Toyota Tsusho Corporation

Earnings Briefing for Third Quarter of Fiscal Year Ending March 31, 2025 (FY 2024)
Condensed Transcript of Q&A Session

Date & time: Friday, January 31, 2025, 18:00-19:00
Attendees: Hideyuki Iwamoto, CFO
Yasushi Aida, Assistant to CFO
Shigeo Obata, Assistant to CSO

Q. Overall evaluation of the third quarter business results. They look weak excluding one-time profits. In particular, the performance of in-vehicle electronics in the Digital Solutions Division is weak. Can we expect a recovery as Toyota Motor Corporation recovers its production?

A. Overall, excluding exchange rates and one-off factors, the situation is somewhat weak, but differs for each division.
The Metal+(Plus) Division continues to perform well, and domestic production is also recovering, and we expect this trend to continue in the fourth quarter. On the other hand, the Digital Solutions Division's progress rate is poor at 62%, and inventory levels are still high. The inventory levels are as a result of sluggish orders from component manufacturers and the impact of product changes in semiconductors. However, since the inventory is not carrying unrealized losses, profit margins have been secured. Selling them quickly is our challenge, so we are playing catch-up.

Q. Has there been any change in the trend in automobile sales from the second to the third quarter? There is also the factor of an influx of Chinese brands into the Caucasus region. What is the current situation?

A. In the Caucasus region, profit margins had been very high in the previous period, as inventory that had been destined for Russia was able to be resold in other countries, resulting in a backlash. Chinese cars are also coming in there, but Toyota's profit margins are strong so we're not too concerned. As for Mobility in the Africa Division, Suzuki's compact cars sold well in West Africa in the previous fiscal year, but sales declined this fiscal year as a reaction. On the other hand, profits are increasing due to Toyota vehicles selling well, and they have high profit margins.

Q. How do you evaluate the current stock price? The stock valuation has fallen, and we think the mid-term management plan will be reviewed in April 2025. Are there any measures to raise the stock price, such as strengthening returns?

A. The stock price is at a disappointing level, and we speculate that this is due to factors such as the total payout ratio being lower than that of other companies and concerns about stock supply and demand due to the dissolution of cross-shareholdings. The mutual ownership within the Toyota Group will be thoroughly discussed even under the new management structure. We believe that return to shareholders shall be based on the right balance between cash flow and ROE. On the stock valuation, we would like to see greater recognition of our strengths in high-growth India and Africa.

Q. The arrows indicating the direction for the fourth quarter in the "Profit Analysis (Division)" section of the briefing materials appear to be mostly flat or pointing downward. What is your understanding of this? Is it correct to understand that there has been no change in tone from your statement in the second quarter that the hurdle for increasing profits next fiscal year is not high?

A. In production-related businesses, there is a time lag before results are reflected in profits. As a result, although production volumes are recovering, profits in the third quarter appear to be slightly lower than expected. The arrows indicating the direction of the fourth quarter do not represent the final outcomes of the plan, but rather refer to an image of the trend from the present to the future. Although these may give a bad impression at first glance, our explanation that the results in the second quarter will exceed 350 billion yen does not change. The company is not revising its earnings forecast because it has remained conservative due to the sluggish orders in production-related businesses in the third quarter, when production recovered. As for the Metal+(Plus) Division, we believe that there have been too many shipments so far and they are therefore showing a downward tendency. Both the Circular Economy Division and the Supply Chain Division are showing slightly upward trends rather than flat. We don't think the Mobility Division is doing too badly, as the yen continues to weaken and sales are doing well in inland China. Africa is also expected to see upside.

Q. For the third quarter of the Africa Division, operating profit increased, but after-tax profit did not. Could this simply be due to the fact that the vehicles were shipped to countries with high tax rates over the past three months? Or are there changes in demand or model mix?

A. For business bound for Africa, inventory is stored in three locations - Dubai, Belgium and South Africa - and products are transported, with transportation via Dubai increasing in the third quarter. Business via Dubai has a lower tax rate, so tax expenses must be recorded in Japan, where the parent company is located. For this reason, there was actual demand and profits increased, but tax expenses also rose. Sales were strong up until the third quarter, but are expected to return to normal in the fourth quarter, and we do not believe there will be as much of an impact as there has been so far. We also believe the situation in South Africa will improve a little bit.

Q. How do you see Toyota Motor's production recovery progressing in the third and fourth quarters? How much time lag will it take for this to have an effect on business performance?

A. The recovery in global production volumes varies by region. The Metal+(Plus) Division's strong performance is due to the opening of a new factory in Mexico. The Circular Economy Division is seeing some improvement as production recovers, but it remains vulnerable to the volatility of resource prices. Once production recovers, the Supply Chain Division will see businesses related to parts and logistics improve in parallel. The Digital Solutions Division expects inventory drawdown to proceed in the fourth quarter.

Q. We believe that cross-shareholdings are the cause of the decline in stock prices, and that the market is asking for your company to take measures to address this. Are there any discussions underway such as updating the policy?

A. Our policy regarding shares held by the Toyota Group and financial institutions has not changed since the second quarter, but we believe that now is the time to coordinate our views internally and start knocking on their doors. For mutually held shares, we would like to take prompt action, including dissolving some of the cross-shareholdings. Although the resolution will involve the other party, we will have a thorough discussion within the company.

Q. How do you see the impact of U.S. tariffs going forward? Was there no impact in the third quarter?

A. There was no impact on either business partners or group companies in the third quarter. As for the future, things will change depending on the negotiations and bargaining between countries, so we will not get too optimistic or pessimistic, but will carefully determine whether things that are directly related to our business will continue and respond accordingly. As we are a trading company, we do not bear the tariffs and will pass them on to others. In this situation, we will function effectively by making optimal procurement decisions, such as bringing in supplies from Argentina if Mexico is not available. We see this as a rather positive opportunity for us.

Q. Is the impact of Chinese cars being felt in the Caucasus region? What about Kazakhstan?

A. The Caucasus region is mainly affected. Chinese cars are coming out in droves, so we are slightly on the defensive. The decline in profits is caused by a rebound from the high profits made in the previous period when inventory for Russia was sold in the Caucasus region. There is no deterioration in sales volume. As for Kazakhstan, the impact is not that great at this point. Although Chinese cars are gradually entering the market, Toyota has been able to maintain demand for its vehicles.

Q. In response to Toyota Motor's ROE target of 20%, is there any possibility that your company's ROE target or capital policy will change?

A. We believe this brings a new perspective that requires achieving high levels of dividends or returns from business. The target of an ROE of 13% or more that we have announced is a figure assuming that we actively advance our renewable energy business. And if investment in the renewable energy business slows down and surplus cash is generated, or if profitability pushes down the ROE, we will have to consider our capital policy.

Q. Is there a possibility that a one-time gain or loss will be recorded in the fourth quarter?

A. An impairment assessment will be conducted in the fourth quarter, so there is a possibility that a one-time gain or loss will occur. However, this does not mean that only losses will be incurred. For example, in the sale of its fossil fuel power generation business, the company is continuing negotiations to ensure that the proceeds from sales show a profit.

Q. What is the outlook for the Africa Division's results and what is the direction for the next fiscal year?

A. We hope to achieve better results than in the current fiscal year, partly due to the weak yen, but believe this will also depend on the business environment and vehicle allocation.

Q. Please give a follow up on the business situation in South Africa, shortages of vehicles by region, changes in the model mix, etc.

A. In South Africa, used car prices had been falling and the taxi industry had been in a slump for some time, but the situation bottomed out between the third and fourth quarters, and current demand is growing, so we are taking a positive view. Across Africa, the situation in the Middle East has led to an increase in parallel imported cars, intensifying competition. However, since the countries in which we mainly sell our products are doing well, the impact on our performance is small. In terms of model mix, sales of Suzuki vehicles in West Africa were strong last year but have since stabilized. On the other hand, sales of large vehicles increased, leading to greater profits and a decrease in sales volume. Such structure changes from year to year and varies from region to region and country to country. The overall outlook is positive, and we believe that the recovery in South Africa will be a boost.