December 2010 Sales Conference Call

January 04, 2011

Mike Michels:

Happy New Year everyone. Thank you for joining us to review December and 2010 sales and to take a look at 2011.

Speaking today will be Don Esmond, Senior Vice President of Automotive Operations for Toyota Motor Sales, U.S.A., Inc.

After Don's remarks, he'll be joined to answer your questions by:

- Bob Carter, Toyota Division Group Vice President and General Manager
- And Mark Templin, Lexus Division Group Vice President and General Manager

As every month, our business communications team will be in the office the balance of the day to field any follow-up questions you may have.

Now, I'd like to turn this over to Don Esmond.

Don Esmond:

Thank you, Mike, and Happy New Year everyone.

New Years is typically a time for reflection and anticipation and that's never been more true for us at Toyota Motor Sales than this past holiday period. We're coming off what was arguably the most challenging time in our 53-year history. And I know we've never headed into a new year with as much excitement and anticipation as we are headed into 2011.

I'm going to take a quick look at December and 2010 sales, then spend a little more time talking about what we see happening in 2011.

In December, Toyota, Lexus and Scion dealers sold 177,488 vehicles, down 5.5 percent on a straight volume change basis from an excellent December last year.

With one less selling day in 2010 than 2009, sales were down 2 percent on a DSR basis.

Strong sales between Christmas and New Years pushed the TMS total to the second best month of the year.

Prius led the way for Toyota Division, with sales of more than 15,500 up 38 percent. That's the best winter month ever for Prius and its best month since Cash for Clunkers back in August 2009, outselling every Ford and GM passenger car in the process.

And Lexus recorded its best month of the year, with sales of 27,560.

December also was a good month for the industry, which posted its third straight month with a SAAR above 12 million and continued improvement in retail sales, good news for everyone.

That will bring the industry total for 2010 a little bit north of the 11.5 million we forecast a year ago. For TMS, total sales last year were virtually flat compared to 2009 at 1,763,595.

Retail sales were up slightly for the year, but were offset by a decline in fleet sales, which fell to less than 8 percent of our total.

And let's not forget that 2010 was essentially an 11-month year for us, as we stopped sales and production last January on some of our core models to focus all of our company's efforts on servicing customer vehicles.

Now I know the common perception is that Toyota has been reeling this year as a result of those recalls.

But in fact, the final results include some remarkable accomplishments any company would love to report.

For instance:

When the dust settles later today, we expect Toyota will be the No. 1 retail manufacturer for the second consecutive year.

In a year when fleet sales often hovered around 30 percent or higher and inflated some corporate totals, more people bought our vehicles than any other manufacturer.

The Toyota Division also will remain as the No. 1 retail brand in the industry for the third consecutive year.

Camry will again be the best-selling car in America – for the ninth straight year.

And Corolla, Tacoma and the Lexus RX will all repeat as segment sales leaders.

Lexus will retain its place as the best-selling luxury brand in the U.S., a position it has held for 11 years in a row. Lexus sales for the year are up nearly seven percent.

And Scion will continue to be the youngest brand in the industry with an median age of 29, as it gets a great year-end boost from the introduction of the new tC.

Toyota also will be the industry leader in certified used vehicle sales. Toyota certified used sales will top 315,000 for the year, setting not only a new company record, but a single year industry record as well.

It would be a mistake to overlook the used car market. We consider Toyota Certified Used as an entry level vehicle into the Toyota family and TCU sales are an excellent indicator of the strength of the brand and future new car sales.

Used Toyotas also held their value remarkably well in 2010. The Toyota price index for residuals is currently at an all-time high based on AuctionNet data, one of the largest databases of real-time auction data in the industry.

Looking ahead to 2011 we expect the U.S. economy to continue to expand, but at a slower rate than we'd all like to see. Unemployment and a weak housing market will remain challenges and continue to have an impact on consumer confidence.

But we expect gradual improvements in the labor market that will help the economy pick up steam in the second and third quarter.

As it did in 2010, we believe the industry will add another million units in sales this year, for a total of about 12.5 million vehicles.

I know we're probably on the low end of many forecasts. But we also see industry growth gathering momentum throughout the year and carrying into 2012, when we should see sales of more than 13.7 million.

There are plenty of good reasons for this optimism.

First is the surging Gen Y population. Those 70 – 75 million consumers are now fully in the marketplace and the oldest are entering the parenting stage of life.

Scrappage rates have been outnumbering new vehicle registrations the past two year…And the average car on the road is now more than 10 years old, the highest its been in 13 years.

Buyers will find used cars in short supply and with higher prices. The number of 1-5 year-old used vehicles continues to drop and will hit its lowest level in 27 years in 2013, as a result of slow new car sales

And perhaps most important of all for concerned consumers, new cars are a better buy now than they've been at almost any time in the past quarter century, according to the latest auto affordability index.

All this adds up to a year of continued growth for the industry in 2011.

And at Toyota, we expect to outperform the industry.

Again there are good reasons for this optimism.

By most indicators, the Toyota brand is in full recovery mode from the recalls we dealt with in the first part of 2010.

Throughout the past year the loyalty of Toyota owners never wavered, as fully 60 percent of those who bought another vehicle, purchased another Toyota.

And while the number of those trading in other makes dropped early in the year, by the end of 2010 those numbers had returned to the 55-58 percent totals of past years.

Third party sources also continue to point to Toyota's recovery. ALG noted Toyota has made a remarkable increase in consumer perceived quality and had jumped from sixth to second place among mainstream brands.

And just last month Kelley Blue Book reported Toyota has regained its spot as the most considered brand among new cars buyers.

Most of all we're excited about the new vehicles that will be introduced in 2011 as TMS launches 10 new or updated products this year.

It's no secret that in addition to everything else that happened last year, it was a light year for new products for us. The new products that were introduced, such as the Sienna, 4Runner, Avalon and tC, were extremely well-received, with double digit growth. But for the most part, those are relatively low volume models.

That all begins to change next week in Detroit, where we'll introduce the first new member of the Prius family of cars.

With gas prices at two year highs – and possibly headed much higher according to some analysts – the timing may be perfect for another member of the Prius family when it goes on sale later this year.

And that’s just the start. The introduction of the new Prius will be followed by the new Scion iQ which will reach dealers later this year and is designed to meet the needs of a growing generation of urban drivers.

And in March the new Lexus CT 200h hybrid will hit dealerships, providing a fun-to-drive experience with the luxury industry’s best combined fuel economy of 42 miles per gallon.

Finally, during the next couple of days at the Consumer Electronics Show in Las Vegas, we’ll be introducing the new Toyota Entune System, providing a superior level of in-car technologies that we’ll begin rolling out this year.

With the latest in customer requested destination, entertainment and safety services, Entune is designed to minimize distractions and add more value to our vehicles.

So I hope you can see why we’re excited about 2011. With continued growth in the economy and the industry, boosted by a surge in new products, we’re confident of a significant increase in sales overall, *and especially for Toyota.*