

# 2015 J.D. Power Automotive Summit - Bob Carter

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Thank you, Fin... and good morning everyone.

Let me first congratulate you for being a part of an industry that truly makes a difference in people's lives.

Every year... automakers introduce new technologies that help improve safety, connectivity and fuel efficiency, as well as making products that are more sustainable for the future. And this year is no different.

Earlier this month... I was at the Consumer Electronics Show in Las Vegas... and just last week... I was at the Detroit Auto Show. It's amazing what automakers are developing... from autonomous cars to plug-ins to hydrogen fuel cells, like the Toyota Mirai... this industry is driving the future.

But with every new technology, you will have people who are either for or against it.

In fact, more than 100 years ago... two friends made a bet about what energy source would lead the auto industry in the future. Those two friends were Thomas Edison and Henry Ford. Edison bet on electric, while Ford put his money on gasoline.

The point is... we're all putting bets on a variety of technologies, and I'm just happy, and proud, that this industry we all love... continues to look for new ways to make better products to meet the needs of our changing society.

That's why I'm so optimistic about our industry's future. And if last year is any indication of our momentum going forward... we're in a hot zone.

Think about these facts.

U.S. automakers just chalked up our best year since 2006... with more than 16.5-Million units sold. That's a new vehicle driving off the lot every 1.9 seconds!

And 2014 marked the industry's FIFTH consecutive year-over-year sales increase... which has happened just ONE other time in the past 80 years.

At Toyota, Lexus and Scion... we also posted records... selling a combined 2.37-Million vehicles...

- an increase of over 6 percent...
- marking our best year since 2007... and our third best year ever...

What's more... the Toyota division remained the number one retail brand in the industry... while our luxury division, Lexus, grew 14 percent... outpacing the luxury market.

Ladies and gentlemen... the auto industry... AND Toyota... have A LOT of momentum behind us... and this is a TERRIFIC time to be in the car business.

This year, we believe...

- A rising economy will again support industry-wide sales growth...
- And all automakers and their dealer partners will continue making a positive difference... by listening to their customers to build better vehicles and providing a better vehicle purchasing experience.

Let's start with our sales forecast.

We expect the industry's sales momentum to continue in 2015... but at a lower and more sustainable rate than in the past. Growth this year will be supported by several factors... beginning with strong replacement demand.

According to IHS Automotive... the average age of vehicles on U.S. roads is 11.4 years... due in part to the recession and the increasing quality of today's cars.

And key economic indicators are showing signs of improvement... which analysts agree should support sales this year and beyond.

Specifically... we're seeing:

- Continued quarterly GDP increases up to 5 percent...
- growing consumer confidence...
- the unemployment rate is at a 6-year low...
- and home builders are confident the housing market will continue its recovery in 2015.

In addition to replacement demand and an improving economy... auto loan interest rates are at near historic low levels... and consumers are in the buying mood. The percentage of households intending to purchase a new vehicle this year is at its highest point since 2007.

So what does all this good news mean for 2015?

Analysts currently predict industry-wide sales between 16.6-Million and 16.8-Million vehicles... a slight rise from last year's total... to make it six years in a row of growth.

This continued sales momentum will also carry Toyota to another successful year.

For 2015, we estimate our U.S. sales will increase to 2.4-Million vehicles... growing in line with the industry.

To achieve our sales targets... we'll continue to offer vehicles that meet the needs of a wide range of customers. This year alone... Toyota, Lexus and Scion will introduce 12 new or updated products... including Mirai... our fuel cell electric vehicle... which debuts this year in California.

Since we launched Mirai, I've been asked by members of the media why we chose fuel cell technology over electric vehicles. In reality, Mirai IS an electric vehicle. But the electricity is produced onboard... versus off the grid.

Mirai is an electric-drive... midsize four-door sedan that operates like a normal car. Its front wheels are driven by an electric motor... and the electricity that powers that motor is made onboard... on-demand... by combining hydrogen gas with oxygen... producing zero emissions... other than water vapor.

And unlike other electric cars with limited range and long recharge times... Mirai can be re-fueled in three to five minutes and travel about 300 miles on a single fill-up.

In other words... the Toyota Fuel Cell System in the new Mirai... is simply... a better battery.

And Toyota is playing a leading role in bringing together automakers, energy companies, government agencies and others to help build the required refueling infrastructure.

By the end of 2016, 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.

In addition, we're very happy that consumer interest in Mirai is exceeding our projections. In Japan, we received 15-Hundred orders for Mirai in the first month... nearly four times our initial annual target. And here in the U.S., we've already had 16-Thousand handraisers tell us they want a Mirai in their own driveway.

Toyota is investing in Mirai for the long-term. That includes sharing our fuel cell knowledge... by offering royalty-free licenses to more than 56-Hundred fuel cell-related patents we hold globally. The licenses will be available to automakers and energy companies on mutually agreeable terms.

We hope sharing these patents will spur more widespread use of fuel cell vehicles, which will expand hydrogen station infrastructure... bringing us closer to achieving our vision of a future hydrogen society... and helping us to improve lives for generations to come.

And for our truck-loving customers... we were excited to reveal our all-new 2016 Tacoma at last week's Detroit Auto Show.

Tacoma has been the industry's best-selling midsize truck for the past ten years... and we improved the new model across the board... including styling, design and ruggedness... with an all new powertrain... and more horsepower and fuel economy than ever before.

Okay... let's switch gears and talk about Lexus.

The next generation of Lexus vehicles continues to offer bold new looks... fueled by a high-performance stable that includes the all-new 2015 GS F we also debuted in Detroit.

We built the GS F because our customers wanted even MORE performance from their luxury sedans... and this new addition to the Lexus "F" line has A LOT of race-inspired components... like:

- Twin dual exhaust pipes...
- A carbon fiber rear spoiler...
- And a 5-liter V8 with 467 horsepower.

So with outstanding new products coming soon from not only Toyota but from all automakers, all signs point to another successful year for the entire auto industry.

But, just as crucial as providing the right products at the right time, automakers need to continue working with their dealer partners to make sure our customers' needs are being met at each of their franchises.

Women, diverse markets and younger buyers... are driving our business today... and they will continue to drive the auto industry far into the future.

So we must fully appreciate their market influence... and adapt to the differences in how they want to do business.

Take a look...

Okay... that's a lot of numbers... so let me restate the topline.

Let's start with our female consumers...

- 26 years ago, women bought 40 percent of all new vehicles.
- Today... that number has skyrocketed to 62 percent – a 55 percent increase.
- In total... women purchase or influence a whopping 80 percent of ALL auto purchases.

You also saw the astronomical growth in African-American and Hispanic market influence.

- Since 1990, African-American buying power rose from 316-Billion dollars to more than 1-Trillion dollars... a 216 percent increase... and will jump to 1.3-Trillion in just two years...
- Hispanic purchasing power is outpacing the U.S. rate by a factor of 2-to-1...
- And in the first half of 2014... Hispanics purchased new vehicles at more than double the rate of the total industry.

And we can't forget the more than 80-Million Americans in the Millennial generation... the nation's largest consumer group.

Millennials currently account for 26 percent of new-car sales... and by 2020, that figure is expected to reach 40 percent... a 14-point surge in just the next 6 years.

As an industry... we **MUST** listen to their needs... and engage with Millennials on their level – through technology... which has changed how this generation communicates and approaches the retail shopping process.

Millennials constantly use social media platforms to share experiences and content with their peers. For instance... they access social media on their phones an average of 43 times a day.

And... when it comes to purchasing cars, they're just as tech savvy.

- 95 percent use the Internet to shop for cars... compared to 79 percent of all buyers combined...
- And... they spend nearly 18 hours online to research their next vehicle.

But... Millennials **STILL** want to visit dealerships before making the purchase.

- 63 percent of those under the age of 35 visit two or more dealerships prior to purchasing a vehicle...
- compared to just 53 percent of those over age 35...

So... how must automakers and our dealer partners adapt to meet the specific needs of women... diverse markets and Millennials?

Many female customers we talk to tell us that to meet their needs during the car shopping process and service visits... and to grow our female consumer base... dealers must:

- cultivate and maintain long-term relationships...
- engage in direct, honest and transparent communication...
- and provide clean, state of the art facilities with amenities that cater to their needs... like a wider array of reading materials and television channels in your waiting areas.

Here's another point to remember...

Does your management and sales team look like the customers you want to do business with?

Today's consumers want to do business with people they can identify with... in:

- ethnic background
- style
- age
- and gender.

And how are you adapting to the rapidly shifting landscapes in technology and retail shopping?

At Toyota, we're connected to millions of our customers and followers who read and redistribute our social media content through more than 25 social media platforms.

Our dealers also engage with customers through their own social media platforms...to quickly develop relationships and provide product information.

And we work closely with Toyota Financial Services... or TFS... the industry's largest captive finance company... to constantly improve the purchase and finance process for our customers.

As an example, last year, 62 percent of TFS contracts were electronic contracts... an increase of more than 40 percent from 2013. TFS is far and away the industry leader in E-Contracts, which means providing a more efficient experience for our customers.

And that's what this business is really all about. Providing our customers with the best products and services to make their lives easier and more fulfilling.

Watching that video, it's very evident that our consumers are evolving... and just like our products, the franchise of the future will also have to constantly reinvent itself to meet the ever changing landscape of society.

So I hope you can see why I'm excited for 2015 and the auto market's future. We are an industry of dreamers and doers. And we're creating a future that our children and our children's children will be proud to inherit.

By listening to our customers as we build better vehicles and a better dealership experience to meet their changing needs... TOGETHER... automakers and our dealers can build a bright future for all of us.

Thank you and all the best for a successful year.

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