

December 2017 and Year-End Sales Conference Notes

January 03, 2018

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December, 2017 and Year-End Sales Conference Call Wednesday, Jan. 3, 2017

December 2017 and Year-End Sales Conference Call (Audio Clip)

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

Happy New Year, everyone!

Thank you for joining us to review Toyota and Lexus December and year-end sales results for 2017.

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.

A recording of the call will be available at Pressroom.Toyota.com about one hour after this call and our communications team is available to field any additional questions you may have @ (469) 292-5100.

Before I turn it over to Jack Hollis, I wanted to let you know about a personnel update in the spirit of One Toyota and to broaden the individuals' expertise. I'm happy to announce that Andrew Gilleland and David Christ will exchange Vice President of Sales positions. David is moving over to Lexus, and Andrew over to Toyota.

Now I'd like to turn it over to Jack Hollis for a look at the 2017 sales results.

Jack Hollis:

Thanks, Karen.

Good morning and Happy New Year, everyone.

Before getting into Toyota's results, I'd like to speak briefly about the overall industry.

Now, 2017 was a solid year for the auto industry

- In a year that continued to be again all about shifting light trucks
- As SUV and light truck sales significantly outpaced passenger cars
- Where the industry light truck ratio reached about 67 percent.

While sales got off to a slower start at the start of the year

- We actually always believed that things would pick up—
- And they certainly did in the 2nd half.
- While new vehicle sales won't be as high as the back-to-back record years we saw in 2015 and 2016,
- The overall pace has kept to what we had initially thought,
- As we forecast the 2017 SAAR in the low 17s,
- Which is still an outstanding place to be.

There were also many positive indicators of a stable economy over the year

- As we saw a strengthening labor market, and better wage rates
- Leaving consumers with greater disposable income

- There was strong business and consumer confidence
- Combined with continued low fuel prices
- It really meant that people would still be out buying these new vehicles.

While this year was not without challenges,

- The industry has held the course for a strong finish to the year,
- And I believe the December sales results will show that people are still out shopping and buying.

[Pause]

To briefly recap December-

- With 5 weekends,
- The month had 26 selling days, one less than 2016,
- And we expect industry sales of just over 1.6 million vehicles
- A level slightly below this time last year,
- For an estimated Seasonally Adjusted Annual Rate of 18 million.

These are great results for December,

- And will buoy up 2017 to end over 17.2 million,
- Marking the third year in a row the industry has been above 17 million –
- That's no small feat!

[Pause]

Toyota Motor North America ended the final month of the year with

- Combined Toyota and Lexus sales
 - Of 222,985 in sales
 - Down about 8.3 percent in volume, compared to last December.

Jeff Bracken will review the Lexus division results for the month and year in a few minutes.

Right now, our Toyota division December performance,

- Reached sales of 187,524 vehicles,

And Toyota division had a month of best-ers as well:

- Tacoma had its best-ever December,
- Since the launch of the Tacoma series in 1995,
- 4Runner also posted its best-ever December sales.

But passenger cars, they were not left behind,

- As Camry posted a second consecutive best-ever monthly sales total,
- Stimulating the mid-size segment, proving that great sedans still sell.
- And we couldn't have these types of results without strong support from our dealers and guests.

[Pause]

Now, before I move on to the annual sales, I'd like to pause and highlight a few of our amazing fourth quarter results.

In the fourth quarter, our division also set records with results

- For RAV4, 4Runner, Tacoma, and our divisional light trucks overall
- And we also achieved a best-ever anytime fourth quarter for Camry –
- Exemplifying the outstanding launch we've had with the all-new 2018 Camry.

Moving on to our annual totals, combined Toyota, Lexus, sales in 2017

- Were two million 434 thousand, five hundred fifteen vehicles,
- Despite the decline,
- We had back-to-back record-breaking years in light trucks.

[Pause]

Before going into Toyota division results for the year,

In 2017, we worked hard to bring our light truck production in line with consumer demand,

- We added production capacity for Tacomas,
- resulting in another 60,000 trucks annually.
- We've also made plant investments to further increase
- Highlander production by 2019.
- In fact, Toyota has committed more than \$10 billion over the next five years,
- For U.S. manufacturing, research and development, and operations.
- The investments are all with an eye on optimizing our plant operations
- And truly making them more competitive.

I believe our Toyota division highlights for the year demonstrate the results of these efforts to optimize our mix:

- Toyota remains the number one retail brand,
- Marking our sixth year running.
- Also, we are thrilled to announce that we have exceeded our RAV4 sales goal of 400,000, which more than doubled in three years, locking in a record year.
- And Highlander, 4Runner and RAV4 also shattered their previous annual records with incredible double-digit growth,
- Showing what we can do as we bring our mix into better alignment with the customer's preference.

[Pause]

But that's not all:

- The newly redesigned 2018 Camry has reignited the car segment
- Camry received IIHS' highest award – the Top Safety Pick-plus
- And NHTSA's 5-Star Overall Safety Rating.

- Most importantly, KBB named Toyota the number one brand winner for Resale Value, maintaining our position for the 16th year in a row.

- Camry also is nominated for the NACTOY Car of the Year award,
- Which will be announced at the Detroit Auto Show.

[Pause]

We are looking forward to 2018.

Where we expect healthy industry sales, though cooling slightly from last year,

- Our product mix is better suited to meet consumer demand,
- As the small/midsize SUV and pickup truck segments continue to grow.
- And we continue to invest in U.S. manufacturing where we build and sell vehicles, and to invest in safety.

Now Jeff Bracken and I are excited about developments together such as

- Toyota Safety Sense and Lexus Safety System 2.0,
- Which will be standard on almost every single model in the Toyota and Lexus lineups,
- Years ahead of the expectations of the industry,
- Bringing technologies and capabilities that enhance the safety for our drivers and passengers.
- We're continuing to lead the way in alternative power options,
- Committing to further electrification,
- Or having an electrified option of all of our vehicles, by 2025.
- Offering options for every customers' taste and preference.

[Pause]

And, in a couple of weeks,

- We can't wait to show you the all-new 2019 Avalon
- being revealed in Detroit.
- You won't want to miss experiencing this full-size sedan's bold new design.
- All in all, it's shaping up to be a great 2018, and I'm confident it will be another excellent year.

[Pause]

Now I'd like to turn it over to Jeff Bracken for more excellence and a look at Lexus results.

Jeff Bracken:

Thank you, Jack, and congratulations on Toyota's 2.1 million vehicles and another great year of industry retail leadership for Toyota.

Here at Lexus, as with Toyota, we too enjoy our year-end sales close.

- Once again Lexus dealers finished strong with the "December to Remember" sales event.
- In fact, our dealers sold over 10,500 vehicles the final weekend of the year.
- These results are especially satisfying as it follows on the heels of a highly successful December from last year.

Consistent with industry SUV trends, luxury utility vehicles took center stage for Lexus volume in 2017

- Our LUV sales were up year over year by more than 5,500 vehicles,
- And now our utility vehicles account for 65% of our total sales mix.

- While the shift from premium sedan to luxury utility vehicles
- has been significant over the last two years,
- we feel 65% is very close to natural market demand,
- and in-line with our current inventory mix.

In fact, our luxury utility vehicle volume in 2017 set an all-time best-ever annual record totaling just over 200,000 – – which was a 3% increase year-over-year.

- The greatest percentage increase was realized by NX – – –
- with sales up 8%, or up approximately 4,500 sales year over year – – –
- and only held back quite honestly by somewhat limited availability.
- NX & NX hybrid sales totaled 59,341 for the year which resulted in an all-time best-ever NX accomplishment.
- Further, our shift to improved utility vehicle inventory was best optimized during the second half of 2017,
- helping us best respond to customer demand.

We were also pleased to recently

- Announce a third-row RX, and two-row LX at the LA auto show.
- Both model enhancements will appeal to segments in the utility vehicle market we had not previously competed for.
- Of course, the RX 3-Row expands seating capacity up to 7 passengers, and the LX 2-Row provides additional cargo room for those looking for more storage area.

And while the 3-Row RX begins arriving at dealership showrooms next month, even without the all-new 3-Row, RX remains the #1 selling vehicle in the luxury industry.

- December sales for RX totaled 13,951 for the month, and for the year, RX sales totaled 108,307.
- GX sales totaled just over 27,000 – – – up 8% year-over-year, and, our most prestigious LUV, the LX was up 5 percent, totaling 6,000 sales for the year.

I'd also like to call-out our all-new LC, which launched mid-year

- LC is off to a great start – -dealers sold 2,500 since its launch in May – customers and dealers love it. As evidenced by vehicle trade-in's, the LC & LCh luxury sport coupes have brought buyers to our brand we had not previously seen, even a few domestic sport coupe owners.
- It's a great follow-up to LFA on the 'Experience Amazing' meter.

And continuing with passenger cars, the vehicle that started it all for us, the 5th generation LS, hits dealer showrooms next month.

- This new LS, which won best in show for interior design at its global reveal in Detroit a year ago, will bring a new standard of excellence and value to the prestige sedan segment.

[Pause]

As the 2017 reporting year came to a close late last night, Lexus

- New vehicle sales totaled 305,132. 2017 marks the 7th year that Lexus Dealers have sold more than 300,000 new vehicles in a single year.

- Additionally, Lexus continues to account for the lion's share of luxury hybrid sales volume – – – based on October registration data, 42% of all luxury hybrids are new Lexus hybrids.

Like many of you, we closely track our retail volume through Polk registration data – – –

- as it is a true report of actual customer new vehicle purchases and leases, sold one at a time.
- Following our retail leadership position regained in 2015 and retained in 2016, 2017 is a classic horse race.
- Through the latest October 2017 year-to-date retail registration data, Lexus & Mercedes are in a near dead heat. Lexus currently trails Mercedes Benz by 740 registrations, with 3rd place BMW approximately 22,000 registrations behind.
- As you would imagine, we can't wait to receive the year-end results from Polk to confirm the 2017 luxury leader.

To conclude, we were honored last year to receive – – –

- “Kelley Blue Book’s Most Trusted Luxury Brand” and “Best Resale Value” Awards among luxury brands,
- Also, the Top brand as measured by J.D. Power and Associates for Vehicle Dependability
- The top brand as measured by J.D. Power for Customer Service treatment

- The inaugural Edmunds award for “most wanted” for the RX and the ES.
- Ward’s 10 best interiors list for the LC 500,
- And among Forester’s top companies with a best-in class customer experience.

We forecast, perhaps like each of you, 2018 will be another banner year for our industry

- And we know Lexus owners and luxury shoppers will be anxious to learn about the 15 all-new, special edition and concept vehicles we plan to reveal throughout 2018.

And in Detroit, the first of those 15 reveals begin with

- The Lexus LF-1 Limitless concept,
- A flagship crossover you won't want to miss.
- It's going to be an amazing year for all of us.

Thank you for joining the call today – now we'd like to open the call up to any questions you may have.