

24FY2Q Financial Results Briefing (for media)

Wednesday, November 1, 2023, 1400-1500 @ Bellesalle Shiodome

Speakers: Executive Vice President/Chief Financial Officer Miyazaki, Executive Communication Officer Nagata, Accounting Group Chief Officer Yamamoto

Q1:

We would like to ask you two questions regarding the full-year outlook. First, profit increased by 1.18 trillion yen due to exchange rate fluctuations, and the current assumed exchange rate has reached 141 yen, which is still depreciating. Do you think there is a possibility for future exchange rate increases? Second, though a weaker yen is supposed to have a negative impact on the cost of raw materials, exporting companies such as Toyota tend to think it will have a positive impact. What do you think is the appropriate exchange rate level?

A1: CO Yamamoto

Assumptions for exchange rate fluctuations are calculated mechanically. Based on the most recent results, the assumed exchange rate for the remaining six months was estimated to be 140.

Regarding the impact of exchange rate fluctuations on our company, we do not prefer a weaker or stronger yen; rather, we appreciate a stable exchange rate.

Toyota is committed to protecting the manufacturing and automotive industry in its home country, Japan. Even in times of hardship, such as the extremely strong yen and the Great East Japan Earthquake, the company contributed to the local community by building production bases and creating jobs rather than relocating overseas. When a company manufactures in Japan, it naturally exports some vehicles overseas. In the current situation, a weaker yen increases our profit, but when we look at the Japanese supply chain as a whole, there are various areas where the weaker yen will have a positive or negative impact. Therefore, it is most desirable that the exchange rate remains stable, as once a production plant is established and takes root in a region, it is not so easy to move it elsewhere.

Q2:

Regarding the situation in the Chinese market, what is your view of the market environment for the second half of the year? Also, you have significantly lowered your forecast for BEV sales from 200,000 units. Is it because you consider the demand for BEVs weakening, or is it because of Toyota's circumstances, such as product and sales plans?

A2: CFO Miyazaki

In China, the market for NEVs (BEVs, PHEVs, & FCEVs) is growing. Toyota, meanwhile, has been maintaining its market share. A severe price discount competition is taking place in the Chinese EV market, especially among BEVs. We realize that price competition between local manufacturers and foreign OEMs is intensifying, and the discount rate for BEVs is increasing.

Given these circumstances, we have been working on a plan to maintain our current market share, and in fact, we have been successful. We would like to continue to do business on that premise. Although we have made a downward revision with BEVs, we will increase the number of HEVs and secure the total number of units while avoiding involvement in price competition as much as possible. Meanwhile, we must admit that price competition, from customers' view, offers more choices for them.

Toyota has received messages from customers that they think there is still room for improvement, particularly with the bZ4X, and so we will upgrade them as appropriate.

Q3:

The number of HEVs is growing, and PHEVs are also growing considerably. We have heard that HEVs can generate profits comparable to those of gasoline-powered cars; are PHEVs becoming as profitable as gasoline-powered cars?

A3: CO Yamamoto

I would say you can assume that the profitability of PHEVs is almost at the same level as that of HEVs.

Q4:

Why did you mention strategic shareholdings this time, and what is the time frame and scale of the review?

Second, I would like to ask about Toyota's own approach to raising wages and increasing the labor cost of its suppliers.

A4: CFO Miyazaki

When we briefly touched on the issue of strategic shareholdings in the 1Q results, we received requests from our stakeholders to clarify our policies on this issue, so we stated them after the 1Q results, and this time we have spoken for each group company as well.

As you have just seen in the graph, it's not that we have not done anything with our strategic shareholdings in the past. Our approach has not changed, and we are progressively reviewing those assets whose significance has diminished and using them to invest in new areas. We have been using strategic shareholdings to make new partners and enter new areas by relocating assets.

We would review the formation of the group's shares in the same way to achieve the optimum business balance as a group. As our lineup changes, we would like to strengthen further the home-and-away formation we have already been promoting with some companies.

As for timing and timeline, we would like to do this as soon as needed.

For this, based on this principle, we would make a swift move when needed.

A4: CCO Nagata

As Miyazaki explained at the beginning of this presentation, our approach to raising wages is this: we have been building automobiles together with all our stakeholders, and what we have always said is that we will create the future together, that car-making is something that is done by all of us.

Toyota's approach to raising wages is that, for us, employees are one of our most important stakeholders. There has been considerable inflation from this fiscal year to the next, and the cost of living has risen due to various factors. At the same time, the company is looking closely at how hard employees have worked at their jobs. Then we would like to have proper dialogues with them, not only in the annual wage talks once a year but on a monthly basis with the union members, to discuss where and how we can make improvements. Based on the talks, we will consider an appropriate level of wage increase for the next year.

The second point regarding our suppliers is that materials prices have soared since last year, and the weaker yen has made the cost of materials even higher. We have paid suppliers what corresponds to costs for materials, electricity, and wage increases since last year, and we have no intention of changing this stance in the current fiscal year. In this way, we will continue to pay Tier 1 suppliers first and then discuss how we can pass this on to Tier 2 suppliers and beyond.

A4: CFO Miyazaki

To add, in my presentation, I mentioned transportation issues, including the shortage of truck drivers. We have been having discussions with the transportation companies to see if there is anything we can do to improve logistics costs, including raising transportation fees so that the benefits will be passed on to the drivers. We would like to give back in this area as well.

Q5:

What is your view of the rapidly increasing BEV exports from China? Also, what is the current impact and future outlook for Toyota's business in Southeast Asia?

Second, regarding the impact of rising interest rates in Japan and the U.S. on financing and sales, what is the current situation, what is the future outlook, and what measures, if any, are being taken in response to these rising interest rates?

A5: CFO Miyazaki

We have seen numbers confirming that BEV exports from China are on the rise. We also recognize that BEVs are beginning to exist as a segment, particularly in Thailand. Regarding the future outlook, I believe that we should assume that Chinese local BEV and other manufacturers either increase exports from China or try to expand their operations into local markets.

On the other hand, for our part, as I am sure you all understand, it is not that we do not have the BEV lineup in hand. It is just a question of when we will actually launch it.

I cannot provide the details, but the tariff rates for exports from Japan to Southeast Asian countries and China vary from destination. We will consider these factors when considering local production and what models to export from which countries to Asia. As I mentioned earlier, decisions should be made timely while observing the actual market certainty.

A5: CO Yamamoto

I think the question is related to sales finance. Rising interest rates, especially in the US, are a factor for the decrease in profit as interest margins are shrinking on the financing side.

However, as you see, the business earnings of sales finance are not extremely low, and one factor that supports this is that the value of residual cost and used car prices is holding very strong.

While the price of used cars as a whole remains high, we are also advised by people in the frontline that a strong product lineup makes it more difficult for residual values to fall, thus contributing to profitability. We are aware that producing decent products can contribute to earnings.

Q6:

I would like to ask about future changes in investments. You mentioned returning profits to shareholders six months ago as cash was accumulated in this fiscal year's financial results. The current share price is rising, and if a high share price means that shareholders have high expectations for future growth, it can be taken as a sign that the cost of capital is decreasing.

I know that excess cash may be used for shareholder returns, but if it is a sign that stakeholders expect growth, could it be used for future investments, including R&D expenses?

A6: CFO Miyazaki

I would like to start by telling you how I accepted the current interim financial results.

First of all, I would like to thank all of our customers around the world for their patronage of Toyota vehicles. I believe that we could not have achieved this figure without the efforts of our manufacturing team, including our suppliers, logistics, and dealers. They have worked hard to deliver our vehicles to customers around the world as quickly as possible. I would also like to thank the local

community for their warm support.

I don't know how to put this, but we do not want to use the profits for our own benefit; we want to invest and get a return from the perspective of how we can change the Japanese automobile industry and how we can pioneer new mobility businesses. We cannot change the future of automobiles alone, so we would like to explore how we can change the future of automobiles by forming a variety of partnerships and actively investing in new areas. If we can further raise our earning power by that, then we can give it back to our stakeholders, and with their support, we will take the next step forward and repeat this cycle.

As for where we should invest in the future, we will not know what kind of seeds we need until we sow various seeds in various places, explore various possibilities, and work steadily to combine and cross-fertilize those seeds to create new varieties.

Q7:

With regards to domestic production, more than ten years ago, when the yen was quite strong, you must have dealt with domestic employment and supplier relations issues and done things that did not necessarily positively affect short-term business performance. Under the current exchange rate environment, I think that manufacturing in Japan is currently the most competitive, including in terms of quality. What is your view of the competitiveness of domestic production?

A7: CCO Nagata

Before discussing competitiveness, I would like to mention that maintaining 3 million units of domestic production depends on how Toyota Motor Corporation has contributed to Japanese society and the Japanese nation since the days of Toyota Industries Corporation. Looking back, more than a decade ago, when the Great East Japan Earthquake struck, they called it a time of six-fold hardship, and with the strong yen, manufacturing operations moved overseas.

At that time, we did almost the exact opposite in that we created Toyota Motor East Japan and tried to contribute to the Tohoku region through manufacturing. Today, I believe that TMEJ is contributing to Tohoku in various ways as a company. We will continue to stick to the 3 million unit target.

According to the figures in relation to JAMA, Japan earns 15 trillion yen from automobile exports. Now, energy costs are rising due to inflation, but a couple of years ago, the same amount of 15 trillion yen was spent on purchasing energy. I believe it is really important for the country to earn foreign currency, and Toyota must support its economic foundation. I believe that this sense of mission is essential, and it must be manifested in figures.

As for what will happen in the future, we would like to continue to grow our roots in Japan and contribute further to the local community.

Q8:

Your cost improvement efforts in the April-September period have had a greater effect than in recent years, but I would like to know again what kind of efforts you have been promoting.

I believe you have also been strengthening your efforts to return profits to suppliers. Please also tell us about the progress of your cost-reduction efforts with suppliers.

A8: CO Yamamoto

(Explanation with projected slides explained by CFO Miyazaki)

Listening to the voices of the genba, I found there has been tremendous progress in digitization. For example, machined parts go through visual wavefront inspection, and we find defective parts at a rate of about 1 out of every 10,000 pieces. Colleagues at the genba are working with determination not to miss any defective parts. By using AI cameras for this kind of work, their time can be better spent on the work that needs to be done. Applying sealer to prevent water leakage requires skill, but by loading the skills of the master craftspeople into VR, newcomers can first learn by copying their movements. In this way, training time can be shortened, and skills can be passed on to more people. These digitization activities started about three years ago at a labor-management conference when we all said we would catch up. The desire to learn and the eagerness to acquire skills among the technical workers at the genba are high and have shown results during the 2~3 years of the pandemic. I believe that the steady improvements we have made are now starting to have an effect under the current high production load. This means that we are working together with our suppliers as well.

A8: CFO Miyazaki

As I mentioned earlier, we have direct contact with Tier 1 and Tier 2 suppliers. I believe the entire automobile supply chain cannot be maintained unless we help these various improvements penetrate deeper Tiers. From this perspective, JAMA and JAPIA are working together to implement a variety of initiatives, and Nagata is also cooperating to promote these initiatives.

A8: CCO Nagata

These are JAMA initiatives, but as Miyazaki mentioned, the Japan Auto Parts Industries Association (JAPIA) and the JAMA Supply Chain Committee work in close cooperation. JAPIA members go themselves to see what deeper tier suppliers ought to be doing, and depending on the genba they work together across industries.

Individual companies will do the same thing individually, but we are at a very important time in the industry to do this as a whole. Looking a little further ahead, it is difficult for smaller suppliers at deeper tiers to know how to go about the transition to BEVs. Many of them also say they don't know how to approach carbon neutrality.

We would like to work on this from both sides, using not only the supply chain of each OEM but also the know-how and networks of JAMA and JAPIA. In this way, we are currently working on this initiative.

Q9:

Both operating revenue and operating income are record highs for this time of year, but I would like to hear your assessment of the past six months' financial results.

At the same time, with raw material prices continuing to soar, you are still revising the earnings forecast upward. I would like to ask about any future risks.

A9: CFO Miyazaki

The figures for the first half of the year are the result of the hard work of everyone in their respective positions, and the forecast for the full year also reflects everyone's will to continue working together. Of these, the high sales numbers are the ones that best show our efforts as a company.

One of the main reasons behind this is the introduction of the company system to make ever-better cars, which has led to the development of an attractive full lineup.

Secondly, with various changes occurring and the need for immediate decision-making in day-to-day operations, I believe that the regional CEOs stationed in their respective regions have been able to make decisions quickly based on facts on the ground and that this is showing results.

Above all, I believe that the figures for this fiscal year show the full effect of the on-site strength of production, logistics, and sales, which have been promptly implemented and supported in making ever-better cars and making decisions that are rooted locally.

This may sound like boasting, but I believe that this could not have been done overnight, but rather the result of all our efforts to accumulate and build on strengths, make daily improvements, and work together as a team.

We are making very good progress and hope to continue in the future, but we are only halfway through the current fiscal year and cannot afford to let our guard down. As Ms. Hayakawa asked earlier, in regard to the existence of risks, I believe there are many.

For one thing, although we have not changed our full-year production forecast of 10.1 million units, at the current pace, there is a sense that we are on an upward trajectory from my perspective. On the other hand, as you pointed out earlier, we cannot be optimistic considering the changes in the market structure in China and the fact that the market itself in Thailand and Vietnam in Southeast Asia has been modulating due to the influence of real estate in China.

In any case, as uncertainty increases, we will continue to improve and introduce vehicles that will please local customers by keeping a close watch, maintaining close communication with regional CEOs, and receiving feedback from them in a timely manner.

Q10:

CFO Miyazaki said that the company will invest in the next mobility society. Yesterday, he also announced additional investment in a battery plant in the US. Can we assume you are also considering hydrogen, batteries, and other CN areas?

A10: CO Yamamoto

Of course we are looking at CN, and BEVs, hydrogen, and related businesses and social systems as investment possibilities. There are so many possibilities for investment. As you saw in the Technical WS and Monozukuri WS, investment depends very much on whether or not there is a base/foundation of skills and technologies.

We will invest at the best possible time by linking the technologies and skills we have in the field, and we would appreciate it if you would watch our progress attentively.

Q11:

Recently, an accident at a supplier's plant caused some production lines to stop, but is there any review of production?

A11: CCO Nagata

We apologize for the halt of production regarding the accident at Chuo Spring Co., Ltd. Production has already resumed, and we are moving back to normal production conditions. We have not changed our plan for the fiscal year, and we will restore it within that plan. If this happens with high frequency, it will cause inconvenience to our customers. Our production equipment is aging, and we are working to thoroughly inspect it with suppliers. We will do this steadily as this is the lesson learned this time, and we will do it out of consideration for our customers.

Q12:

I am interested in the outlook for the U.S. market.

The UAW strike has finally been settled, but what is the aftermath and impact? Some see the increased burden on U.S. manufacturers as a relative advantage for Japanese firms, while others see it as an overall increase in the burden on the auto industry. What influence do you see?

A12: CFO Miyazaki

On the outlook for the U.S. market, from the economic numbers themselves, it sounds a bit like a cautionary tale. From the standpoint of the actual operation, I have not heard any feedback from the market yet. Inventory has returned a little, but sales in the U.S. continue to be in a state of short supply and low inventory, and from this aspect, the market continues to be strong.



But whether this is the case for all other OEMs, it is starting to take on a variety of colors. The U.S. market itself is in such a situation, but on a global scale, there are some very strong markets in the U.S. and Europe, and there are also emerging countries where the market has been modulating as China's economy stalls. We will continue to pay close attention to where and in what form we should conduct our operations so that we can successfully demonstrate the merits of our portfolio when viewed on a global basis.

A12: CCO Nagata

I am unsure how the UAW strike will affect Toyota or companies besides Detroit. Basically, what we think about this case is that, at TMNA, just as in Japan, we should hold solid discussions with employees about how hard employees are working, how competitive the company is, and how much we can collectively increase productivity and competitiveness. For example, the issue of wage increases this time was done by discussing what level of increase would enhance our productivity and competitiveness of both sides.

I would like to see a good cycle of review and improvement to improve our competitiveness further so that companies in North America can also improve their level of performance as move forward into the future. I think this is one of the ways Miyazaki mentioned at the top about going on to invest in various areas. That is the way Toyota would like to move forward.

Q13:

My impression is that the latest figures are truly outstanding, but I believe that they are the result of Chairman Toyoda's 14 years of planting and cultivating seeds. I am sure the new executive will be working on new things in the future, but please tell us about your plans for sowing seeds as the new executive and where, if any, Toyota's weak points are.

A13: CFO Miyazaki

That is a tough question that is difficult to answer. As for what we are doing as seed-planting and new initiatives, we are taking on new challenges as we go forward, even as you can see in the JMS. Seeds do not sprout immediately after they are planted, so it is difficult to say clearly whether these are the seeds we have planted by ourselves or not.

In any case, we would like to find business possibilities as all our employees share their wisdom and connect new ideas with the current structure.

As we continue to do this on a daily basis, I hope that in years to come, we will be able to say that the seeds we planted at that time have blossomed and that the discussions we had at that time were good, even if only one or two of them will grow.

As for where our weakness at Toyota is, my answer is that if we get complacent or lose sight of what

we are supposed to be doing, that is exactly what will become our weakness.

I want to share with all employees where our great cause lies and what we are working and moving forward for.

Our goal is to change the future of cars and take the automotive industry to a higher stage, and we will do our utmost to achieve this goal. To this end, we would like to ask for your continued support.