

March 2018 and Q1 2018 Sales Conference Notes

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March 2018 and Q1 2018 Sales Conference Call

Introduction: Toyota Motor North America Consultant, External Communications, Karen Nielsen

Thank you for joining us to review Toyota and Lexus' March and first-quarter sales results for 2018.

Joining us and speaking today will be:

- Jack Hollis, Group Vice President and General Manager of the Toyota Division
- And Jeff Bracken, Group Vice President and General Manager of the Lexus Division

We're changing things up a little this time. We're no longer using a call operator. Instead, we'll hear from Jack and Jeff on the sales highlights and then we'll open it up for questions from the media. A transcript and recording will be available later today on our pressroom. And our communications team is available to field any additional questions you may have @ (469) 292-5100.

At this time, we'd like the media to identify themselves, including their outlet.

Thank you.

Now I'd like to turn it over to Jack Hollis for a look at the March and first-quarter sales results.

Jack Hollis:

Thanks, Karen, and good morning everyone. Listen, if you're from the media on the call and you haven't been able to identify yourself, we'd be happy to have you send us an email or tell us later. But when you ask a question, if you could introduce yourself and organization. But we're really glad you're with us. Hope you just had a great Easter. It's a great end to a first quarter. And it looks like the industry's coming in really pretty strong here. We're just excited about coming back from the New York Auto Show where we had a tremendous response to the all-new fifth generation RAV4 and Corolla hatchback. It was a lot of fun, and hopefully all of you got to see it in person.

Let's start right now with an industry overview. And for the industry, we're anticipating really another really strong, robust year at right around 16.8 million. And we expect SUV in light sales, listen, they're going to continue to outpace the passenger cars, we know that. The question is where are we going? It looks like the industry continues to be pushing that 70/30, that 30 percent passenger car versus that 70 SUV truck. Pretty strong indication we're going to be there, but passenger cars are really still an important part of the market and our plans.

For Toyota Motor North America, TMNA, our outlook is expected to remain stable at just about 2.8 million for the entire North America. Our truck and SUV mix is growing to over 70 percent thanks to the introduction of the Lexus NX, and also the UX, which debuted in New York, will add to that.

Now our focus has been on adding capacity. We've been talking about it for a while on Tacoma, on Highlander and RAV4. And with new products we have Avalon launching this month, late this month.

And the revival of the Corolla Hatchback. We've got our 15th plant that is going to allow our plants to build and create a variety of vehicles with common parts, so it can be more responsive to the changes in marketplaces. The idea of agility and flexibility continue to grow.

What we're excited about is we have the right products for today's market with small SUVs like RAV4, and NX and CHR, which are really close to the midsize cars in transaction price, and mileage and features.

But I want to kind of go now from TMNA of the larger picture to really what happened in March because we've delivered some surprises and some expectations. So TMNA sales for the month were 222,782 units, up 3.5 percent. Now despite our fleet sales being down 18 percent over last year, Toyota division sales were up 4.5 percent, with almost 196,000 vehicles sold, and became the number one retail brand for March and for the first quarter. We got led by our best-ever March for light trucks in RAV4 and Highlander.

Now here's a bit of a surprise, this year, but maybe not in our history. Because the biggest surprise for March this year was the Camry outsold our already number one selling RAV4 and finished as the number one passenger car for March and Q1. And even though the midsize car segment continues to be under pressure, we get that, we believe Camry's killing it. And our retail sales are up 16 percent versus last year, same first quarter.

And the news just keeps getting better. So we move on right now to the first-quarter sales. I'm happy to report the following. TMNA sales for the quarter were over 572,000. Toyota division sales, we just finished our best first quarter start in 10 years. Phenomenal. We had our best ever quarter on light trucks, RAV4 and Highlander. Tacoma itself had over 50,000 sales. It looks on a year-to-year basis, that our sales will outpace the industry.

Our goal is very simple – keep that momentum going. Simple, not always easy, but we're going to make it happen. Now I'm going to hand it over to Jeff to talk about Lexus sales results for month-end and for the first quarter.

Jeff Bracken:

Thanks, Jack. That's a pretty tough act to follow. So, well done and congratulations to all of team Toyota. So, for us at Lexus, 2018 is our biggest product launch year ever. Including our most recent product reveal, the first-ever Lexus UX luxury compact crossover. Additionally, we announced the UX will include an optional subscription service, as dealers begin receiving inventory later this year we'll provide more subscription service details as we near the UX launch.

As you would expect, our March sales reinforced the strength of the utility vehicle market. So, for us specifically, our total new sales volume for the month was 27,032 and of that 18,530 were Lexus utility vehicles. So about 68 percent of our total vehicle volume were utility vehicles. Sales for the number one selling vehicle in the luxury industry, RX, totaled just over 9,800 of which more than 1,500 were our all-new RXL, our new RX with a third row. It's anecdotal at this point, but the RXL is bringing in younger families to our Lexus dealerships as you might expect.

And on the passenger car side of our business, 1,008 all-new fifth-generation LS were sold, and that volume is up nearly three times the volume year-over-year.

Then we do the first quarter 2018, Lexus volume totaled 64,211, that's up 4 percent versus the same quarter last year. Lexus utility volume totaled 45,085, a best-ever first quarter and up 11 percent for us for the quarter. NX gas and NX hybrid had a best-ever first quarter, totaling 14,327 sales and GX had its best first quarter in 12 years at just under 5,700 vehicles.

Based on recent industry data, the luxury industry is down about 2,000 vehicles, they're up about a half a percent. Already this year we've announced 12 of 17 new models, concepts, and special editions. And there's still more news to come this year. And regarding the outlook for the luxury market, we expect calendar year sales to remain generally flat at about 2.1 million with a slight increase in Lexus's retail share to about 15.6 percent versus 15.4 percent last year.

So, I'll stop there. Thank you everyone, and Karen it's back to you.

Karen Nielsen:

Thank you both. It sounds like the year is off to a great start. Now, I'd like to open it up to the journalists. What questions do you have for us? Please tell us your name and media outlet before asking your question.

Paul Lienert:

Hi, this is Paul Lienert from Reuters. I have a quick question, please. General Motors announced today that it's no longer going to report monthly sales, but it's going to quarterly reporting. What is Toyota's and Lexus's plan?

Jack Hollis:

Paul, thanks for the question. This is Jack Hollis, and I appreciate it. General Motors made a decision, what they thought was best for them. We continue to want to still make the best decision the way we think is best for our company and for you all. So I guess I would reverse the question as to, how could you use it? Would you still like to have it monthly? Quarterly? We're going to have everything prepared every single month. We're happy to share it. Which is best for the industry, best for the jobs that you have to do? So, Paul, unless you think there's something that we should change, our plan is to stay the same and provide you information on the monthly basis. But, should we be looking at it in a different direction?

Paul Lienert:

That would make me happy, thank you.

Jack Hollis:

Maybe media as you're on here, as you ask a question, if you feel like there's something different that we should be aware of, of why it would be better for you. But our really true goal here is to provide you with the information that allows you to do your jobs the best that you can do it. So, at this point I don't see any change planned on our side.

Rye Druzin:

This is Rye Druzin with the San Antonio Express News and I'd like to ask a question of Jack. You spoke earlier about how Toyota's looking at the mixed 70 percent SUV truck and 30 percent passenger cars. You talked about your focus on adding capacity, and you even briefly touched on Tacoma. I'm wondering if you can give us an idea, an update, on what the capacity looks like especially for the pickup truck segments, the Tacoma and Tundra as we're seeing double-digit growth year-over-year in the first quarter. I'm trying to figure out where that's coming from.

Jack Hollis:

Yeah. Thanks. Brian, I appreciate, obviously coming from San Antonio and the pride we have with the plant there, we continue to maximize. First, I think the issue, we've talked about I know towards the end of last year several times about our increased production. So, we have our Baja plant, which gave us really a capacity to allow an extra 60,000 Tacomas. And because of that, it allows us a lot, back to the words I used earlier, this idea of agility or flexibility. It allows us then to work on our mixes at the San Antonio plant, based upon what the national consumer demand is.

So, capacity's going to continue to grow, we know that. We talked about it even this year. Our production's been up almost 20 percent year-over-year for the first quarter. Not just for Tacoma, but also for SUV. So we continue to see that growing for the year. Specific number I don't have exactly what our top number is going to be, but right now the demand is so high, we're eeking out every single one we can get. But it does allow us in the San Antonio plant to maximize our production to meet the customer demand.

Rye Druzin:

I just wanted to know, you said that allows you to work more on your mixes at the San Antonio plant, but what exactly does that mean?

Jack Hollis:

Just the percentage of how many Tundras or Tacomas are coming out. By giving us the extra flexibility of the Baja plant for Tacoma, which right now has such a high demand. But we can't, based upon the national demand of Tundra versus Tacoma, we can tweak our production levels to match those demands.

Rye Druzin:

Okay, gotcha. And then, just a final question, do the steel tariffs that President Trump imposed recently, how does that affect pickup trucks or your broader SUV segment with regards to pricing, or any other concerns that you have there?

Jack Hollis:

Well, taxes are always a concern any time. It's going to raise prices. So, it's going to be the same, however, for Toyota as it is for every single manufacturer. So we'll all have to deal with that and how much of that is in our products. Good news is we produce so much steel here in the US and we have so much of our production and steel and raw materials here, I don't think it'll affect us any differently than anyone else that's going to have to do. But clearly, tariff is a tax, it's going to raise the prices on materials, that has to fall to marketplace at some point. So, we're all kind of watching and we'll be evaluating that. But in the end, it's still going to be about the demand for each product and pricing it to match those demands.

Rye Druzin:

Okay, thank you.

Adrienne Roberts:

Hey guys, it's Adrienne Roberts at The Journal, how are you?

Jack Hollis:

Good, Adrienne.

Adrienne Roberts:

Good, so I have two questions. Looking industry-wide it seems January and February were down. What do you make of March's increase? What drove that? And then my other question is you saw some pull back in incentive spend across the industry last month. Did you see that continue through March?

Jack Hollis:

I'll go at it from a Toyota side and then Jeff if you want to go. So, first of all, question about March. Why so strong. I'll tell you, when you look at some of the tailwinds that we still have with housing starts and the industry there continuing to be strong, and a matter of fact is as strong as it has been since summer of 2007. So you're seeing a lot there. You're seeing economic news being really positive across and the consumer confidence at all-time highs. So, when you see that coming into March and spring, and I think you start seeing thrust months by a lot of the OEMs, there's a lot of extra marketing by dealers themselves. You're talking about confluence of a lot of excitement in the marketplace. People getting ready, kind of like in the spring time.

But I think when you see it from an incentive standpoint, what we're excited about is the incentives continue to, I don't know if you want to say mitigate, but Toyota continues to be at the level, or amongst the lowest levels of incentives in the marketplace. I think people are simply looking at it, there seems to be a very strong demand, which is why we put out 16.8 million. Hey, there's nothing that says we don't get back to 17 million and keep this thing above there.

So, I think there's this excitement about still the industry and you're seeing that in March come faster than we might have thought with a lot of people having a really good month and really good quarter. It really ultimately comes down to there's a lot of consumer confidence in the marketplace. People, I think, feel confident in the tax

plan, or their tax refunds, and they're starting to see that come to the marketplace. At least that's it from the Toyota side. I don't know if Jeff has a different view.

Jeff Bracken:

Hi Adrienne, this is Jeff. You know, first of all, that the luxury industry we forecast to be pretty much the same as it was last year, 2.1 million. That's still a very, very healthy luxury industry. So that's really good news. Our cadence this year is a little bit different for Lexus than it was last year. We got off to a really good start in January and February with a volume of about 11 percent. March was thrust month for us, and March this year versus March last year was up about 40 percent.

So, I think, probably like so many of the OEMs that we compete with, it's a big-time product launch year for us, product news year for us. So, as is probably often the case whether it's Lexus or any of our competitors, that should really fare well for us, not only so far during this first quarter, but throughout the balance of the year.

And in terms of incentives, that part of your question. Again, probably so much like our competitors, we're going to do what we need to do to ensure that we keep ourselves competitive. Although we do, at the end of the day, our overall incentive spend is a little bit less than luxury average.

Adrienne Roberts:

Great, thanks so much.

Karen Nielsen:

Any other questions?

Carlos Gomes:

Yeah. Hi, good morning. This is Carlos Gomes, with Scotiabank. My question, I guess, I just wanted to get if I could some flavor on the breakdown. You had mentioned that fleet sales were down for Toyota by 18 percent on a year-over-year basis. Is it possible to get a sense as to what drove that? Was that sort of lower volumes to the rental industry? Just a sense as to where that weakness was. And then what, if it's possible to get what the Q1 number would be versus year ago, and then similar for retail level as well.

Jack Hollis:

So, let me go the first part. The reduction year-over-year, with mentioned this previously, I think some of you that I met over the last few auto shows, most of it has to do with timing. So there's been a lot of question about well in January, February sure seemed like the fleet numbers were high. Well, we said exactly that, the timing of a lot of our deliveries, especially when it comes to a product as hot as the Camry, we brought those a little earlier to market. So this is not about a softness or weakness. It's kind of more just a timing element and seasonality.

The number, when we look at this, about 10 percent. That number for the year for Toyota continues to be the same. Our plan for this year is the same thing, it'll be between the eight and nine percent. It just happens to be a little bit higher through this first quarter, and I think that's really where we're at.

Karen Nielsen:

Any other questions?

John Murphy:

Hello, this is John Murphy from Bank of America Merrill Lynch, thanks for the time. Jack, one question, when you're looking at products and segments and capacity, just curious, obviously there's a big push in crossovers in trucks. Do you think that is more of a capacity issue for Toyota? Or could there be the need to introduce some new products?

Jack Hollis:

Well, I could go a lot of ways here, but I'll tell you this. First of all, I think the idea of going to the SUVs, we look at RAV4. Kind of excited about it from New York. So, I'll start with there. In our fifth year, out of a six-years lifecycle, we have our best-ever sales: 400,000, we continue to see that pace for this year, then we bring out a new one. So we're going to continue to look at the marketplace, what it needs. We brought out a C-HR, it's literally every single month getting stronger as the awareness of the product gets out there.

I think when you look at a 70/30 split though, I also want to bring up the fact that 30 percent of this marketplace is still passenger car and 30 percent of a 17 million still gives you between that 5 million or 5.5 million vehicle sales. And we're really proud of the fact that as a strong full-on manufacturer we're going to keep bringing out products like Camry. In the next month, Avalon, and then continue the Corolla Hatchback and we continue to see that.

So, I don't think it's necessarily, when we look at capacities, we're looking at what is the best for the customer. What is still the need. And at 30 percent passenger car we're going to be there. But we're also going to be there with RAV, C-HR, and to end that, though, you're kind of leaning towards the end, we're always looking at where else we could be. There might be other parts to the SUV marketplace and that's why last year in New York we showed the FT-4X concept car, in LA we showed the FT-AC, I'm sorry, concept SUVs. We're always testing the market to see what else is being requested from the US buyer. We still think there's some more room to grow. And if that means another product, we'll do that. If it's with the products we currently have, we'll do that.

John Murphy:

Great, thank you.

Jack Hollis:

You're welcome. Thanks for the call, John.

Karen Nielsen:

Next question? Okay, great questions everyone. That concludes our sales call. And thank you for joining us.