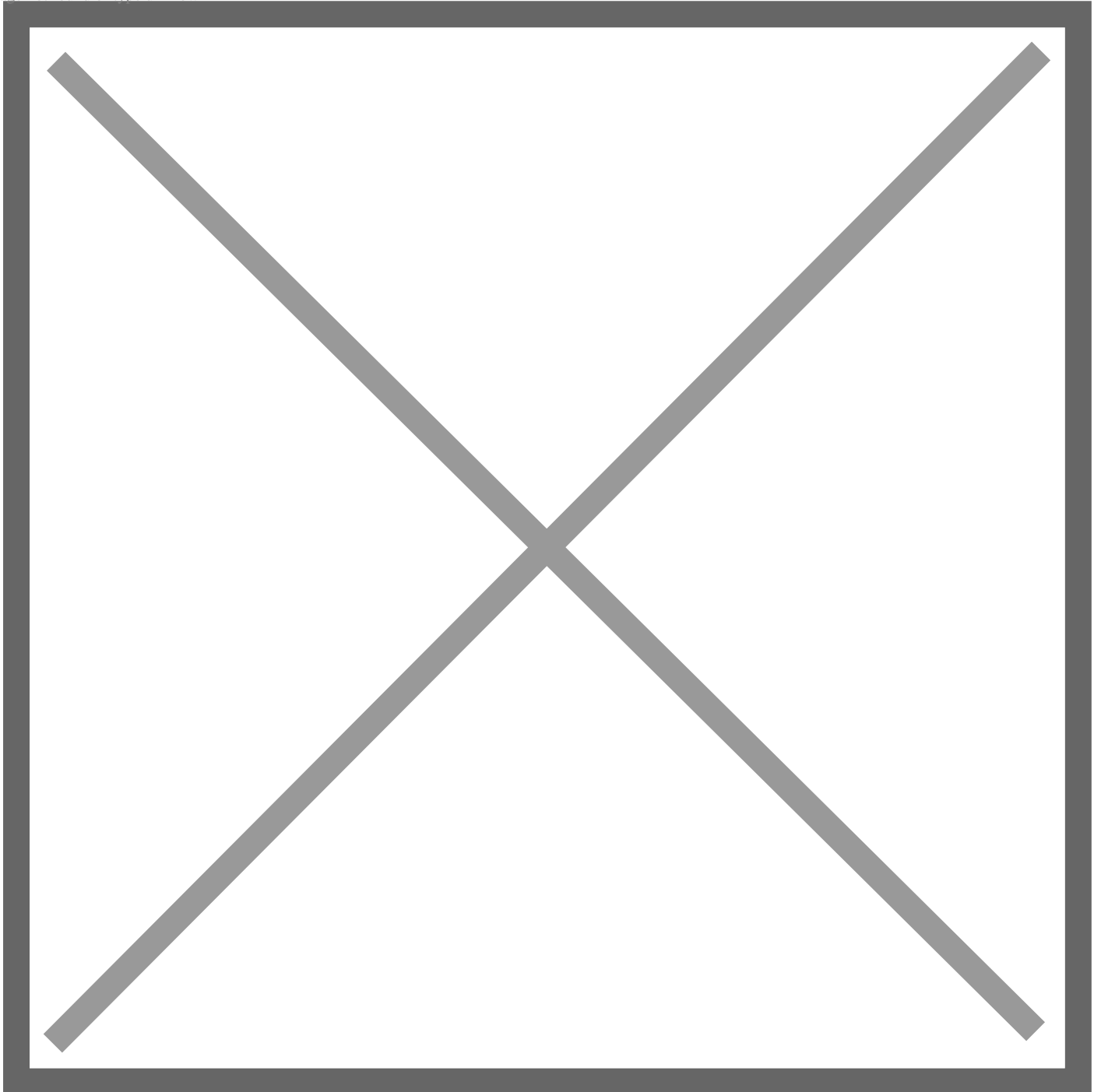


2014 Center for Automotive Research (CAR) Management Briefing Seminar - Osamu 'Simon' Nagata

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2014 Center for Automotive Research (CAR) Management Briefing Seminar

“Pathways to Prosperity”

Traverse City, Mich.

Wednesday, Aug. 6, 2014

Osamu 'Simon' Nagata, President and CEO, Toyota Motor Engineering and Manufacturing North America, Inc.

Thank you, Jay.

Before I start, I'd like to congratulate Governor Snyder on receiving the State Leadership Award presented by the Motor Equipment Manufacturers Association.

At Toyota, we appreciate the Governor's "relentless positive action" to "Reinvent Michigan."

And, Toyota is pleased to be able to contribute to those efforts by growing our operations here and adding 250 more jobs. Additionally, I told the Governor that this morning Toyota is committing \$1 million to support the "Grand Bargain" to help the city of Detroit and keep the Detroit Institute of Arts alive and well.

Last year, my wife and I moved to Michigan, and we've been enjoying our lives here very much. Soon after we moved here, we visited Traverse City for the "National Cherry Festival" and we enjoyed it.

There were cherries everywhere! We went to the special luncheon where everything was made of cherry –cherry dressing, cherry sauce on the meat, cherry cake, cherry Coke.

We were there for the 4th of July, and it was very hot. So, I went into the air-conditioned grocery store... Meijer... and looked at the T-Shirts. I found one I really liked...it was made in Mexico and it was only \$8.00! But, that's not why I bought it. I bought it because I liked the message....take a look. Blood.... Sweat.... And GEARS! That's good!

I think the hidden message shows the mindset of Michigan.... The Michigan automotive spirit... The "Gearhead" mentality.

It is an attitude of commitment and passion for the auto industry that is in the genes of the people in this state.

I've been in the industry for more than 34 years.

And even though my company is based in Japan, we share the same passion, too.

We brought that passion here 57 years ago when we established our sales organization, and continued 30 years ago when we established our first plant.

We doubled down on that commitment 37 years ago in 1977 when we established our Toyota Technical Center In Ann Arbor, to be closer to our American customers and suppliers. Today, TTC is our biggest R&D facility outside of Japan. And, I am pleased we will continue to grow this important operation.

You may have heard in the news that we are consolidating much of Toyota's North American headquarters operations in Plano, TX. Bringing our sales, manufacturing and corporate operations into one location will make us more efficient.

But, equally as important, we are removing key operations that directly impact our supplier base to Michigan.

We spend more than \$32 billion in North American purchasing a year. And, we realized that moving our Direct Procurement & Supplier Engineering Development here will bring us closer to our suppliers and industry partners.

We believe that having direct procurement, together with design, all at the same location — on our campus in Saline, Michigan — will improve our communication and collaboration with suppliers and with each other.

As we go from concept to mass production of our vehicles, having these critical functions in close proximity should result in greater efficiencies.

It will increase our ability to engage our supply base and to support them in their efforts to help us meet our customers' demand for our vehicles.

And that is an important part of our strategy to create pathways to prosperity for everyone...not just Toyota.

To me, prosperity means that everyone can make money; everyone can grow.

But, that requires all of us – OEMs and suppliers – to work together to make that happen.

Over the next few years we need to develop new technologies and better ideas to improve safety and fuel economy.

There are so many areas ready for innovation, and I believe within the next 10 years we will see many revolutionary things happening in the automobile.

I know that working together on these challenges requires good business relationships, built on trust. OEMs must use fair business practices, paying attention to their working relationships with suppliers, to get the best ideas and new products from their suppliers.

If an OEM is open-minded to innovations and has the trust of the suppliers, they will benefit by getting the best new ideas from their business partners.

Every year, I pay very close attention to the Planning Perspectives Working Relations Index. I really think Dr. John Henke and his team do a very good job of discovering what is working – and what's not working – in OEM-supplier relationships.

So, how has Toyota been doing on the Working Relations Index?

This year, I was very happy to see that Toyota is doing better.

The report was very complimentary to us, saying, "Toyota has finally rediscovered the 'Toyota Way' and is showing its first improvements in the WRI ratings in seven years."

It said, "Toyota improved in all key areas, including, supplier trust, communication, and involving suppliers throughout its product development process."

We were also ranked highest in confidential treatment of supplier proprietary information and intellectual property.

That made me very happy.

BUT –It also said, "They still have a ways to go."

For example, although our score is coming back this year, we continue to issue late and excessive design changes, directly impacting our suppliers' ability to meet their internal cost, quality and delivery targets.

Also, according to this year's survey, our suppliers' willingness to share new technologies with us is not where we want it to be or where it once was.

I think we need to demonstrate a more open-minded attitude to our suppliers' ideas early in development, and I'm committed to doing that. These are all areas I hope we can improve as we combine our purchasing and design resources in Michigan with our suppliers.

But, these are not the only areas we are working to improve.

My purchasing team told me Toyota's Supplier Engineering Development group and suppliers are working together to ensure good part design, good process planning and good part development.

From an operational perspective, we have established cross-functional teams to more effectively and efficiently allocate resources to support suppliers in quality system enhancements and to ensure one voice from Toyota.

And, in the last year we have been able to further pull ahead our support activities to confirm that our designers' intentions line up with our manufacturing ability.

To our suppliers: We want you to be patient with us as we improve, so we can earn the trust it takes to receive your best ideas and work on them with you.

So, here is my prescription for a Pathway to Prosperity:

First, together – OEMs and suppliers – we must keep our focus on the customer. That's why Toyota has added another Chief Engineer in North America, bringing our total to five chief engineers who oversee the development of seven very successful products that are critical to pleasing our North American customers.

Second, as I just mentioned, collaboration between OEMs and suppliers must improve even more. Innovation — which is essential for prosperity — is made possible through trust and collaboration with suppliers.

Third, focusing on the human side within our own company – developing human resources – is urgent. We must encourage young students to study hard to be engineers. And we must encourage engineering graduates to enter the auto industry. For example, I'm very proud of the work Toyota and many of you have been doing with the Society of Automotive Engineers to support programs like A World In Motion. We will all see the benefits for years to come.

I'm proud to say that Toyota's engineers continue to be leaders in automotive R&D, receiving more than thirteen hundred (1300) patents in 2013.

Since the early 1990's, Toyota challenged itself with a big question that defines our corporate-culture: "What will our vision of mobility look like in the 21st century?"

We found the answer in the work of our company's founder. Sakichi Toyoda was an inventor who was awarded many patents. He created the automatic loom and other devices. The loom made weaving cloth easier. He taught us that innovating new products *to make peoples' lives better* was the best way to connect with our customers.

In fact, the weaving process he created looks amazingly similar to the process we developed to weave carbon fiber for body panels on the Lexus LFA. Take a look...

A process very similar to the one shown in this video will produce the carbon fiber hydrogen tanks for our new Fuel Cell Vehicle, which will debut in 2015. The FCV is Toyota's innovative power train for the future.

And, in Monday's lightweighting discussion here at Traverse City, you may have heard from Takefumi Shiga that carbon fiber will add strength and improve the driving dynamics of the 2015 Lexus RC sport coupe.

That's the power of the passion for always making better cars. It is the power of the human side of our business to take us far into the 21st and beyond.

We believe that the future of mobility will be safer, greener and more convenient for everyone. Together with our suppliers, we will build pathways to prosperity for everyone.

And, maybe someday, I will find a new \$8 T-Shirt that looks like this.
[Blood, Sweat and Carbon Fiber....Toyota and FCV]