

2016 American International Automobile Dealers Association (AIADA) Annual Meeting - Jim Lentz

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As prepared for:

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Jim Lentz, Chief Executive Officer, Toyota Motor North America*

(Introduction: Greg Kaminsky, 2016 AIADA Chairman & President, Toyota of El Cajon)

Thanks Greg! Congratulations and best wishes for a successful year as Chairman. You do a tremendous job with your customers and teams at Toyota of El Cajon, so I know AIADA and all of its member brands are in great hands.

And speaking of our brands... in 2015, international nameplates accounted for over half... 55 percent... of the total industry's record sales volume of 17.5-Million vehicles.

In fact, six of the top ten retail leaders were international brands.

And looking down the road... we forecast a modest increase this year for the industry... coming in slightly over 17.5-Million... bringing a seventh-consecutive year of growth. The luxury market should again outpace mainstream brands... while SUVs and pickup trucks, which claim nearly 60 percent market share, will continue to outperform passenger cars.

And there are plenty of signs to warrant this optimism... with rising consumer confidence... low interest rates... and relatively low fuel prices.

While we expect modest growth this year, we do see opportunities. One area for growth will come from off-lease cars coming back to market over the next few years. Consumers will see a lot of great deals... and it's an opportunity for dealers to realize more certified pre-owned sales. And, if we're doing our jobs right, and take care of our customers, we can drive more service revenue and improve retention.

Now, another factor driving our business today is the rise of two consumer demographics – the Millennials and Generation Z.

The 80-Million strong Millennials account for 27 percent of the industry's new car sales. They're the second-largest group of new car customers... and they're still in the buying mood.

- 35 percent of Millennials indicate they'll purchase a vehicle in the next 12 months...
- And more than 75 percent plan to purchase or lease within the next five years.

And coming up fast behind the Millennials is Gen-Z, or those aged 17 and under.

Gen-Z accounts for nearly a quarter of the population, and by 2020 this group will reach \$3.2-TRILLION in purchasing power.

They must have some really big piggy banks.

And when Gen-Zs say they want a "Big Wheel"... they're talking Goodyears. According to an Autotrader/Kelley Blue Book report...

- More than 90 percent of Gen-Z owns or plans to own a vehicle... and almost all plan to get a driver's license.

Now, another hot topic in our industry is ride sharing. Some observers believe it could have a negative impact on new vehicle sales... though Deutsche Bank analysts predict it could create growth for automakers and our dealer partners.

In their study, more ride sharing in highly-populated areas would reduce the number of cars in each household. But, this decrease will likely coincide with shorter life-cycles... about three years... for vehicles in ride-sharing fleets.

And that's because on-demand vehicles will be driven a lot more than personally-owned cars, resulting in a higher rate of turnover.

So we're excited for the road ahead... and seeing all the great new products and leading edge technology from automakers at the New York Auto Show a couple of weeks ago... it's quite evident that we have so many opportunities to not only please our customers, but further improve society.

You know, I've been in the auto business for a while now and I can't remember when this much change was taking place in our industry at one time.

For instance, as we transition to mobility companies, our reputation for safety is on the line with every mile our customers drive. So we share a goal with other brands to provide an increasingly safe transportation experience for all drivers, passengers and pedestrians.

That includes exploring the new frontiers of autonomous mobility. Every automaker's goal is to improve safety and reduce fatalities.

At Toyota, our approach is called "Mobility Teammate." At the heart of this concept is our belief that a human driver should always be behind the wheel. So our focus is on building cars that can enhance a driver's operation of the vehicle, while helping to reduce or mitigate serious and fatal accidents.

And to help us meet this goal, we've introduced advanced automatic safety technologies, called Toyota Safety Sense and Lexus Safety System Plus, designed to:

- Prevent or mitigate rear-end collisions,
- Help keep drivers in their lane,
- And enhance road safety at night.

These advanced safety systems will be included as standard equipment on almost every Toyota and Lexus model and trim level by the end of 2017 – five years ahead of NHTSA's target.

And in this spirit, it's great to see some of our competitors and those outside the industry committed to delivering autonomous vehicles by 2020 and beyond.

Along with advanced safety technologies ... we'll continue to drive the future of sustainable transportation with

hydrogen fuel cell technology with cars like the Toyota Mirai and others from Hyundai and Honda to name a few.

Toyota's investment in fuel cell technology is for the long-term, so we're playing a leading role in bringing together automakers, energy companies, government agencies and others to help build the required refueling infrastructure.

And, the infrastructure is coming along, albeit at a slower pace than we originally expected. The good news is, by the end of the year, 48 refueling stations are scheduled to be opened throughout California... and we've announced plans to develop refueling infrastructure throughout the Northeast... starting with 12 stations in five states.

Those numbers might sound modest, but our research shows the issue of infrastructure is not so much about how many stations... but rather... location... location... location.

Toyota... and the University of California Irvine... collaborated on a model that maps-out a specific distribution of fueling stations.

And we found that... in California... where we introduced Mirai... it would take only about 68 stations to regularly re-fuel about 10-Thousand hydrogen fuel cell vehicles.

Another way to look at it... if every vehicle in California ran on hydrogen, we could meet the refueling requirements with only 15 percent of the nearly 10-Thousand gasoline stations currently operating in the state.

Now, the future of mobility is more than just building great cars and trucks. We believe our companies have a responsibility to address mobility challenges for everyone.

For instance, we worked to develop Project BLAID, a wearable device for the blind and visually impaired, that provides users with more information about their surroundings.

Take a look...

As you can see, when our industry uses our technology and know-how, we can accomplish amazing things for society.

And to further develop future mobility solutions, we've established the new Toyota Research Institute, or "TRI" for short. It will be based near Stanford University and the Massachusetts Institute of Technology.

With TRI, we'll strengthen our research and understanding of artificial intelligence and robotics, to:

- Improve transportation safety, by decreasing the likelihood that a car will be involved in an accident...
- Make driving more accessible and enjoyable to more people, regardless of ability...
- And move existing technology indoors... by using robotics to provide indoor mobility solutions to the elderly or those with handicaps.

You know, Walt Disney once said that his theme park, Disneyland, will never be completed, because it will continue to grow as long as there is imagination left in the world.

Well, just like Disneyland... the power of imagination... and making our customers happy... has always been the driving force behind the auto business.

So our work will never be completed... as long as we're driven to continuously please our customers and improve society, with better vehicles and future mobility solutions.

This is an exciting time to be in the car business and I'm proud to be a part of it.

Thank you and all the best for a successful year.