

Earnings Briefing for Fiscal Year Ended March 31, 2024 (FY2023)

Condensed Transcript of Q&A Session

Date & time: Tuesday, April 30, 2024, 15:00–17:00

Attendees: Ichiro Kashitani, President & CEO

Hiroshi Tominaga, CSO

Hideyuki Iwamoto, CFO

Q. What are your assumptions and views regarding the forecasts for FY2024?

A. While we are confident that we can achieve the 350 billion yen forecast, it is not a conservative figure. We are confident about the 350 billion yen forecast and have published it as a firm figure because we have been able to steadily increase profit from the 130 billion yen level before the COVID-19 pandemic to 222.2 billion yen, 284.1 billion yen and 331.4 billion yen, overcoming the pandemic. Looking at automotive OEMs, not just Toyota, we expect production volume will increase slightly from the FY2023 level. Although production volume was down in Japan in the fourth quarter of FY2023, we expect production will come back. We are taking a conservative view of Africa because of the figures were very positive in the current fiscal year. While margins have not fallen yet, we based the figures on the expectation they will fall in the future. In addition, if the yen appreciates against the euro from the rate in the previous fiscal year, profits will also fall, but the forecast is achievable under the current exchange rate assumptions. We based the lithium market forecast on the price at the end of March, and there could be a downward swing if the market falls further. We expect lithium will be a resource at about \$10,000/t. We will still be working to make it profitable, but we do not have high expectations in terms of profit contribution at the current price. We prepared the Green Infrastructure budget based on electricity prices in Europe and North America, which have now settled down. The fact that the power generation project in northern Hokkaido is starting to be profitable is also a factor for increase in profit.

SQ. What assumptions have you made in relation to electronics? Also, what is your view of the sales figures for Africa, although South Africa was weak?

SA. In Digital Solutions, products for consumer use such as LCDs and touch panels did not perform well in the previous fiscal year, but we believe the market has bottomed out and will come back in the future. Also, the margins for in-vehicle electronic applications have not fallen, and volume has increased in line with the number of vehicles. Demand for memory is also recovering, so we expect sales will be a little more positive than in the previous fiscal year, and see the figures for the Digital Solutions forecast as firm. It is true that the figures for South Africa were a little weak in the second half of FY2023. The forecast also takes into account the weak currencies, such as the South African rand, Zimbabwean dollar, and Angolan Kwanza, which are at risk of devaluation, but we believe that South Africa has already hit bottom. We are also concerned about a decline in sales volume due to increased Russian and Chinese involvement in the Sahel region, but we expect other

countries such as South Africa, Kenya, Cote d'Ivoire will offset this decline.

Q. Does the cash allocation in the mid-term business plan include cash provided by asset sales? Also, what discussion has there been about flexible return measures in light of asset sales?

A. We estimate cash provided from recovery of investment through asset sales and other means is 1 trillion yen based on net investment cash out. As a company, we believe it is most important to increase profit and exceed 13% in ROE. We will continue to assess whether we can increase profits while making solid investments.

Q. Can we consider ROE of 13% would be a trigger for implementation of a share buyback? Is it possible you will implement a share buyback if KPIs are not achieved even in the middle of the mid-term business plan? Do you think it is necessary to meet the KPIs by FY2026, the final year of the mid-term business plan?

A. Our idea is to keep ROE consistently above 13% for the three years. We would also consider increasing returns if ROE falls below 13%. However, our basic approach is cash dividends rather than share buybacks. We believe it is progressive dividends rather than share buybacks that encourage shareholders to hold shares over the long term, and we would like to have the discussion based on this policy.

Q. In terms of your return policy, you have set a dividend payout ratio of over 30%. Has there been any discussion on setting the dividend payout ratio at 40 or 50%? A feature of Toyota Tsusho is that its business performance does not decline much. That being the case, would reflecting this in the dividend payout ratio express this characteristic of Toyota Tsusho in its return policy?

A. We have had considerable discussions about this within the company. As a company, we believe that progressive dividends are important, and we do not stick to a specific payout ratio. However, it is necessary to indicate a minimum and that is why we set a payout ratio of 30%. There has also been some internal discussion about a higher payout ratio, and we appreciate your valuable feedback.

There is agreement within management on the basic idea. Shareholder returns are balanced with growth investment. If the dividend payout ratio had been 40 or 50% over the past few years, it is uncertain whether the current growth would have occurred. If we are confident that current investment will lead to growth, we would like to direct funds toward investment with the understanding of shareholders. We will increase the absolute amount of funds while redirecting funds to returns so that we can also increase returns little by little. If we actually eliminated growth investment, then we would have to redirect funds to returns, but we will aim for growth investment first.

Q. Regarding current the investment target of 1 trillion yen over the three years to FY2026, is there

more certainty in terms of the content of investment for the three-year mid-term plan through FY2026 than there was previously in the three-year mid-term plan through FY2025? Is it correct to understand that the number of investments and the certainty of what we can see has increased?

A. The certainty of investments related to batteries has increased. In addition to actual battery plants, the major change is that investment projects around the battery supply chain are becoming more visible, and the target amounts are increasing. Offshore wind power is not included in the plan, but there is a long list of onshore wind and solar power possibilities.

Q. In terms of ROIC, profitability in the nature value area such as renewable energy is low at around 5%, while the ROIC in the social value area is 10% or more. Therefore, should you take on projects with potential?

A. Toyota Tsusho's WACC is estimated to be around 8%. As you say, we cannot be satisfied with 5%. However, in the long run, we expect that environmental value and other factors will increase in the future to generate upside in the areas related to the environment and those that benefit society. You should understand that the information disclosed here is limited to the next three years through FY2026.

Q. What is the current situation regarding per-vehicle margins for automotive sales?

A. The markets that we have are different to those in the typical developed countries. The market in developing countries mainly covers exports, distributors, dealers, and after-sales service in total, so there is value added and operations are easy to control. Consequently, margins have not declined. On the other hand, we believe that profit margins may decline in the future as the model mix changes. For example, it is expected that profit margins will decline as the number of high-margin Land Cruisers and other such vehicles decreases and the number of compact cars increases. However, we believe that sales will increase due to increased volume and expanded functions, resulting in a larger actual amount of profit.

Q. You invested about 900 billion yen over the three years from FY2021 to FY2023. To what extent will these projects contribute to earnings in the future?

A. The biggest contributor to profits will be renewable energy. Wind power generation projects in northern Hokkaido, which have started, are expected to contribute to profits because they are located in suitable onshore areas and have feed-in tariffs (FITs). With regards to our base business, we aim to limit new investment and maximize returns from businesses where amortization has been completed, such as the Metal + (Plus) steel plate business, which will make a significant contribution to profit in real terms. In Africa, countries are emphasizing both mobility and healthcare, and it is a growth market so the more we increase our sales channels, the more profit will grow. Recycling is an area in which Toyota Tsusho has been involved for a long time, and will become more profitable if the price of metal resources increases. The key point is how we can fulfill collection functions. Evaluation is required in the area of batteries, as returns will not follow

if investment is too early. As a trading company, we will take on the challenge of increasing product variations, such as combining batteries with energy storage. We expect to see the figures follow in areas where we have made significant investments in the past.

Q. The results for the fourth quarter of FY2023 were 60.5 billion yen, down from the 90.0 billion-yen level in the other quarters of the fiscal year. What were the factors involved in this?

A. In addition to a one-off loss of 7.0 billion yen recorded in the fourth quarter only, the analysis suggests that performance in the fourth quarter is not very strong to begin with. Based on past results, we set a target of 320.0 billion yen for the fiscal year rather than 90.0 billion yen \times four quarters. The result was 60.5 billion yen, but that was an all-time high for the fourth quarter.

Q. What is your view of the net debt/equity ratio and RA/RB? Although actual performance has remained below the target, the management indicator is still "1.0 times or less the baseline". What are the reasons behind maintaining the target baseline?

A. One reason is wanting to acquire highly leveraged companies. We are hoping that the indicator will not deteriorate too suddenly. The question is how much surplus capital would be left if all the large companies were acquired with debt? If we were to borrow 500 or 600 billion yen, our net debt/equity ratio would decline to 0.8 times immediately. RA/RB is an indicator that tends to fluctuate, due in part to foreign exchange rate volatility. We have set a figure of 1.0 times, which is an indicator that we want to make challenging investments with room to spare when conducting M&A. We manage the internal management indicators at lower levels, such as 0.8 times for the net debt/equity ratio and 0.7 times or less for RA/RB.

Regarding the investments in the mid-term business plan, we are always casting our net for potential M&A projects in fields that express the unique characteristics of Toyota Tsusho from among the three values. While projects depend on the counterparty and the timing, we are always ready to act whenever we find a project of interest. In the past, we have had failures with so-called brought-in projects, so our policy now is to go and get our own M&A projects. The other implication is that we want to ensure financial soundness is maintained even in the case of two or three major projects in a row.

Q. In terms of human rights due diligence, I would like to see Toyota Tsusho disclose in its integrated and sustainability reports information on the establishment of a grievance mechanism, objections, and other areas not only at affiliated companies but also in the supply chain. It seems a bit strange for there to be so many different businesses and no conflicts. I would like you disclose even the smallest detail if there is anything.

A. We are also actively considering disclosure. We will fully disclose if there is anything related to human rights due diligence in the supply chain as well.

In fact, we believe that some of the details are negative for Toyota Tsusho. For example, we would like to honestly disclose everything about internal misconduct, the number of people who have been subject to disciplinary action, and trends in the percentage of paid vacation leave taken. We believe that by taking the step of disclosing this information openly, we can become aware and improve Toyota Tsusho.

Q. Will there be any losses due to the withdrawal from fossil fuel power generation?

A. Coal-fired power generation in the Philippines remains as one of the major environmental impacts, and we have actually visited our business partners and negotiated our withdrawal from the business by FY2024, but we do not expect any losses. Negotiations are underway to generate a profit. Our partners in the negotiations have renewable energy projects, so we are also considering moving forward with a new project afterwards, such as a switch of owned assets.

Q. I would like to know if there are any changes in your stance on strategic shareholdings, including the Toyota Group.

A. As in the past, our policy is to sell all strategic shareholdings that do not outperform the cost of capital, even those that are profitable. We have made progress in selling those shareholdings where we have obtained the understanding of the other party, not limited to the Toyota Group. There has been significant movement regarding cross-shareholdings in the Toyota Group, with Denso at the top of the list. However, we can generate stable profits and cash flow from our business, so we will respond in accordance with our policy. There are no rules within the Group, so we do not consider these shareholdings as untouchable assets. While there is this kind of discussion, I would like you to understand that, as a trading company, Toyota Tsusho's fundamental approach is different from that of a manufacturing company.

Finally

When explaining the full-year financial results for FY2022 which was two years ago, we referred to them as "tailwind reference values" because they benefited from the weak yen and high resource prices. We designated FY2023 last year as a year for building up our capabilities. This was because we were wondering how much profit we could actually generate once the effects of the weak yen and wrap profits wore off. As a result, we consider our capabilities have improved. We have designated FY2024 this year as a year for implementing strategies. We are gaining confidence in our execution capabilities regarding our 350 billion yen earnings forecast and believe we will be able to achieve the target if we fully implement our strategies.

We look forward to your continued guidance and encouragement in the future.