

December 2022 and Year-End 2022 Sales Conference Call (Transcript)

January 04, 2023

JACK

Good morning, everybody! Happy New Year and thank you for joining us! Let me cover the big picture for last year and provide an outlook for 2023. As you know, last year, the entire industry faced a number of challenges:

- Ongoing variants of the pandemic
- Supply chain shortages
- Rising costs of raw materials
- Inflationary pressure
- Rising interest rates
- Geopolitical conflict
- Escalated fuel prices
- And the potential of economic Recession

Now, it's not all doom and gloom. As we begin 2023, there are some positive signs for the industry:

- Slow, but steady inventory improvements with prices of commodities and raw materials slowly starting to de-escalate
- Housing has been a mixed bag with rising interest rates and slower starts, but forecasts for 2023 and 2024 show some gains
- Unemployment continues to track under 4%
- Inflation continued to slow
- Fuel prices are expected to be an average of \$3.57 this year vs. an average of \$4.05 last year
- All of which results in demand outpacing supply

So as the industry closes out 2022, we're expecting the year to end around 13.9 million SAAR. And for 2023, we're predicting a SAAR to grow to approximately 15 million. And while we still have many of 2022 challenges carrying into 2023, we're moving in the right direction, and doing whatever we can to get vehicles to our customers as quickly as possible. So, we're cautiously optimistic about our future. Now let me turn it over to Andrew to talk about our two brands.

ANDREW

Thank you, Jack. Happy New Year, everyone! As Jack mentioned, the entire industry, including Toyota and Lexus faced many challenges, but the good news is, we couldn't build enough vehicles to meet strong customer demand. And while these challenges persisted, we closed out 2022 with many positives:

- Solidified our leadership position as a top-seller of electrified vehicles.
- We project that we're the top seller of passenger cars for the 11th consecutive year.
- In addition to sales, we had a strong product cadence in 2022.
- Last year, we introduced about 20 new, refreshed or special edition Toyota and Lexus vehicles, including many electrified options

- Also in 2022, we announced a total investment of \$3.8 billion in our North Carolina battery plant, which will allow for additional capacity to support both hybrid and BEV battery production, as well as 2,100 total jobs.
- And we're incredibly proud that both the Lexus and Toyota brands ranked first and second respectively in the NADA Dealer Attitude Survey.

Now, as we head into 2023, we're optimistic our inventory levels will continue to improve in the first quarter and for the remainder of the year. And we have LOTS of new products that we're really excited about...more on that in a moment. First, let's touch on some of last year's U.S sales highlights. Our total U.S. sales ended at more than 2.1 million vehicles, down 9.6 percent on a volume basis. While our year-over-year results were slightly off, we're very encouraged by our fourth quarter results which were up 13.1 percent, led by passenger cars and pickups. And while final industry numbers are still coming in, we estimate our U.S. market share to be approximately 15.2 percent for the year. As a leader of electrified vehicles sales... it's all about giving our customers options. Our electrified vehicle sales surpassed 504,000 units, representing 24 percent of our total sales volume. That's nearly 1 out of 4 vehicles sold. Earlier, I mentioned our outstanding performance in the passenger car segment. We're committed to this segment and see strong customer demand, especially for electrified options, and we've delivered.

- Our total passenger car sales (Lexus and Toyota) were up 40 percent in the fourth quarter
- As mentioned, we believe we'll finish number one in the segment for the 11th consecutive year.
- If this holds, this will mean we've been number one in the passenger car segment for 19 of the past 20 years.

And as Jack mentioned, we're cautiously optimistic headed into 2023 for a variety of reasons.

- An anticipated 23 new, refreshed or special edition vehicles will hit showrooms this year (14 Toyota; 9 Lexus) including three new nameplates.
- Incentives are among the lowest in industry; and at a historical low for Toyota and Lexus.
- Innovative efforts through our Toyota Smart Path and Lexus Monogram digital platforms will continue to accelerate in 2023.
- With the average car on the road now at a high of 12 years, we can expect customer demand to remain robust.

Now, here's David for a Toyota brand update. Thank you.

DAVID

Thanks, Andrew. Happy New Year, everyone! The Toyota division ended the year on a high note, thanks in part to our inventory improvements and fourth quarter performance...as sales gained 16.6 percent, led by advances in passenger cars and pickups. And despite challenges, we achieved a number of milestones in 2022:

- The Toyota brand was the number one retail brand for the 11th consecutive year.
- Camry was America's best-selling passenger car for the 21st straight year, with fourth quarter sales up 41.7 percent.
- Tacoma was the number one small pickup for the 18th consecutive year.
- GR86 finished strong, with sales up 941 percent.
- We successfully launched the all-new Tundra, Tundra i-FORCE MAX hybrid and all-new, hybrid-only Sequoia at our San Antonio plant
- We offered several unique special edition vehicles, including the GR Supra manual transmission, GR Corolla and 4Runner 40th Anniversary Edition.

- And Toyota Certified Used Vehicle program, TCUV, remained the best-selling CPO brand in the nation for the 14th consecutive year, with sales topping 313,000 in 2022.

Looking ahead, this year we're launching the all-new Prius, all-new Crown, Corolla Cross hybrid and the Grand Highlander, which will make its debut in Chicago next month.

We're also pumped and ready to continue exceeding our customers' expectations, building on our electrification leadership, and preparing our dealers for 14 all-new, refreshed or special edition Toyota vehicles. Thank you for your time. Now I'll hand it over to Dejuan to share the Lexus results.

DEJUAN

Thank you, David, and Happy New Year, everyone! For 2022, our team's focus on the guest experience here in the U.S., North America and across the globe were instrumental to our success. We're especially grateful to our dealers, who, once again, ranked Lexus at the top of the NADA Dealer Attitude Survey. Lexus closed out the year with sales of more than 258,700 vehicles. We were also encouraged by our fourth quarter performance, and saw gains in electrified vehicles, passenger cars and certain LUVs.

Highlights include:

- We sold 55,162 electrified vehicles last year thanks to our growing lineup of 7 hybrids and plug-in hybrids.
- These 7 vehicles represented 23.1 percent of our total sales volume, flat over 2021, and a record percent of our overall sales.
- Our LUVs achieved top market share among luxury brands in 2022.
- And last year, we introduced the NX plug-in, the LX, and all-new RX which just recently hit showrooms. In 2023, Lexus will introduce 9 all-new, refreshed or special edition vehicles.

This includes our battery electric, RZ 450e, which goes on sale next month. Also, U.S. News & World Report named Lexus L Certified as the number one CPO program for the sixth consecutive year. We're looking forward to a great 2023 for Lexus. Thank you and I'll turn it over to Scott.