will they gradually return to a higher level?

A. The tax rates in Africa vary from country to country. Tax rates tend to decline when there is an increase in earnings in countries with low tax rates and an increase in business for governments offering incentives.

Q. Has there been any impact from the riots in South Africa?

A. We didn't suffer any damage due to the riots. Factories were shut down for seven days, but we plan to make up for any delays caused by this in September and October, so there will be no impact on automobile production. However, we will keep a careful watch on whether the downturn in the South African economy has an impact on sales.

Q. A third wave of COVID-19 is hitting Africa. Would it be right to assume that the impact on sales will be limited?

A. At this stage, there has been no impact. In western Africa, things have returned to the levels seen prior to COVID-19. In eastern Africa, things are a little behind where they were prior to COVID-19, but they are currently catching up.

Q. Regarding the increase in metals prices, I understand that material purchasing prices change on a quarterly basis. Prices are forecast to rise another step higher in the second half of the fiscal year, but is that view correct? Also, which metals are significantly impacted by the rise in market prices?

A. The purchase price of automotive sheet steel is not fully linked to the market prices of metals, so rising metals prices do not have a direct impact. Aluminum prices, on the other hand, are linked to market prices, so we benefit when the market price for aluminum increases. In the first quarter, the impact of the rise in market prices was positive overall, not just for one particular metal.