

2014 J.P. Morgan Auto Conference - Bob Carter

August 12, 2014

As prepared for:

2014 J.P. Morgan Auto Conference

New York, N.Y.

August 12, 2014

Bob Carter, TMS Senior Vice President, Automotive Operations

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

I thought it was interesting that three milestones on this day in history significantly impacted the auto industry:

In 1908...Henry Ford built the first Model T...

In 1960...the first communications satellite launched...

And in 1981...IBM introduced the personal computer.

Today, they all come together seamlessly in the cars we drive.

And we're just getting started because later I'm going to talk about the next BIG THING in automotive technology...hydrogen fuel cells.

Oh...and one other historical note for New Yorkers.... on this day in 1935 the great Babe Ruth played his final game...in of all places...Boston's Fenway Park.

Judging by the standings today, the Yankees could SURE use him now...

Now I can't promise to forecast the future of the auto industry as well as Babe Ruth predicted home runs...but I've had a pretty good record over the past few years and I'm very optimistic about the future.

So, just past the mid-point of 2014, I strongly believe the auto business WILL get stronger and 2014 WILL BE another great year for the industry AND Toyota.

It all starts with a solid foundation...a positive economic and industry forecast.

The auto industry has enjoyed four consecutive year-over-year sales increases... propelled by pent-up demand as the economy recovered from the recession.

This year...we believe conditions are getting back to normal... and sales are being driven by BROAD economic strength, particularly in the second half.

For example...the consensus forecast calls for GDP growth above 3 percent during the third and fourth quarters... a healthy step-up from 2013's sluggish 1.9 percent growth rate.

In addition... analysts foresee continued growth in new housing starts...which generally correlates to a rise in pickup truck sales.

Additional positive economic signs include:

- growing consumer confidence
- an improving job market
- and solid consumer spending,

So even with a slow start, 2014 should be another good year for our industry with analysts predicting total sales between 16 and 16.5-Million vehicles.

At Toyota, we expect the industry to come in at about 16.3 Million units...an increase of just over 5 percent... healthy growth but at a slightly slower pace than the past few years.

But again...this "new" growth is being driven by stronger economic and market conditions...not hangover pent-up demand from the recession.

For instance, 400,000 MORE customers than last year are expected to come off leases from all brands...and most will turn around and buy or lease a new vehicle.

Leases made up 20% of new-vehicle registrations in 2013 and that trend continues this year, setting up returning customers AGAIN two years or more down the road.

Another key factor is historically low auto loan rates.

Thirty years ago... we saw rates in the mid-to-high teens... but they've steadily receded to the 3 to 4% rates we see today.

Of course...rates may tick up again as the Fed eases the stimulus...but we believe they'll stay relatively low and affordable for most Americans.

In addition, younger buyers are entering the market in bigger numbers.

For example... from 2009 to 2012... vehicle sales to those born after 1980, more than doubled to 2.5 Million.

Sales increased another 20 percent the past two years and are expected to climb 10 percent this year to 3.5 Million vehicles.

So we have a lot of favorable signs...but if you want "real proof"of consumer optimism and a stronger economy...look at July auto sales.

Last month, our industry sold more than 1.4 million vehicles...up 9 percent ...the best July sales in eight years!

It was the sixth consecutive month of year-over-year gains and the third straight month with sales of more than

1.4 million.

Combined sales of Toyota, Scion and Lexus vehicles were EVEN stronger...outpacing the overall industry.

Collectively, we sold nearly 216-thousand units...a jump of 11.6%.

We were the No. 1 retail automaker...Toyota was the number one retail brand...and Lexus had its best July EVER.

It was an all-time record month for our RAV4 compact SUV...with sales up 37 percent...while both Camry and the new Corolla had double-digit increases.

As a result, Camry remains the best-selling car in America and Corolla is the best-selling subcompact.

With sales up nearly 19%, Lexus not only had a record July, it was the tenth straight month of year-over-year gains for our luxury brand.

So we're firing on all cylinders and Toyota is in a great position to grow by 100,000 units... to 2.3 million vehicles this year.

So our current products are exceeding expectations and driving momentum but there's even better news on the horizon.

A few years ago... our Global President, Akio Toyoda, challenged us to create cars that spark people's emotions... cars that make them say, "I HAVE to drive this!"

So we're adding new... fun-to-drive... and exciting products to our lineup that will change the way people think about design...mobility...AND Toyota.

First out of the gate...and on-sale in just a few weeks...the new 2015 Toyota Camry!

For 16 of the past 17 years...including the last 12 in a row... Camry has been America's best-selling car.

This year...we made it even BETTER.

I'm talking about a huge change with an all-new:

- HOOD...
- GRILLE...
- DOORS...
- TRUNK...
- FRONT FENDERS...
- BUMPERS...
- HEADLIGHTS...
- And TAILLIGHTS

Together, they give Camry a fresh, more muscular look and an aggressive stance.

Underneath, we strengthened Camry's chassis and added a newly tuned suspension that provides crisp but compliant handling.

We've also completely overhauled the interior with a new design and upgraded materials for an upscale look and feel...including a segment-FIRST available wireless charging system for your mobile phone.

We thought the new Camry was special, but when we unveiled it at the New York Auto Show this spring the reaction was FAR better than we imagined.

C-NET, a leader in tech product reviews, perhaps said it best: "Toyota is sick of us calling the Camry 'boring,' so it's livened things up a bit with the unveiling of the Camry XSE, the 'sportiest Camry yet'."

And John Krafcik, the former CEO of Hyundai North America, had high praise for it, saying: "They've gone bolder at a time when some of their competitors have decided to smooth things out and kind of quiet things down. I think it's great from a design-trajectory standpoint."

This is a MEGA change to Camry... and the most extensive mid-cycle change in our company's history.

It's completely unexpected to see a major change like this come just three years in the product cycle, but we're fully committed to keeping Camry No. 1 for a long time to come.

Now, about the same time the new Camry debuts we'll also launch the sleek, all-new Lexus RC-F coupe.

It's got more than 450 horses and a 5-Liter V8 engine under the hood... as well as an 8-speed transmission tuned to produce quick shifts and optimize acceleration.

But instead of telling you WHY it's a fantastic car, let me show you...

See what I mean?

The RC-F is only one part of an exciting RC family that includes: the RC 350 sport coupe with either a V6 or hybrid powertrain...and the RC 350 F SPORT offering exclusive design elements and heightened driving performance.

In addition to the RC...for the first time ever...Lexus will enter the popular luxury compact crossover segment...when it launches the NX this fall.

The stylish NX will be the first Lexus to offer a turbo-charged gas engine that will generate plenty of horsepower while delivering impressive fuel economy.

For those customers who want even more efficiency, we'll offer the NX in a hybrid version called the NX 300h.

And we'll add a striking F-sport model to the family so our customers have plenty of options when choosing an NX.

With its unique styling...great engine options...exciting driving dynamics...and interior technology, we think the NX will be a big hit, particularly with younger luxury customers.

We believe the new Camry, RC and NX WILL deliver on Akio Toyota's challenge to create cars that spark people's emotions...but they're JUST the beginning.

Last January, at the Detroit Auto Show we stunned some people with a concept sports car symbolic of a "new chapter" in Toyota global design.

Take a look...

It's called the FT-1 with the "FT" meaning "Future Toyota".

It captures the passion, excitement and energy of the Toyota we are evolving into, including elements of emotion and performance that we will imprint on future production designs.

The FT-1 is built for pure performance... with a retractable rear wing...sculpted aerodynamics...and a jet-like heads-up display...so stay tuned.

All of these new products...along with the hydrogen fuel sedan I will show you in a few minutes...symbolize the NEXT chapter in Toyota's storied history...one that focuses on design...fun-to-drive cars... killer interiors... and continued improvements in MPG.

When we add these components to our trademark quality, dependability and reliability, we believe we have the ideal formula for a successful car company in the 21st Century.

We're also building a fantastic network to support future growth.

First, we're strengthening our North American manufacturing network by increasing our commitment to building vehicles where we sell them.

Our 14 North American manufacturing facilities now build 71% of the vehicles we sell in the U.S... and we're adding new capacity.

In the past two years alone we've invested more than \$2 billion in 11 expansions creating more than 4,000 new jobs.

That includes our commitment to build a Lexus for the first time in the U.S. when our Kentucky plant begins producing the ES sedan next year.

By building our vehicles where we sell them, we support local suppliers...and most importantly... build great cars for our customers.

Second, we're blessed with an OUTSTANDING dealer network that's getting better every day.

We wouldn't be successful without our dealers and their associates... the thousands of dedicated men and women who develop long-term relationships with our customers...and generously donate their time and resources to support their communities.

They not only support us day-in and day-out, they're also investing their own money in Toyota's future growth.

In the past 10 years alone, our Toyota and Lexus dealers have invested more than \$8.1 billion to expand and

upgrade their dealerships... and improve the sales and service experience for customers.

And they are projected to spend nearly \$1 billion MORE this year.

That's a huge "vote of confidence" in Toyota's future.

OK...now that you know how Toyota is performing today, let's talk about the future.

I want to assure you that Toyota is very busy researching the world's transportation challenges and creating mobility solutions for the future.

In fact, we're spending an average of more than \$1 million AN HOUR this year on R&D to meet customer needs of the future.

One prime example is what I call the NEXT BIG THING...a zero-emission hydrogen fuel cell sedan we'll launch to the public in California next summer.

It's an electric car...but instead of carrying around a huge, expensive battery, it carries compressed hydrogen gas...and a relatively small battery.

As needed and on-demand: a fuel-cell stack mixes two elements abundant in nature ...hydrogen with oxygen...to produce electricity that powers the vehicle for about 300 miles on a single fill-up which takes about three minutes.

So it has the range of today's conventional cars without lengthy re-charging... while emitting only harmless water vapor...the best of BOTH worlds.

We've reduced the cost of the fuel cell powertrain by 95%...and we're confident we can reduce the cost further.

So, what about the cost of hydrogen?

Well, according to Department of Energy estimates, the cost of hydrogen fuel will initially be higher than gasoline...but longer term...it will come down and be more economical.¹

Based on those numbers, we estimate that to fill our fuel cell sedan to go 300 miles initially will cost about \$50 and then go down to about \$30.

So our fuel cell vehicle is not only better for the environment, it may also be more economical to operate than conventional cars.

In short...of all the advanced powertrain systems we have in our portfolio...we see hydrogen fuel cells as being THE no-compromise, primary-option vehicle for the NEXT 100 years.

And we're not alone.

Honda and Hyundai will soon market their own fuel cell vehicles...and most automakers will have one on the road by 2018.

The US movement will start in California and spread to the East Coast, other states and other parts of the world,

including England, Germany, South Korea and Japan.

At Toyota we're not just introducing a refined, affordable vehicle, we're also putting our money behind building the fueling stations that will make fuel cells viable.

The good news about hydrogen is that it's not so much about how many stations...it's about location...and California will set the pace.

Working with the University of California, we've modeled specific locations that will result in a 6-minute drive to a station for most owners.

As a result, we believe just 68 stations will handle a population well in excess of 10,000 fuel cell vehicles.

The state of California has already earmarked \$200 million to build at least 100 new stations by 2024, with 40 of them to go online by the end of 2016.

In addition, Toyota will actively help kick-start infrastructure through collaboration with regulators, energy providers and academia.

For instance, we're putting up \$7.2 million and entering into financial arrangements with First Element Energy and Linde LLC to support the long-term operation and maintenance expenses of new hydrogen refueling stations in California.

And we hope to share news about the East Coast in the future.

This commitment to the fueling structure is "unprecedented" in automotive history, but we believe it's a VITAL investment in the future.

Today, we're on the cusp of the "automotive hydrogen age"...so this is the chance to get in the ground floor on what we strongly believe WILL BE the "Car of the Future"

Looking even beyond fuel cells, we're working on some other interesting concepts to address the changing nature of mobility in the future.

We know that as more people migrate to cities in the world's fastest developing countries... cars are competing for a rapidly shrinking space for driving and parking.

But no matter where they live, people WILL want mobility to be part of their daily lives.

So, Toyota is developing an array of concept vehicles to meet issues like population shifts, concern for the environment and congestion.

Being a huge fan of motorcycles, I wanted to share one of those concepts with you.

It's called the Toyota iRoad...a thrilling, ultra-compact, two-seater vehicle that provides the convenience of a motorcycle and the comfort and stability of a car.

The iRoad's "active lean technology" automatically raises and lowers its wheels to optimize the vehicle's angle... ensuring stability and a feeling of unity with the vehicle.

Here's a video of it in action...

Doesn't that look like fun? And it's practical too.

I keep asking to take one home for the weekend, but I haven't had any luck so far.

The iRoad shows you some of our vision for the future...a future where new forms of transportation will supplement the cars we use today.

Simply stated, our goal at Toyota is to be a LEADER in future mobility.

So when you add it all up... this is a great time to be in...and invest in... the auto business.

The improving economy and great products from all automakers should drive a fifth consecutive year of increased industry sales.

And Toyota is poised for success too.

With strong sales of our new and updated models...an exciting lineup of future products with exciting styling and fun-to-drive characteristics...continued investment in our North American plants...motivated dealers improving their dealerships...

And creating cars and mobility solutions for the future...Toyota WILL grow this year....and WELL into the future.

Thank you... and I wish you all the best for a successful year.

OK...here's the usual disclaimer about forward-looking statements...and now I'd be happy to answer your questions.

###

1 Hydrogen fuel cost details – Hydrogen fuel cost is not set yet, but...longer term...probably less than current gas DOE's long-term estimate: \$5 - \$7 per kilogram; initial: \$9 – \$11/kg. Fill-up for 300 miles (5/kg) is \$30 in long term, about \$50** initially (*\$6 X 5/kg = \$30; ** \$10 X k/kg = \$50)*