

J.D. Power NADA Western Automotive Conference - Jim Lentz

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The Auto Industry: Making a Better Tomorrow

Good afternoon!

You know how they say time flies when you're having fun? Well... I don't know about the fun part... but the past few years, it felt like time flew at light speed.

Okay... I'll admit some days felt like time just stopped... but... the majority of it blew by in a blink of an eye.

It was only three years ago that the Federal Government provided a bailout for GM and Chrysler. At that time, the auto industry suffered a huge blow to its image. In fact, a Gallup poll of Americans' opinion of our industry fell to an all-time low in 2009.

But, the following year... the poll took a 180 degree turn.

This time... opinions of our industry increased by 15-percentage points.

Gallup said it was the largest one-year improvement in the history of measuring public opinion about major U.S. industries.

So, why did our industry make such a quick turnaround?

Simply put... all automakers stepped up their game. We paid closer attention to our customers...we worked through issues with regulators... we formed alliances and partnerships to meet future needs... and we flat out made the best cars we've ever produced.

In short... we're all doing great things that have a major positive impact on people... society... and the future.

But before we dive into that subject, let's take a look at how this year will finish and how the next few years stack up.

To start the U.S. economy grew two-percent in the third quarter.

This is attributed largely to consumers feeling better about their finances...

Unemployment dropped to a three-and-a-half year low...
Consumer Confidence index jumped to a 5-year high...

And, the housing market has turned the corner.

Fueled by these positive economic trends, the auto industry should continue its forward momentum.

For the total U.S. market... our annual sales forecast for 2012 is 14.3 million vehicles... or possibly a little higher...an increase of about a million and a half over 2011.

And the forecast ahead looks even better. Analysts predict sales will reach 16 million again in just a few years.

And there's plenty of data to back up their optimism.

First... there's pent up demand. In the U.S., there are more than 245 million cars on the road, and the average age of these vehicles have hit a record high of 11 years old. More than 20-percent of these cars are over 16 years old.

Second... historically...car loans have never been cheaper. Banks are charging the lowest interest rates since the Federal Reserve began its survey of loans... over four decades ago.

Third... and the best news...the J.D. Power Information Network says younger buyers are returning to the market at a higher rate than any other age category... which bodes well for market longevity.

Now, a large portion of these returning buyers will be comprised of Hispanic consumers.

They're the fastest growing ethnic segment of the US population... and will have a projected buying power of 1.5 trillion dollars by 2015.

In fact, Hispanic Business magazine predicts they will be in the "driver's seat" of the next auto boom.

So, there are a lot of positives helping drive optimism and sales. And, as always... the Western region in general... especially California... is leading the way.

For Toyota, so far this year... our Western Region sales have already surpassed last year by 12-percent.

And our sales in California... a state with some of the highest unemployment and gas prices in the nation... are up 13-percent.

Our numbers haven't been this high since 2008... but it's not just Toyota... every automaker is enjoying sales growth.

So... our industry's sales and image are improving every day. It's because of our hard work and commitment to our customers and to society... and it's making a difference.

All automakers are making advancements in reliability... cleaner, more efficient powertrains... and safer cars.

Let's take a detailed look at each of those areas.

First...reliability. There's strong evidence our industry has made huge advancements.

In fact...since this is a J.D. Power sponsored event... let's talk about its most recent Vehicle Dependability

Study.

As you know, this study measures problems experienced by original owners of three-year-old vehicles... in this case, the 2009 model year. The lower the score... the higher the quality and dependability.

In the latest study, overall vehicle dependability averaged 132 problems per 100. That's a 13-percent improvement from last year's average...and the lowest problem rate since the inception of the study, 22 years ago!

And the study found that 25 of 32 brands improved in dependability from the previous year.

Since perception of quality and dependability is a critical factor in the purchase decision... this is great news for companies and consumers...and another reason why many owners are choosing to keep their cars longer.

As a result, Polk forecasts that Americans...on average...will buy four fewer new cars by the time they hit 76 years old.

Now... some industry insiders may see that as a negative... but, that's not how I see it.

Great quality cars that last help improve the image of our brands and the entire auto industry. We just need to keep challenging ourselves to bring better products and technologies to market that consumers feel they can't live without.

And... that's what we're doing today.

In addition to improving reliability... automakers are offering cleaner and more efficient powertrains to build a sustainable future that is less reliant on foreign oil.

Today in the U.S., there are nearly 300 fuel-efficient models to choose from... including 40 hybrids... 33 clean diesels... and a growing number of plug-ins and pure electric vehicles... that achieve 30 miles per gallon or more. That's up by an incredible 330-percent in JUST six years.

And you can expect that number of models to increase in the next few years as all automakers launch cleaner, more efficient vehicles.

For Toyota... we're taking a portfolio approach and offering a variety of choices, including plug-ins... and electric vehicles. But, hybrid technology continues to be key for us.

We plan on launching 21 new or redesigned hybrids globally between now and the end of 2015, starting with the all-new Avalon hybrid which will arrive at dealerships next month.

As you know, California is one of the biggest proponents of alternative fuels. And according to the California Fuel Cell Partnership group, there are plans to build 37 hydrogen fuel cell stations across the state by 2015. The number increases to over 100 stations in 2018.

That fits well with Toyota's own plans to introduce a hydrogen fuel cell sedan in 2015.

And to help make that launch successful, we're already pursuing several hydrogen initiatives.

We recently worked with Shell to open a hydrogen filling station adjacent to our headquarters campus in Torrance. It's being used to fuel Toyota's and other manufacturers' fuel cell vehicles.

If you're ever in the area... you should stop by and check it out. It's part of the solution to our sustainable future.

And ... last month...Toyota activated a new hydrogen fuel cell generator on our Torrance headquarters campus.

This generator will supply approximately half of the electricity for six of our headquarters buildings during peak demand, while producing zero emissions. On average... that's enough power for about 765 homes... which is twice the capacity of our existing solar panel system on campus.

The goal of our alternative fuel product portfolio is to create a variety of vehicles for the future that can run on gas or other fuels... and then let consumers decide what works best for them.

But regardless of what they choose, we strongly believe hybrids will remain a CORE technology. That's because our hybrid systems can easily be adapted to other powertrains to further conserve energy.

For example, hybrid technology is a key component of most all hydrogen fuel cell systems.

And hybrids can be teamed with larger batteries to increase the range of plug-in models.

So, we are fully committed to hybrid technology.

Now, electric vehicles are getting some negative press, but we think they do have a role to play in future products.

But, that role will be limited until battery technology, costs and range can be significantly improved.

This year, we've introduced two battery electric vehicles in low volume. We'll learn from them... and continue working on this technology to meet the needs of consumers in the future.

And when you combine our efforts with those of other automakers... you see why I'm so confident... that as an industry...we will help create a cleaner, more sustainable tomorrow.

The final area I want to talk about, where the auto industry is creating a better future, is in safety advancements.

We've been hearing the term 'autonomous car' in the news a lot lately... but this type of automated technology has been around for a while with anti-lock brakes, vehicle stability control... and the list continues to grow with each new model year.

These days... many manufacturers offer a pre-collision system... lane keeping... and automatic parking.

For example... the new 2013 Lexus LS offers the industry's most advanced pre-collision active safety system. It's designed to assist the driver in avoiding or mitigating collisions with vehicles and pedestrians under a wide range of city and highway speeds, day... or night.

Now...Toyota's view of autonomous technology may differ from others. We believe the driver must ALWAYS be engaged... and this technology must be introduced slowly due to major legal, regulatory and consumer

hurdles that need to be made.

I'm sure we'll be hearing a lot more about autonomous cars in the near future.

In the meantime... we need to further our efforts on distracted driving. Last year, one-in-six highway deaths were attributed to distracted driving.

So, the best thing we can do as an industry is bring more awareness to this issue... and integrate and adapt in-car technology to help minimize distractions.

Our industry has done a great job banding together on this issue. For instance:

The Alliance of Automobile Manufacturers partnered with the American Academy of Orthopedic Surgeons to launch... 'Decide To Drive'... an interactive, multi-media campaign highlighting the importance of hands on the wheel... eyes on the road.

This campaign has taught children how to discourage their parents from using handheld devices while driving... and has brought awareness to drivers themselves about the deadly risk of texting while driving.

Toyota has also been working on helping to prevent accidents.

Many cars on the road today have a back-up camera with a display showing what's behind you when you're in reverse. But... it's still hard to be absolutely sure you're not going to hit something or someone.

So, one idea we're exploring is like Harry Potter's invisibility cloak.

Researchers from Keio University in Japan have developed an optical-camouflage technology making the back seat seem invisible... which would help eliminate blind spots.

This system, called the 'See-Through-Prius' was showcased back in September at the Digital Content Expo in Tokyo.

How it works seems like magic... but the cloak is made of reflective materials that captures footage from cameras behind the car which then projects the image onto the cloak. The illusion of invisibility is amazing.

One of the developers said it will feel like you're driving a glass car.

We are also making strides with our Collaborative Safety Research Center.

We're working with universities, hospitals, research institutions and federal agencies on a variety of projects. Our goal is to develop new safety technologies to help reduce the number of traffic injuries and fatalities on our roads.

The best thing about this center is that it focuses on research that will benefit the entire industry rather than purely focusing on proprietary technologies.

So far... we have a total of 26 different safety research projects with 16 partners targeting our most vulnerable populations... teens, seniors, and pedestrians.

A few of the newer projects include:

Working with the University of Iowa on how in-vehicle technologies like advanced driving assistance systems can help seniors with declining driving abilities.

With the Children's Hospital of Philadelphia Center for Child Injury Prevention Studies, along with NHTSA and Chalmers SAFER project... to study mild traumatic brain injury in adolescents... which is the most common injury to children in car crashes.

And... with the University of Michigan Transportation Research Institute to conduct what we believe to be the most comprehensive driver distraction study to date, involving over 5,500 teens and adults. Based on miles driven, teens are now four times more likely than other drivers to be involved in a crash so, we want to develop effective ways to help change dangerous driving behaviors.

In fact... today, we announced some of our preliminary findings. They range from:

Teens' distracting behaviors are related to their parents' distracting behaviors...

Teens text while driving 26 times MORE than their parents think they do...

And, teens regularly drive with young passengers in their car with no adults...which is associated with doubling of the driver's risk of being killed in a crash. And, the more passengers in the car... the higher the risk becomes.

You'll be hearing more over the next few months as we continue to analyze the data and develop recommendations.

As a father, one of the key takeaways I got from the study is ... you need to be the driver you want your teen to be.

Again, these results will be shared so that we can all make important steps to improve safety for consumers all around the world... no matter what brand they choose.

Finally, I think our industry is coming back for a fundamental reason we don't talk about much anymore...people have a passion for cars.

They see cars as an integral part of their lives... an extension of their personality... and even a key member of the family.

We build products that provide freedom... comfort... independence... livelihoods...and pride.

That's the reason the auto industry is the largest manufacturing sector in the nation...bar none.

Eight million Americans and their families depend on automobiles for their livelihood.

Here in California... there are over 412,600 auto jobs...two-percent of the state's labor force.

At Toyota... we directly employ over 30-thousand people here in the U.S., including 5,600 in California.

And that doesn't count our California dealers. They directly employ over 18,400 people and have invested nearly 3-billion dollars!

Some of our dealers are here today... and I'd like to say... thank you for all you do to support this state with revenue and community support.

Let's give all dealers here today... a big round of applause for their support!

Well, by now... I hope you can see why I'm so proud to be a part of this industry!

Together... we are making a difference and improving society and our future. But, we can't stop now.

It's more important than ever that we continue working together to make additional strides in...

Improving reliability...

Developing cleaner and more efficient powertrains...

And, bringing safer products to market

If we do that... our business and our image... will improve each year... and create a very bright future for all of us... our customers... and society.

Thank you... and now I'd be happy to take your questions.

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