

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

Date & time: Thursday, November 4, 2021 13:00-14:00

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

Q. In the Metals Division, what kind of impact did so-called wrap profit have on earnings, and how much of an impact did the increase in market prices have on second quarter results? Also, please share your outlook going forward.

A. The impact of so-called wrap profit for steel was not large, and we earned profits on commodities in the order of: scrap, PGMs, aluminum, and then steel. In terms of our outlook for second-half metal market prices, steel scrap prices are at the same level as the first half, and aluminum prices have remained at a high level so we are earning a spread. Rhodium and palladium prices have fallen, and profits on these are not as high as before. However, their prices are not down to the point where we are incurring losses. There is a lot of steel inventory, so if the market price falls there is the possibility that we would incur a bit of so-called overlap loss.

Q. Regarding the outlook for the number of automobiles produced by Toyota, please share your thoughts on the impact of the decline in production in the third quarter as well as the current situation. Also please share your view on the semiconductor shortage heading into next year as well as the possibilities for make-up production.

A. Please understand that I am not in a position to comment on Toyota's expected unit production levels. Regarding the link between production and our earnings, there is a time lag between the supply of materials and production. As a trading company, our supply of raw materials and other materials was good until August and September, while it appears that activity by parts manufacturers and others was not so smooth in the second quarter. Conversely, looking at our internal estimates and actual sales in October and November, they are currently on the decline, we expect that the piling up of intermediate inventory at parts manufacturers and primary suppliers will result in a decline in sales of raw materials and other materials. We think that the negative impacts of this time lag will likely emerge in the third quarter, and therefore we were conservative in our earnings forecast.

Q. What is your outlook for the global economy through next fiscal year, and can you share your earnings forecast?

A. We initially projected the global economy to grow 6.0% this year, but then it was revised downward 0.1 percentage points to 5.9%. The 2022 outlook is for 4.9% growth, a one percentage

point decline from this year. We upwardly revised our initial profit forecast of ¥150 billion to ¥190 billion, but this was due to growth in various businesses, as well as the fact that we have cleaned up our balance sheet and are no longer impacted much at all by the kind of extraordinary losses we previously recorded. We will announce our medium-term numerical targets in the new mid-term business plan that we will release next May, but I feel that we have moved up to the next stage.

Q. Your revised annual dividend for this fiscal year is ¥140 per share. Your company has a strong tendency to increase your dividend, so I take this as a message that you are fairly confident about next fiscal year's earnings as well. Taking the one-off gains and losses this year into consideration, it looks like you will be able to achieve profit of around ¥170 billion, but are you expecting the profit next year to be ¥190 billion or higher?

A. We have made no changes to our dividend policy of increasing the dividend amount while maintaining a dividend payout ratio of 25% or more. If our forecast for this fiscal year turns out to be correct, it will be the 12th straight year of dividend increases. I cannot talk about next year yet, but to the fullest extent possible we want to continue to increase the dividend.

Q. With respect to carbon neutrality, please discuss the timeline for each item in the ¥1.6 trillion in investment. For example, what are the most recent investments?

A. In terms of the most recent activity, the Renewable Energy/Energy Management Working Group is already seeing a variety of investment opportunities, so this working group is on top in terms of the investment amount and the number of projects. Number two is the Battery Working Group, where a number of projects that we would like to work on have quickly emerged, such as the recently announced North American battery business. We will be active in these two areas first. With respect to the Resource Recycling/3Rs Working Group, as awareness of environmental issues heightens around the world, we want to launch businesses utilizing our expertise in emerging markets, where we have been active since the 1970s. The investments by the Hydrogen/Alternative Fuels Working Group and the Economy of Life Working Group will come a little bit later on. In the Economy of Life Working Group, the sums involved in each individual investment will be small, so we want to steadily increase the number of projects.

Q. Regarding automotive sales, the number of units sold was flat, but second-quarter earnings improved. Why is that? Also, your earnings forecasts indicate different trends by region, but the second-half forecasts seem conservative. What are you anticipating?

A. The impacts from the supply shortages were not yet significant in the second quarter, but there was an impact from prices, so our profit increased. From the second half, we are concerned that supply shortages will become a problem. Looking at Africa and other regions, there was pent up demand in Africa in the first half, so we expect the second half to go as planned. For other regions, we think that supply shortages will start to have an impact.

Q. The actual dividend amount is higher than your initial forecast, but the dividend payout ratio declined. It's possible that you took the one-off gains and losses into consideration, but did you have any discussions about the dividend payout ratio?

A. We do not link one-off gains and losses with dividends. The decision we made was to pay an interim dividend of ¥70, and the ¥70 fiscal year-end dividend is only a forecast. In keeping with our policy of maintaining a dividend payout ratio of at least 25% and continuing to increase the dividend, if earnings increase in the second half, we will consider raising the dividend even more.

Q. What is the main factor for the decline in earnings in the Chemicals & Electronics Division in the second half?

A. Earnings were very good in the first half. In Chemicals, earnings increase when the price of naphtha rises, while on the other hand, a price correction with counterparties is expected at a later stage, so the first half trend won't continue unchanged through the second half. In the semiconductor market, there is a shortage of certain kinds of semiconductors, but excess supply of others, so the situation is patchy. There is a shortage of power semiconductors for automobiles and analog microcontrollers, but on the other hand there is a glut of network and imaging-related semiconductors. Therefore, through the second we are conservatively forecasting that there could be price corrections due to excess supply of certain semiconductors.

Q. Please tell us about the first-half progress and second-half outlook for Eurus Energy Holdings. What about depreciation expenses due to ongoing capital investment?

A. Eurus Energy Holdings' earnings this fiscal year are higher than forecasted, but considering the fact that development costs were incurred in advance, true earnings are pretty much flat, or even a little lower than in the year-earlier period. In Europe, wind conditions were bad in Northern Europe, but favorable in Italy, Spain, and other parts of Southern Europe, and this had a positive impact on share of profit/loss of investments accounted for using the equity method. Things are going smoothly in Japan, and performance was generally on par with the previous year. For projects that we have invested in, FIT is now locked in, and once the project is operational we will begin to earn the profits we anticipate, so it is not only depreciation expenses that will increase.