

2014 Bank of America New York Auto Summit - Bob Carter

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Introduction: John Murphy, Senior Analyst, Bank of America Merrill Lynch Global Research

Thank you, John... and good morning.

After the year you've had here in New York and throughout the northeast... I promise, no jokes about winter.

Although... just a reminder, a four-wheel-drive Tundra towed the 150-Ton Space Shuttle Endeavor... so I know it can handle the snow.

But despite the weather... this has already been an exciting first quarter for the auto industry.

- Automakers are showcasing groundbreaking designs and technologies... in fact, you'll see some great looking cars at this year's New York Auto Show
- Plus, key indicators show our economy turning the corner
- And... analysts predict industry sales should once again show a year-over-year increase.

So this morning...I'd like to share several reasons why Toyota is in a great position for 2014 and beyond.

Let's start with our economic and industry forecast.

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

This year... the pace of growth has flattened somewhat... as harsh winter conditions blanketed much of the country and limited auto sales through February.

As the mercury continues to rise, we believe conditions are getting back to normal... and sales going forward will be driven by broad economic strength.

For example...economists predict moderate GDP growth between 2.5 to 2.8 percent this year...not as big a leap as desired...but certainly a step up from 2013's sluggish 1.9 percent growth rate.

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

That makes sense...pickups are the workhorse of the construction industry.

So when home building picks up construction companies hire more people...and workers buy trucks to get the job done. Some additional positive economic signs include:

- Growing consumer confidence...
- An improving job market...
- And a boost in stock prices...

So, what does all this mean for the car business?

Well, even with a slow start, analysts still predict a range between 16.2-Million and 16.4-Million vehicle sales for the total industry this year.

We're planning for the industry to come in at about 16-Million units... healthy growth but at a slower pace than the past few years. And there are several reasons for this growth to continue.

First, we expect over 400-Thousand MORE customers than last year will lease or buy a new vehicle... continuing 2013's trend that saw leases account for more than 20% of new-vehicle registrations.

Second, historically low auto loan rates.

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

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

Now, in addition to more potential customers and low interest rates... at Toyota we have a unique advantage over our competitors through our partnership with Toyota Financial Services... or TFS for short.

As one of the industry's highest-rated and largest captive finance companies... TFS helps our dealers:

- Make more loans...
- Offer more aggressive lease packages...
- Increase residual value...
- And attract a wider range of customers, including younger and lower-income buyers.

That last point is important... because analysts predict U.S. buyers aged 35 and younger... will once again be a key contributor to industry growth this year.

For example... from 2009 to 2012... vehicle sales, to those born after 1980, more than doubled, from 1.2-Million to 2.5-Million.

Sales increased another 20 percent from 2012 to 2013... and are expected to climb again this year by 10 percent... to 3.5-Million vehicles.

So, when you put it all together... the auto industry should grow for a fifth consecutive year.

And based on first quarter results, we're on our way.

You can see on this chart the effects of harsh winter weather on industry sales in January and February.

But the industry roared back in March...with sales of more than 1.5-Million units.

A 29 percent jump from February...Helping the industry to post first quarter sales of more than 3.7-Million vehicles...up 2.7 percent year-over-year.

And sales across our Toyota, Scion and Lexus brands followed this industry trend.

Despite the decreased showroom traffic... our February sales climbed 8.8 percent from January...

And as the snow cleared... we topped 215-Thousand units in March... rocketing up 35.2 percent from February... making us the month's number one retail manufacturer.

In fact, we had our highest volume in seven months... and our best March since 2008.

Some March highlights include:

For the Toyota Division, sales were up 6.5 percent, making Toyota the Number-One retail brand for the third straight month.

Camry continues to be America's best-selling car...

Our hybrid lineup, led by Prius, continues to account for more than half of the industry's hybrid sales...

And our new RAV4, Highlander and 4Runner all posted big gains in March, pushing Toyota SUV sales to the best first quarter ever

Our Lexus Division also had a strong month.

March sales were up 28 percent, its best in seven years.

The all-new IS sedan had a triple-digit sales gain... pushing Lexus to one of the biggest increases in the industry...

And sales of our luxury utility vehicles were up nearly 20 percent, led by the RX which continues to be the industry's SUV volume leader.

As you can see... Toyota is in a great position to grow this year... and we estimate our 2014 U.S. sales will increase by about 100-Thousand... to 2.3-Million vehicles.

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

A few years ago... our Global President, Akio Toyoda, challenged our company 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.

And in response to President Toyoda's challenge... we've taken the wraps off some incredible vehicles this year.

First out of the gate is a concept that turned everyone's head at the Detroit Auto Show... the Toyota FT-1 sports car.

The FT-1... built for pure racetrack performance... represents the future of Toyota design with:

- A retractable rear wing...
- Sculpted aerodynamics...
- And a fighter-jet inspired heads-up display...

Also in Detroit, we introduced the all-new Lexus RC F coupe.

It's got 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.

When this coupe launches, consumers will have several choices from the RC family.

There's the RC-F... the RC 350 sport coupe that we revealed in Tokyo last year...and the RC 350 F SPORT which made its debut at the Geneva Motor Show just last month.

And this week... we saved a BIG ONE for the BIG APPLE.

Earlier this morning... we unveiled a groundbreaking car that will make our customers VERY happy.

The 2015 Toyota Camry!

Now, for 16 of the past 17 years... including the last 12 in a row... in a highly competitive market... Camry has been America's best-selling car.

And I've got news for our competitors. This year... we made it even BETTER.

With a 90 percent sheet metal change...

Including:

- An all new hood,
- Grille,
- Doors,
- Trunk,
- Front fenders,
- Bumpers,
- Headlights,
- and Taillights...

the new Camry has a fresh, more muscular look... and an aggressive stance.

In fact, the roof is the only piece of sheet metal that remains completely intact.

Underneath... we strengthened Camry's unibody with more chassis welds for increased rigidity... and a newly tuned suspension provides crisp but compliant handling.

It also has a new Electronic Power Steering system which gives the car enhanced stability and feel... and a new two-stage brake booster to deliver smoother and more confident stops.

The interior has also undergone a complete overhaul of its own.

The new design and upgraded materials promote an upscale look and feel.

Some of the changes include:

- A new center console with more intuitive controls,
- The USB and power outlets moved to a more convenient location,
- In-car electronics can now be monitored in the meter cluster, helping to keep the driver's attention on the road ahead,
- A custom-tuned JBL audio system provides superior sound,
- And a segment first... available wireless charging system for your mobile phone.

And when our customers told us they wanted an even wider array of trim options... we listened.

Last year... our well-equipped SE trim level really attracted younger buyers to the mid-sized segment and accounted for more than 40 percent of Camry sales.

We wanted to keep this trend going, so for 2015, we developed a new, sporty-themed Camry XSE model.

It includes more premium features, including a unique grille and fascia, 18-inch wheels and engaging driving dynamics.

And top all this off with new safety features like Camry's Advanced Driver Assistance System, which includes:

- Pre-collision System
- Adaptive Cruise Control
- Lane Departure Alert
- Blind Spot Monitor
- and Rear Cross Traffic Alert

So I hope you'll agree...inside and out... America's favorite car is better in nearly every way.

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

To my knowledge, all competitors in this segment are on 5- or 6-year generation life cycles.

We can't wait for it to arrive in showrooms this fall!

Now, for as long as the industry, including Toyota, has produced cars...we've never stopped trying to make every component of our cars better, including:

- Engines...
- Body styles...
- And technologies that connect us to our cars... and the world.

And in this era of high gas prices, consumers also want great fuel economy and environmentally responsible cars.

Toyota is still the industry's most fuel-efficient full-line automaker...and in 2015... we're setting the bar even higher.

I believe our hydrogen fuel cell sedan, which comes to market next year... can be THE flagship vehicle that moves the industry to a new era of sustainable mobility.

Here's why...

Our fuel cell sedan will travel over 300 miles on a tank of hydrogen... takes about five minutes to fill... and has ZERO emissions. It emits only harmless water vapor.

At the same time... we're working closely with our business stakeholders, other automakers and state and federal government agencies... to advance the rapid development of a hydrogen station infrastructure... paving a smooth road ahead for a sustainable hydrogen highway.

Now you know why I'm so excited about our future products.

FT-1... Camry... Prius, the RC Family, and the hydrogen sedan 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.

Along with strong sales of our current lineup... and developing exciting cars for the future... this year, we'll continue to deliver vehicles that feature high standards in the areas most important to our customers... including reliability... safety... dependability... and value.

And people are taking notice.

For instance, when it comes to reliability... this year...Consumer Reports again named Lexus its top-ranked

brand for overall reliability and performance.

For safety, 12, model year 2014, Toyota, Scion and Lexus vehicles received 5-star ratings from the National Highway Traffic Safety Administration... the highest grade given by the agency.

And... the Insurance Institute for Highway Safety named Camry and Scion tC 'Top Safety Picks' ... while Prius and Highlander were named 'Top Safety Pick Plus.'

Our models also rank among the industry's most dependable.

Seven of our vehicles won best-in-class awards from the 2014 J.D. Power Vehicle Dependability Study... which also recognized Lexus as the #1 brand for the 3rd consecutive year.

Now... the payoff for achieving these consistent reliability, safety and dependability ratings is exceptional customer value and brand perception.

For example, five of our models won Best Cars for the Money awards from U.S. News & World Report... the most of any automaker.

Consumer Reports named Toyota the highest-rated automotive brand in its annual Consumer Perception Survey... 25 points ahead of the second place nameplate...based on car owners' perceptions of automakers in the most important buying areas... including quality, safety and performance.

And, Brand Finance, the world's top brand valuation consultancy, ranked Toyota the auto industry's most valuable brand... and 11th overall among 500 global brands... in its annual Global 500 study.

So not only do we have product momentum and third party accolades fueling our sales this year... we're strengthening our North American manufacturing portfolio...by enhancing our commitment to building our cars... trucks... minivans... and SUVs where we sell them.

In fact, Toyota's 14 North American manufacturing facilities build 71% of the vehicles we sell in the U.S... up from 55% in 2008.

In the past two years alone... we've invested more than 2-Billion Dollars in 11 expansions of our North American plants...creating more than 4,000 new jobs.

A few of our recent and planned U.S. investments include:

430-Million Dollars to centralize production of all 2014 Highlander SUV models... by bringing the hybrid version to our Indiana plant...

200-Million Dollars to boost V6 engine production in our Alabama, Missouri and Tennessee facilities...and, 360-Million Dollars to produce 50,000 units annually of the Lexus ES in our Georgetown, Kentucky plant.

By building our vehicles where we sell them, we support local suppliers... local economies... increase our investment in U.S. communities... and most important...build great cars for our customers.

Another reason why we believe Toyota is well-positioned for 2014... and beyond... is our outstanding dealer network.... and we have the best.

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 resources to support their communities.

And our dealers' confidence in the future of our brands is evident.

In the past 10 years, our Toyota and Lexus dealers have invested more than 8.1-Billion Dollars 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.

In addition to offering consumers a full lineup of exciting cars to meet today's needs... Toyota is researching the world's transportation challenges and creating mobility solutions for the future.

For example...as more people migrate to cities in the world's fastest developing countries... cars are competing for a rapidly shrinking space to drive and park.

But no matter where people live, mobility will be a part of their daily lives.

So, Toyota has developed an array of forward-thinking concept vehicles to address the intersection of issues such as population shifts, the environment and our future mobility needs.

The first is our Toyota Winglet, a stand-up electric scooter the driver can maneuver forward... backward... and turn left or right by shifting their body weight. It can be used on sidewalks and urban areas that are inaccessible by cars.

The next step up is our Toyota FV2 concept vehicle.

Drivers intuitively shift their body to move the car... while intelligent transport technology connects with other vehicles and traffic infrastructure to enhance safety.

And, there is the really fun 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.

These three concepts show some of our vision for the future...a future where new forms of transportation will supplement the cars we use today.

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.

- Strong sales of our new and updated models...
- An exciting lineup of future products...
- Expanded investment in our North American plants...
- And building on our solid reputation for quality, safety, dependability and value...will help Toyota achieve a fifth- straight year of sales growth.

By building exciting, fun-to-drive cars for how our consumers live today, and developing even better cars for tomorrow, we're optimistic Toyota will have a strong and successful 2014 and beyond.

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

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

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