Toyota Tsusho Corporation

Earnings and ESG Briefing for Fiscal Year Ended March 31, 2023 (FY2022)
Condensed Transcript of Q&A Session

Date & time: Monday, May 1, 2023, 13:15–15:00

Attendees: Ichiro Kashitani, President & CEO
Akihiro Sago, Executive Vice President
Toshimitsu Imai, Executive Vice President
Hiroshi Tominaga, CSO
Hideyuki Iwamoto, CFO
Makiko Hamase, CHRO
Toshiyuki Ishikuro, COO for Machinery, Energy & Project Division

Part 1: Earnings Briefing for Fiscal Year Ended March 31, 2023

Q. I had expectations of enhanced shareholder returns, but it was disappointing to see no change. Looking ahead, what must happen for a change in shareholder returns?

A. We're currently in the middle of discussions about shareholder returns. As part of that process, we're analyzing indicators such as DOE and ROE, and also the evaluation of the market by setting a lower limit like at other companies. We assume there will be concerns about the impact of a dividend cut during a recessionary phase, but we have adhered to a policy of raising the actual dividend amount, and even though we forecast a profit decline, we plan to increase the dividend next fiscal year for the 14th straight year. Going forward, we'll stick to our policy of hiking dividends if we have the surplus funds to do so. And we'll also continue to discuss in-house the possibility of setting a lower limit, among other matters.

Q. I'd like to see greater disclosure of information in order to get an idea of return on investment in your priority areas. Also, where do you expect profit growth to come from in your mid-term business plan?

A. Expanding the information we disclose is also something we're discussing internally. It was only in FY2022 that Eurus became a wholly owned subsidiary, and we're doubtful about whether we can disclose year-on-year results on our own. Also, in FY2023 we plan to acquire the shares of Terras Energy and integrate the company into the Group, so we'll need some time before we can properly disclose information about that. As for profit growth during the period of the mid-term business plan, returns from businesses that contribute to carbon neutrality, such as renewable energy, will be modest, but it's imperative that we press ahead with those businesses to address social issues. This is something we hope to discuss on an ongoing basis in order to gain the understanding of our stakeholders.

Q. Internal discussions about shareholder returns signals to me that you're trying to balance investments with returns. However, considering your current net debt/equity ratio, it appears that you have the capacity to expand shareholder returns, so for what reasons did you choose not to?

A. It's still unclear what level of returns we can secure from future significant investment in renewable energy, batteries, and lithium. And we certainly won't try and inflate these figures. Also, our basic policy is to keep investments within the range of cash flow, but we also don't want to miss out on investment opportunities, even if we have to borrow funds for some projects, so it's for this reason that we'll maintain a buffer. As such, our investment and profit forecasts for this fiscal year are somewhat conservative.
We advocate austerity and fortitude and make good on our promises. It's in our nature as a company to never set unrealistic targets that we cannot achieve. Looking at our growth over the past 20 years, our market cap has risen 18-fold and profit 27-fold. In the past five years these metrics have increased 60% and 110%, respectively, so we feel quite confident about our growth potential. Even when we're asked about shareholder returns at the General Meeting of Shareholders, we explain that we seek an optimal balance of allocating the profits of shareholders to three areas: shareholder returns, investments in the future, and the strengthening of our financial position. As for the 1.6 trillion yen in carbon neutrality investments through to 2030, we arrived at this figure not by tallying the amount of each project, but by backcasting to calculate how much we would need to invest in order to fulfill the responsibilities and expectations of society. Given that new technological changes are underway, particularly in batteries and electrification, we believe we must invest in various fields with a multi-pathway approach. We have some idea of where we'll be investing 880 billion yen over the next three years, and in addition to that, it's possible that more investments in specific fields will emerge. As for our investment capacity, if we fail to secure investment opportunities at this time, our medium- to long-term competitive edge is at risk of waning, so in our view, we have no choice but to be prudent. Our current shareholder returns policy therefore takes all of these factors into account. Given that Toyota Tsusho will grow bigger in the future, our responsibilities to society and the stock market will also grow increasingly important. We recognize that we must be conscious of this and continue to further our dialogue with shareholders, analysts, and other interested parties.

Q. What is your view on the current decline in automotive sales margins and the future outlook?

A. The impact of yen depreciation in FY2022 was basically positive for us. Also, the impact of higher crude oil prices in Asia/Oceania and the Caucasus, and the impact of a rebounding tourism sector buoyed by pent-up demand in the Caribbean, both worked in our favor. As we forecast a slightly stronger Japanese yen than in FY2022—our exchange rate assumption for FY2023 is 125JPY/1USD—and expect pent-up demand in tourism, etc. to subside, we think margins on automotive sales will decrease.

Part 2: ESG Briefing

Q. What is your view of the third-party evaluation of environmental activities, particularly the

Science Based Targets?

A. Toyota submitted its targets to the Science Based Targets initiative and was validated in September last year. As a member of the Toyota Group and the automobile industry, we too are proactively discussing our options at present.

Q. Regarding your 100 billion yen investment in the recycling business, do you know which fields you'll invest in, and the approach you intend to take?

A. Going forward, we have plans to expand overseas. Nothing is decided as to exactly which region or who we'll partner with, but we'll reach an appropriate decision on such matters at the earliest possible time. We hope to expand the recycling business by focusing mainly on the metal scrap collection business, an area that we excel in.
In addition to metals, we're also investing in the recycling of resin. If the directive on end-of-life vehicles is adopted by the European Union, legislation will be tightened mainly with regard to the requirement that vehicles sold in the EU must use more than 25% of recyclable plastic (a level that will gradually increase in the lead up to 2030). In order to comply with these requirements, we established Planic, the first factory in Japan that recycles resin from vehicle waste plastic. As we currently don't have enough volume of recycled resin to meet demand, we're thinking of expanding this business in Japan and overseas.

Q. Could you explain your renewable energy strategy again? For what purpose are you acquiring an 85% equity stake in SB Energy, and how does the solar power strategy fit into your 5GW and 10GW generating capacity targets? Also, will profit increase in step with power generation capacity?

A. The electric power value chain of generating, storing, adjusting supply and demand, and distributing energy needs to be expanded. We had been focused on generating wind power, but some parts of the renewable energy industry are unstable, and there needs to be a diversification of power sources and greater power output, which is why SB Energies—an expert in solar power generation—is such an attractive investment. In terms of energy storage and supply-demand adjustment, we believe we can capitalize on SB Energy's insight, technology, and human resources. As for profits, alongside the usual scenario of higher base profit if power generation capacity is increased, we anticipate profit margin improvements from greater added value by ramping up our electric power value chain strategy. For example, storing energy and adjusting supply and demand in an electric storage business, or delivering electricity to users in a power transmission business.

Q. Your reduction of strategic shareholdings has remained at around 40 stocks in the last 10 years. What approach will you take up ahead?

A. We understand the market's criticism of strategic shareholdings. From a cost of capital point of view, we're actively selling off those shareholdings and we made considerable progress on reducing the number of stocks in FY2022, which we intend to include in the shareholder meeting convocation notice. Going forward we’ll actively consider selling listed shares in particular.