

2017 NADA J.D. Power Automotive Forum - Bob Carter

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Introduction: Finbarr O'Neill

Thanks, Fin... Peter... and everyone for joining us today.

This is the perfect location to address our industry's future across the street from the iconic Grand Central Terminal.

For more than a century it's been an epicenter of mobility and remains the world's largest train station.

In fact, just 70 years ago 40 percent of the U.S. population still traveled through Grand Central.

I guess even then people avoided LaGuardia.

I'm only kidding.

As our country has grown and progressed so have methods of transportation.

The automobile now dominates personal mobility and the sites where we design, engineer, build, and sell vehicles have flourished across the country, bringing the auto industry to the forefront as contributors to the U.S. economy and our communities.

And with continued strong sales projected for the coming years, combined with rapid developments in technology and mobility solutions, our industry will continue to have the potential for a very bright future.

At the same time, we face significant challenges in terms of consumer preferences and public policy.

I'll talk more about these challenges today and how our companies can address them.

But first, let's look at some recent highlights.

Last year, automakers marked seven consecutive years of U.S. sales growth.

For the balance of 2017 leading indicators point to:

- An expanding U.S. economy and labor market
- An increase in new housing starts
- Continued low fuel prices and interest rates
- And consumer confidence is at its highest level since December 2000

And we can't forget the Millennials, the fastest-growing segment of new car buyers.

Last year, Millennials accounted for nearly 30 percent of the market and could represent 40 percent of buyers by 2020.

All this good news means automakers should close the books in December with about 17 million units sold for the third consecutive year.

So we're hitting our sales objectives, but a continuing challenge is aligning product mix with changing consumer preferences.

Just five years ago passenger cars and light trucks each made up about 50 percent of market share.

But, as we grew out of the recession, light truck demand skyrocketed, especially for small and mid-sized SUVs, and a 65-35 truck-to-car mix is the new normal.

At Toyota we're taking big steps to consistently predict and align our product mix with consumer demand.

For example, we're on pace to build over 100 thousand more pickups and SUVs this year and we couldn't do it without the dedicated team members in our U.S. plants.

The men and women working in our manufacturing facilities are the best in the business, working two shifts a day, six days a week, and they're committed to delivering world-class products to our customers.

Related to the demand shift, we support President Trump's pledge to review the future fuel standard regulations.

Review of these future regulations are critical for the health of our industry.

Today, regulations are leading us down one path, while our consumers are clearly going in a different direction.

The administration's proposed data-driven process will help us achieve smarter regulations, which will benefit automakers, dealers and our customers.

By working together, we can improve our environment, protect industry jobs, and help to ensure affordable vehicles for consumers.

That brings me to our next big challenge: corporate tax reform.

Toyota supports tax reform:

Our 35 percent corporate tax rate is too high, our system is too complex, and that ultimately affects the lives of every American.

Auto production is our nation's largest manufacturing sector.

Our companies are annually ranked among the most innovative of all industries, and today, we're more than just car companies.

The technology we develop contributes to a cleaner environment, safer transportation, and mobility opportunities for more people.

The U.S. needs a tax code with rates competitive with the rest of the world, so our industry can continue to grow and prosper.

There is, however, one highly controversial issue that is dominating the tax reform debate – and that's the Border Adjustment Tax, or "BAT."

In a nutshell, the BAT imposes a 20% tax on everything that crosses the border: oil, clothing, coffee beans, everything, including automotive parts.

Studies show the BAT will raise over 1 trillion dollars in taxes.

But, the BAT essentially is a hidden tax on consumers.

The average family will pay 17 hundred dollars more per year for everyday essentials because of the BAT.

The BAT would also increase the cost of all new vehicles, both U.S.-made AND imported, because every vehicle on the road contains a mix of domestic and imported materials.

There's not many rubber plantations in the U.S.

Studies indicate the average price of a new vehicle will increase over 2-3 thousand dollars.

And annual sales could decrease by 1-to-2 million units.

According to Ernst and Young, the automobile industry's tax liability under the BAT would be 28-Billion dollars.

In other words, a quarter of all taxes raised by the BAT are coming from our industry alone. Like many of you, I've had the opportunity to discuss the ripple effects of a BAT with key members of Congress.

Most members appreciate our candor and want to work with us. But automakers can't do it alone.

Dealers, suppliers and automakers are on the same team; we have to fight to end the BAT proposal.

So please, keep the heat on your members of the House and Senate. Tell them how a BAT will affect our industry: your business, your employees, and your community.

Despite the challenges that confront our great business, Toyota's commitment to America – and especially our customers – is stronger than ever.

We have 10 manufacturing plants here, where we build some of the best-selling vehicles in the business, plus transmissions, engines, and other components.

Over the past 30 years, our U.S. team members have built more than 25-Million vehicles.

Last year, our plants produced a record number of new vehicles. Toyota and our dealers employ 136 thousand team members, and we're just getting warmed up.

Yesterday, we announced a \$1.3 billion dollar investment to retool our Georgetown, Kentucky manufacturing plant.

This investment is part of our plan to invest \$10 billion dollars in the U.S. over the next five years.

As a result, our future vehicles – like the 2018 Camry – will feature increased fuel efficiency, a lower center of gravity, more responsive handling and enhanced driving dynamics.

By investing in a more flexible production environment, we can build ever-better cars for our customers now, and respond faster to market demands down the road.

In sum, our constant expansion and investment in America reflects a long-term commitment to build cars and trucks where we sell them, which creates jobs, supports local suppliers, and grows our economy.

All right, let's shift gears and focus on our automaker-dealer partnerships, the key to our industry's long-term success.

I've been fortunate to work for over 35 years in our business, leading to my role today as partner with 15 hundred U.S. Toyota and Lexus dealers.

I'm going to stress that word again – partner.

But, neither of us is truly in charge. The customer is the CEO of our business.

In our company, we have a shared mission with our dealers to offer our customers the best products and the best services in sales, finance, and service.

To measure our progress, we carefully monitor our performance on NADA's Dealer Attitude Survey ... which benchmarks the confidence dealers have in their OEM partner, on big issues like facility investments and incentives.

We regularly adjust our operations based on our dealer partner feedback.

As a result, in 14 of the past 20 biannual surveys Lexus has been number one brand in Dealer Attitude and Toyota has ranked in the top three.

This includes the most recent Survey, when our Lexus and Toyota brands placed first and second, respectively.

I believe it's important to forge long-lasting partnerships with our dealers, based on a firm foundation of communication and mutual trust.

Ok, let's pivot from the challenges of today and focus on the possibilities of the future.

The most exciting – and energizing – thing about the auto business is that it changes every day.

I rarely hear the word “impossible” in our company... or from any other automaker.

Instead, we see endless opportunities for invention and innovation as we work toward our goal to build products with the highest quality, reliability, and safety for our customers and society.

Just think, not so many years ago our dashboards let us control the temperature and choose a local radio station.

Today, our cars are equipped with: color heads-up and multi-information displays, constant enhancements to driving dynamics and comfort, and advanced technologies that work in concert with drivers to enhance safety.

And with digital technology and social media, we can tailor unique purchase and ownership experiences for our guests and instantly share the latest information about our products and work in our communities.

At Toyota we're also harnessing technology to address mobility challenges for a wide range of needs.

We introduced Prius, the first mass-produced hybrid, and today Toyota and Lexus offer 14 hybrids for sale in North America.

And we're proud to have sold more than 10 million hybrids worldwide, resulting in about 77 million fewer tons of C-O-2 emissions, saving nearly 8 billion gallons of gasoline.

And now we're taking the next step in sustainable transportation with Mirai, fueled by hydrogen, which emits only water vapor.

To help jump start a hydrogen-fueled society, we're supporting the necessary infrastructure through a number of collaborations that will add 19 hydrogen refueling stations in California and 12 stations between New York and Boston.

Another example is the Toyota Research Institute – or TRI – where we're investing \$1 billion dollars on research and development efforts to move existing technology indoor by using personal robotics to provide mobility to the elderly or those with handicaps, use artificial intelligence to speed development of materials for next-generation energy and grow our leadership in autonomous mobility.

Our company secured its first U.S. patent in the field of autonomous vehicles in 2006 and according to a report last year by Reuters we hold more patents in the field than any other company.

To see our technology in action, here's a video of what the future might look like – keep in mind we released this in time for April 1st... You'll see what I mean ...

I hope you enjoyed that.

All kidding aside, we're also addressing future mobility needs with our newly-created company called "Toyota Connected."

This venture will leverage customer-approved data to anticipate and create a more fully-connected car experience.

For example, we're expanding the use of connected vehicle technology with an on-board feature called "Service Connect."

Service Connect monitors the vehicle's status and sends our customers and their preferred dealer a Vehicle Health Report, which includes maintenance reminders and warning indicator alerts.

With Service Connect our customers can easily access the status of their vehicle, and our dealer partners can proactively contact the guests for vehicle-related issues, which establishes trusted relationships and enhances the ownership experience.

The future of mobility brings infinite possibilities, which only reinforces the need for strong OEM-dealer partnerships.

Customers will always want to grip the wheel for a test drive, fold down the rear seats, and yes, draw in that new car smell.

Customers will still need to have their trade-in reviewed, and when they visit your store for service, they'll expect to deal with technicians trained to handle the latest innovations.

Though our products will change, a customer-first, hospitality mindset, delivered by a strong, franchised dealer network, will never go out of style. This is a great time to be in the auto business and with the desire for innovation we all share, I can't wait to see what the future holds.

But there are a few things I can guarantee.

By listening to our customers and building high quality products, working together as an industry to promote policies and regulations that are favorable to our companies and the economy, and strengthening relationships with our dealer partners—and our friends at NADA and J.D. Power—automakers, suppliers and dealers will successfully navigate today's industry challenges to create the future of mobility for all.

Thank you, and all the best for a successful year.