

2010 Detroit Automotive Press Association - Don Esmond

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As prepared for:
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Good afternoon, everyone.

It's always great to spend time in a city that loves the car business. Plus, things are looking up for the hometown companies along with the industry in general.

Jim Lentz sends his deep regrets for not attending. I understand he's had to cancel on you several times in recent years...and for that...we sincerely apologize. Between what's been going on the past few years and his added global responsibility Jim always seems to be on a plane these days.

However, he did send his key wingman in me and I'm pleased to share the latest at Toyota...our take on the health of the industry...and a brief look at where we're headed in 2011 and beyond.

Before I do that however, I'd like to take a moment to recognize and thank our long-time public relations manager here in Detroit...John McCandless...who is retiring at the end of this month.

John has been a valuable member of the Toyota Communications team for nearly 20 years and his expertise and instincts as a PR pro will be greatly missed.

John has represented Toyota well and, thanks to his efforts, the company has many friends in the Midwest and has contributed in numerous ways to the Detroit community. Personally, I appreciate the fact that he's kept me out of trouble in Detroit for many years.

So, John...thanks for all you've done for me...and for Toyota. We wish you good health, happiness and prosperity in the future.

OK....now back to business.

Obviously, it's been a very difficult year for Toyota...and although we still have a lot of work to do...things are improving and we ARE moving forward.

Before I talk about the positives however, let me give you a one-minute recap on the recall situation.

Our dealers have gone above and beyond in repairing recalled vehicles, completing nearly 5 million remedies in 9 months! That's more than 80% of the sticking pedal vehicles and over 85% of the Prius and Lexus HS ABS

recall.

That's a remarkable achievement when you consider that...industry-wide...the average completion rate for recalls is 72% and takes TWICE as long.

And let's not forget...that due to tremendous sales growth... Toyota service bays were already some of the busiest in the industry. Our dealers did it by staying open later and longer...some 24/7... bringing on more staff...and doing mobile repairs.

That's a huge commitment and it's made a difference with our customers.

In fact, research shows that Toyota owners who've had the recall work done on their vehicles are more loyal than those not affected by the recalls.

Even better, our customers are coming back and things are starting to return to the way they were before the recalls.

Our loyalty purchase rates in July, August and September were similar to 2009 and our competitive trade-ins of 57% for the past two months are comparable to the end of last year.

So our dealers have done a tremendous job impressing our customers with their service and they continue to keep our sales on track in spite of a soft economy and a smattering of media stories about our recalls.

You know, I'm often asked if anything has REALLY changed at Toyota.

And I'm proud to answer that we've gone back to the basics of more carefully listening to our customers and have made some SIGNIFICANT changes to become a more responsive, safety-focused organization.

To-date, we've:

- Made Toyota's Star Safety System standard across all lineups and will make our Smart Stop Technology brake override system standard on all new models by the end of this year...
- Created SMART Teams made up of 200 engineers from around the country to help quickly investigate reports of unintended acceleration...
- Appointed a North American Chief Quality Officer... Steve St. Angelo...and Chief Safety Executive...Dino Triantafyllos...both veteran U.S. plant leaders...
- Set up a Design Quality Innovation Division in Japan and transferred 1,000 engineers to focus on design of components and other quality issues...
- Expanded our product development cycle by 4 weeks to help ensure high quality and safety...
- Appointed 4 North American leaders to join 5 others as presidents of plants in the U.S., Canada and Mexico, providing more regional autonomy...
- And...opening up 7 Product Quality Field Offices throughout North America to improve our ability to detect and respond to customer and quality issues.

Whew!

We're doing even more, but you get the picture. Toyota is committed to more than just improving; we're working hard to set new industry standards in quality, safety and transparency.

Make no mistake about it. The rules HAVE changed...and ALL automakers are now being held to higher standards than ever before. We plan to stay at the leading edge of those improvements.

In addition, the auto industry is entering a new era where the types of cars being sold could be different than what we're seeing on the roads today.

The new national mileage program requires all manufacturers' fleets to have an average fuel economy of at least 35.5 miles per gallon... a 40% increase... in just six years.

To do that, we'll need the full cooperation and collaboration of car companies, utility companies, cities, states and federal government agencies.

That's a tall order... but the people of this industry are amazing and ...by working together as an industry...we CAN...we WILL...and we MUST.

Toyota definitely plans to play a key role in helping meet the needs of customers in this new automotive era.

One way we will do that is by moving even more decision-making closer to our customers in North America so we can better meet their needs.

I mentioned new quality, safety and plant leaders, but our American operations are also taking more control for product development for U.S. customers.

With 14 manufacturing plants in North America...two design studios...a test track in Arizona ...and a new 1,000 engineer R &D center in nearby York Township... we're designing, engineering and building locally grown products like the new Sienna "Swagger Wagon" which has been a solid hit.

Taken together...all of these changes at Toyota ARE making a positive difference.

Sales of all our recently introduced models... the Sienna, Avalon and 4Runner...are up for the year.

Through September...Toyota division sales are exceeding last year ...and even better ... Toyota is the No. 1 RETAIL brand under circumstances that would have killed off other brands.

Think about that for a minute. In a year where Toyota faced a steady stream of negative publicity ... we are still selling more cars and trucks to retail customers than ANY other nameplate.

Not only that ...Camry remains the #1 selling car in America...as it has been for 8 years running and 12 of the past 13 years. Now, it's true, Camry was behind Accord through May, but our dealers went to work and Camry is now 36,000 units ahead...not that we're counting!

And we have record sales in parts...service...and certified used sales.

So, all in all, we're feeling pretty good about the way things are going. Granted...we still have a lot of work to do...but we're starting to see a lot of positive signs.

Besides better sales, SEVEN Toyota products have won 2010 "top safety" picks from the IIHS...the Insurance Institute for Highway Safety...among the highest of any automaker.

And Forbes magazine recently named 6 Toyota, Scion and Lexus products to its "Top 12" list of cars with the best reliability and lowest ownership costs in the industry. [Forbes "Best Cars for the Buck" list 9/8/10]

So we are making great progress in key areas most important to our customers.

Now let's talk about the economy, sales and the health of the auto industry.

You know, a few months ago, industry analysts were very optimistic for a strong sales recovery this year... maybe too optimistic. Some said the industry would reach over 12 to 13 million units by the end of this year.

The truth is the industry IS on the mend, but the economic recovery is much slower than many forecasted and certainly slower than many of us would have liked.

The good news is that the job market...personal consumption...capital spending...and residential investment ARE inching up.

The bad news is that lingering high unemployment and erratic stock prices are restraining consumer confidence and spending. And that impacts auto sales...BIG TIME!

In terms of the rest of the year, we're still forecasting industry growth of about one million units this year... ending somewhere around 11.5 million sales, depending on the pace of the recovery.

And we continue to be bullish on the long-term prognosis for the auto industry due to the nation's aging fleet, high scrappage rates and strong U.S. population growth.

We believe all these factors are increasing the pressure for consumers to buy a new car. In fact, we see the auto industry reaching more than 15 million sales by mid-decade.

So, it's not a matter of "if", but rather "when".

So, given all that, where is Toyota headed in the future?

Well, at the end of the day, great products are still the key...so we're continuing to invest heavily in new products.

A few weeks ago, we launched the major-minor change Highlander.

The new Highlander...now built in Indiana...receives great new exterior styling and an updated interior featuring a 50/50 split third row seat popular with families.

We'll also update the Highlander HYBRID with a fresh look and new V6 engine that provides more power AND better mileage... with a target of 28 mpg in combined driving.

The Scion product revival also gets into full swing this month with the launch of the all-new tC coupe.

It offers more aggressive styling...more power...firmer steering...the latest technology...a killer sound system...and a sport-tuned suspension...PLUS better mileage. It should be a huge hit.

Then, early in 2011, Scion will launch its most revolutionary product yet...a new premium micro compact called the iQ.

Measuring less than 10 feet, the iQ is the world's smallest four-seater. Yet, it's easy to get in and out of and boasts a myriad of safety features with 10 standard airbags, including the world's first rear-window curtain airbag.

We're talking about a micro-car that's fun to drive and fun to be seen in and offers great fuel economy. It will surprise A LOT of people. Look for it to hit the streets next year.

Scion means a lot more to Toyota than just additional volume.

Scion is our "gateway" to young customers who will become major buyers of our products in years to come. Today, more than 7 out of 10 Scion buyers are new to the Toyota family and the tC has the youngest demographic of any vehicle on the road. In other words, we would have never seen these customers if Scion didn't exist.

So Scion is very strategic for us and with an infusion of exciting new models, we believe it will come back stronger than ever.

Our product news gets even better NEXT year.

You probably remember...that at this year's North American International Auto Show here in Detroit...we announced we were developing a marketing strategy that would take advantage of the Prius brand equity.

Since then, a number of you have written stories wondering what this strategy might mean in terms of new vehicles.

Well, I'm happy to tell you that we will introduce the next member of the Prius family at the 2011 auto show in Detroit this January. It's an all-new model with more comfort, style and versatility, while still retaining the heritage of the original Prius.

I wish I could tell you more, but the "family" has sworn me to secrecy until January. Hope to see you all then.

And that's just the start of the good news for next year.

In fact...on the Toyota side...we'll introduce 7 new or updated products during the year.

In addition, Lexus will launch the LFA supercar along with the sporty new CT 200 hybrid that will get an estimated 42 mpg in combined driving...more than DOUBLE any other luxury vehicle on the market.

And our product revolution continues in 2012 when we plan to launch more new hybrids...a plug-in Prius...a battery electric vehicle...or two...and a few other surprises.

Next year also marks the start of Corolla production at our plant in Mississippi ...our 10th manufacturing facility in the United States. That will give us more local production of Corolla...the third-best selling passenger car in the country after Camry and Accord.

And we've spent the last few years re-organizing and re-tooling our North American plants to improve their capacity and make them more flexible so we can adjust quickly to today's fast-changing market conditions.

For instance, we can now build both body-on-frame and unibody products on the same line at our plant in Princeton, Indiana.

As a result of these moves, Steve St. Angelo says our North American plant capacity is now 90% and will reach full capacity next year...so our cost per vehicle will drop.

Along with great new products and more efficient plants, Toyota is still very much on track to expand our environmental commitment to help meet the needs of customers in the new automotive era I mentioned earlier.

Hybrid technology serves as the core of our environmental approach...and our pioneer efforts are paying off. Today, nearly three-fourths of all hybrids on American roads are built by Toyota...and 1 in 2 is a Prius.

But as good as hybrids are, we know they ALONE won't solve all our environmental issues.

Rather than putting all of our eggs in one basket, we are developing a wide range of advanced technologies.

They include:

- further refining our conventional engines for even better fuel economy...
- adding more traditional hybrids and the Prius plug-in hybrid I mentioned earlier...
- marketing several battery electric vehicles...
- and selling zero-emission, hydrogen fuel cell vehicles in 2015.

In addition, we've established an alliance with Tesla which already sells sleek electric roadsters with impressive ranges.

Jointly, we're already developing an electric version of the RAV4 and intend to sell it the U.S., in 2012. We will unveil it to the public at the upcoming Los Angeles Auto Show.

So...to wrap up...as we enter the last quarter of 2010, our dealers are working like mad to finish off the recall repairs and impressing customers with their service.

Our sales are solid despite the state of the economy and the events of the past year.

We've improved and localized our operations so we can make decisions and products closer to U.S. customers

Our plants are more flexible and nearing full capacity, with our 10th U.S. factory coming online next year in Mississippi.

We're preparing some great new products to help take advantage of the economic recovery.

We're adding exciting new products to the Scion lineup to draw new, younger buyers to the Toyota family

And we have our eyes on the future as we ready a new group of environmental vehicles for tomorrow.

All in all, we're in a pretty good place right now. We still have a lot of work to do, but we are making progress.

I can't tell you how long...or when...we will get back to full strength, but we are working on it. What I can tell you is this...Toyota is blessed with talented, hard-working, focused people and we are ALL determined to be the best again.

And...as we continue advancing...I look forward to sharing our progress with you.

Thank you...and I'd be glad to answer your questions for the time remaining...

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