

As prepared for:

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“From the Backseat to the Frontseat: The Growing Importance of Remarketing”

Thank you, Charlie... it’s an honor to be here this morning and to serve as your keynote speaker.

You know, I’ve been in this business for over 40 years, and I have to admit... I still get a kick out of hearing all the different ways companies describe a used car.

There’s pre-owned... certified pre-owned... certified used... previously owned... owned by a little ole school teacher who drove only on Sundays... but whatever you call it... it all adds up to one thing... used cars are a HUGE opportunity.

You are in a part of the auto industry that is thriving and will continue to grow.

So, congratulations...and a heart-felt THANK YOU for everything you do to help our auto industry move forward and stay profitable... even during a recession.

Give yourselves a hand!

(lead applause)

Today, I want to talk about the positive future for the economy and the auto industry... why Toyota believes so strongly in the pre-owned business... and the good times ahead for your side of the business.

Let's start with the U.S. economy since that's the foundation of all our success.

The good news is that... we expect the economy to grow and gradually strengthen over the course of the year.

The operative word is "gradually" because high unemployment and a weak housing market will continue to put a drag on consumer confidence and spending.

As a result...we think the economy will grow in the first half of the year, but at a much lower rate than we would like or many analysts expect.

However... during the second half... we expect economic growth to gain steam as employment numbers improve.

So, overall... we see a better year with continuous improvement for the U.S. economy... setting up an even BETTER 2012...and beyond.

Along with the economy, we're forecasting steady improvement in the auto industry... with another million new car sales this year... for a total of about 12.5 million units.

Now, some say we're being conservative... but the country... our industry... and all of us... just came through one of the worst downturns in history, so we think it may take a little more time to get things back to normal.

Then again... last month, the SAAR was about 13.3 million... which is good news... but we're also just in the first quarter of the year and a lot can happen between now and the end of the year.

There's still a lot of uncertainty about where the economy is headed and the impact of sky-high gas prices.

But, even with 12.5 million units... new car sales growth is certainly positive and welcome.

And we believe Toyota will grow at a slightly faster rate than the industry because we're launching 10 new or updated products this year, including some high-volume models.

Even better, we believe 2011 is JUST the beginning of a tremendous new growth period for our entire industry.

Why?

Well, for starters... strong demographics continue to be in our favor.

IHS Global Insight forecasts that between now and the year 2020... the U.S. population will grow by an additional 31 million people... or about 10%.

That's like adding 8,500 people PER DAY for the next 10 years!

And, the driving age population will increase by 24 million by 2020.

Think about that for a minute.... 24 MILLION is equivalent to the ENTIRE population of Texas.

And you thought driving up and down the Vegas strip was bad now... just wait!

In addition, by 2015, Generation Y... those 70 to 75 million consumers currently 16 to 30 years old... will be maturing into adulthood....job-hood...and family-hood... creating the need for more vehicles.

Ladies and gentlemen...we've been talking about Gen Y coming online for many years...well they're HERE!

Next year, Gen Y... the largest consumer segment since the baby boomers... s expected to make up 40 percent of the car-buying population... and over half of those recently surveyed expect to replace their cars in the next two years... they just need to get their grandparents to co-sign the loans.

Plus, Americans are living longer and driving longer so they're going to need more cars.

Bottom line...strong U.S. demographics will play an enormous role in driving demand for vehicles... new and used.

We also believe there's some pent up demand.

Scrapage rates have outnumbered new vehicle registrations... and consumers are holding onto their cars a lot longer.

Right now, the average vehicle on the road is around 10 years old... the highest average age in 13 years.

Of course the result is a scarcity of used cars.

In fact, the supply of one to five-year-old vehicles has been declining for several years... and around 2013... will hit the lowest level in 27 years.

But... as I just mentioned... we believe the new car side of our industry will pick up and we'll start seeing inventory of used cars improve.

And, as one of our former Toyota executives once said, "Cars that sell well new... sell well used." Amen to that!

And even though we'll experience improvements in the economy and auto industry, many consumers will continue to be more frugal, especially on big ticket items.

As one analyst from Edmunds describes it... there will be a lingering "substitution effect" where buyers who usually purchase a new car will buy used ones instead... I call it a HUGE opportunity.

That's one of the silver linings that came out of the recession.

It showed EVERYONE in this industry the growing importance of pre-owned vehicles.

When I started in this industry eons ago... used cars were secondary to the new-car business. Well... that certainly has changed for many dealerships.

At some stores, the pre-owned department is now the heart of the facility and... for many... it was the only way they turned a profit the last few years.

According to CNW Marketing Research, not only were used-vehicle sales higher last year than 2009... they also accounted for a larger share of the average franchised dealership's total sales.

On top of that, CNW reported that used-car sales were also more PROFITABLE than new-car sales.

At Toyota, we're well aware of the importance of remarketing our products.

In fact, our certified used vehicle program has enjoyed steady growth since we launched it a decade and a half ago.

And... we were right taking that direction.

2010 was a record-breaking year for us.

Our dealers sold 315,440 certified used vehicles last year... making Toyota the #1 selling single-line certified Brand in America.

AND... we're also the first single-line manufacturer to sell 3 MILLION certified used vehicles!

At the Chicago Auto Show, we celebrated this momentous occasion by presenting the 3 millionth buyer with a check for the purchase price of her certified used Sienna.

But... the success of Toyota's certified used program goes way beyond the number of units sold.

For starters... quality used cars bring in NEW buyers.

Last year, nearly one-third of our certified used buyers were new to the Toyota family.

So the pre-owned business is vitally important for conquest sales...the lifeblood of growth for automakers.

Used cars also build LOYALTY.

Our research shows that more than a third of our certified used customers return to our dealers to purchase ANOTHER Toyota, Scion or Lexus vehicle.

So...in other words...great used vehicles not only bring new customers INTO Toyota...they help us KEEP them as loyal customers.

Even better... certified used vehicles add BIG TIME to the bottom line!

According to our calculations... the total used vehicle profit contribution in 2010 was essentially equal to that of new vehicles.

Let me put that in plain English.

Last year...on average...dealers made as much money on USED cars as they did on new cars.

So even though used cars may not seem as sexy as new cars, they provide extremely ATTRACTIVE results that everyone should be proud of.

Bottom line... the used car business SHOULD NOT and CANNOT be ignored.

Other manufacturers' realize this fact and have continued to aggressively support their Certified programs.

And at Toyota...we're committed to constantly improving our certified program. .

That's why we announced last week that we're expanding our comprehensive warranty on certified used vehicles from 3 months or 3,000 miles to 12 months or 12,000 miles... which keeps Toyota's certified program one of the best in the industry.

So, Toyota strongly believes in remarketing... but, we also know... you have to do it right.

That's why we have a targeted strategy for the used car market.

Now, it's true that Toyota... along with everyone else... increased new car incentives recently, but I like to remind people that our incentives are still about one-third BELOW what the industry is spending.

For us, incentives will always be a short-term tactic... not a long-term strategy.

Plus, we carefully structure our incentives in a way to keep resale values high.

I've said this for some time... massive long-term car loans could mean the death of this industry.

So we're resisting the temptation of 72-, 84- and 96-month loans.

Think about it.

With a loan that long, you may be able to flip a customer one time, but then they're underwater forever.

And, when the day of reckoning comes, I doubt they'll do business again with the people who set it up.

Instead, we're working in close partnership with Toyota Financial Services to keep our loans and leases shorter. And we've stayed in the leasing business when others got out due to the recession.

As a result...in a few years and a stronger economy ...we'll have an excellent supply of profitable used cars for our dealers... as well as many customers looking to buy new cars.

And among those cars will be many alternative fuel vehicles... which begs the question...what can consumers expect for the resale value of hybrids and other alternative fuel vehicles that are coming onto the market.

My answer?

It depends.

If gas prices continue to rise nationwide... and right now they are forecast to reach \$4 per gallon as they are now in Los Angeles...the demand for hybrids and electric cars will increase... which in turn will increase their residual values.

Then there's the technology itself.

It has to prove it's going to be around for awhile and not become obsolete within a few years.

Hybrid technology has been around for over a decade and has proven to be reliable and durable. It's here to stay, folks.

In fact... according to Auto Alliance... there are more than 150 alternative fuel vehicles available now on dealer lots... and the majority are hybrids.

And as we've seen... as hybrids became more mainstream and consumers' concern about battery life became a non-issue... we saw residuals improve and stabilize.

As for electric vehicles... the technology is still too new.

Consumers have a wide range of anxieties about battery life... range... and the trade-off of saving money on gas over the cost of buying an electric car.

So...right now...electrics are in the same position as hybrids when they first came to the market... they have to prove themselves.

So, we're anticipating the residual percentage for electric cars at first will not be as strong as hybrids... and I understand that ALG... initially... won't even publish residual values for electrics or plug-ins.

But, since more and more people are becoming environmentally conscious... the demand for hybrids and other alternative fuel vehicles should increase which will help resale value.

That's why at Toyota we're continuing to develop alternative fuel vehicles.

In fact, we just launched the all-new Lexus CT 200h... a dedicated hybrid that's sporty, fun-to-drive and has the best combined fuel economy in the luxury market.

Then this summer, we'll launch the Prius V... featuring amazing versatility and fuel efficiency in a midsize package with nearly 60% more cargo room than the current Prius.

And, as you may have heard... Toyota established an alliance with Tesla, a cutting-edge California firm that already has a sleek electric sedan on the road with an impressive range.

Jointly, we're developing an electric version of the RAV4 that we intend to sell in the U.S. in 2012.

Around the same time, we'll launch an electric urban commuter car... and three years later, we plan to sell a zero-emission, hydrogen fuel cell sedan.

Now... I know some of you may be thinking... how does this affect the residuals on gas powered cars?

Again... it depends.

If gas prices continue to rise to the point where consumers see the cost benefit of owning a hybrid, electric or fuel cell car ... then the "substitution effect" I mentioned earlier could possibly take over.

So... you can see there are many factors that come into play when we try to forecast residuals.

However... Toyota is a strong believer in the pre-owned market... and I promise you that we will continue to play a leading role in growing this side of the business... now and into the future.

Look... in the end... it comes down to this....

As the auto industry improves and begins to adapt to new regulations... new consumers ... and new ways of doing business... we're confident pre-owned... certified pre-owned... certified used... previously owned... whatever the heck you want to call it... remarketing will play a vital role!

Bottom line... you're in the right business at the right time, and if you take full advantage of the recovery... you WILL reap the benefits.

So... keep doing what you're doing because the future is VERY bright!

Thank you and good selling!

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