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COMPANY PROFILE

Toyota Motor Corporation

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COMPANY OVERVIEW

Toyota Motor Corporation (Toyota or 'the company') is one of the leading auto manufacturers in the world. It is engaged in the manufacture and sale of motor vehicles. Toyota sells its vehicles in more than 190 countries and regions worldwide. The company has operations in Japan, North America, Europe, and Asia. Toyota conducts business through three business segments namely, Automotive; Financial Services; and All Others. The company is headquartered in Toyota City, Japan.

The company reported revenues of (Yen) JPY29,379,510 million for the fiscal year ended March 2018 (FY2018), an increase of 6.5% over FY2017. In FY2018, the company's operating margin was 8.2%, compared to an operating margin of 7.2% in FY2017. In FY2018, the company recorded a net margin of 8.5%, compared to a net margin of 6.6% in FY2017.

KEY FACTS

Head Office	Toyota Motor Corporation 1, Toyota-cho Toyota Aichi Toyota Aichi JPN
Phone	81 565 28 2121
Fax	81 565 23 5800
Web Address	www.toyota-global.com
Revenue / turnover (JPY Mn)	29,379,510.0
Revenue (USD Mn)	271,243.6
Financial Year End	March
Employees	369,124
Tokyo Stock Exchange Ticker	7203

SWOT ANALYSIS

Toyota Motor Corporation (Toyota or 'the company') is one of the leading auto manufacturers in the world. Its strong market position supports the company in delivering sustainable business results which in turn creates value for the company. However, increased competition may lead to lower vehicle unit sales and large inventory, which may result in downward pricing pressure, thus impacting the financial condition and results of operations of the company.

Strength	**Weakness**
Strong Market Position and Brand Image Creates Value for the Company Global Footprint of Production Facilities Allows Low-cost Manufacturing Strong Focus on Research and Development (R&D) Provides Competitive Advantage	Reliance on External Suppliers for Key Supplies Could Affect Business Operations Frequent Product Recalls Leads to Loss of Customer Confidence
Opportunity	**Threat**
Growing Global Automotive Industry Could Provide Immense Opportunities to Boost Financial Performance Robust Outlook for Truck Market Supports Business Growth	Stringent Environmental Regulations Affect Business Performance Intense Competition from Large Players Impacts Market Share and Margins

Strength

Strong Market Position and Brand Image Creates Value for the Company

Toyota has a strong market position in different geographies across the world. The company's domestic market share for Toyota and Lexus brands, (excluding mini-vehicles) was 46.8% in FY2016. Similarly, Toyota has a market share of 13.5% in North America, 13.4% market share in Asia (excluding China), and 4.6% market share in Europe. In addition, the company holds a significant market share in South and Central America, Oceania, Africa and the Middle East regions. Such strong market position allows the company to gain competitive advantage and also expand into international markets.

In addition, Toyota holds a portfolio of wide range of strong brands in the automotive industry. The company is present in all the segments of automotive markets, including passenger vehicles, sports utility vehicles (SUVs), buses and trucks, spare parts and financing and leasing. Its brands include Lexus, Prius, Innova, Corolla, Etios, Camry, Sequoia, 4Runner, Scion tC, Highlander, Fortuner, Land Cruiser, Vellfire, Sienna, Hilux, and other brands. These brands are among the strongest, most desirable premium brands in the world. Thus, the company's strong market position supports the company in delivering sustainable business results which in turn creates value for the company.

Global Footprint of Production Facilities Allows Low-cost Manufacturing

The company has an extensive production network. Toyota and its affiliated companies produce automobiles and related parts and components through more than 50 overseas manufacturing companies in 28 countries and regions besides Japan. Toyota's major manufacturing facilities include plants in Japan, the US, Canada, the UK, France, Turkey, Thailand, China, Taiwan, India, Indonesia, South Africa, Australia, Argentina, and Brazil. Additionally, Daihatsu brand vehicles are produced at four factories in Japan and four manufacturing companies in three other countries, including Indonesia and Malaysia. In addition, Hino brand vehicles are produced at two factories in Japan and 10 manufacturing companies in 10 countries, including Indonesia and Thailand.

Furthermore, Toyota is highly focused towards its local production capacities to meet a wide range of growing customer demands in a timely manner in emerging countries such as China and India. On the other hand, in developed countries with mature markets, Toyota is currently focusing to reconsider production models to respond to changes in market demand and establish a flexible and efficient production system that can withstand currency fluctuations. In 2015, 75.1% of Toyota vehicles sold in overseas markets were manufactured in overseas plants by Toyota and its unconsolidated affiliated companies. Further in same the year, approximately 72.2% of Toyota vehicles sold in North America were produced in North America. Of the vehicles sold in Europe in 2015, approximately 76.3% were produced in Europe.

Thus, diversified global footprint of production facilities helps the company to manufacture products at low cost production sites. This in turn helps the company to further reduce costs and increase margins.

Strong Focus on Research and Development (R&D) Provides Competitive Advantage

Toyota has a strong focus on research and development (R&D) to expand its product portfolio and improve the functionality, quality, safety and environmental compatibility of its products. The company's R&D efforts are directed at developing new products and processes and improving the capabilities of existing products. The company conducts its R&D operations at 17 facilities worldwide. In Japan, Toyota's R&D operations are led by Toyota Technical Center which works on product planning, design, evaluation, and vehicle engineering. The company has five R&D centers in Japan, four in the US and three in Europe. Toyota also has two R&D and design centers in Asia Pacific and three in China. The company spent JPY1,055,672 million on R&D in FY2016. Its R&D expenditure as a percentage of sales stood at 3.7%. Toyota also identifies R&D projects in which Toyota should acquire patents, and files relevant applications as necessary to help build a strong global patent portfolio.

Thus, the company's strong focus on R&D allows Toyota to meet consumer preferences and to meet regional needs, resulting in further product improvement as well as strengthening of overall competitiveness.

Weakness

Reliance on External Suppliers for Key Supplies Could Affect Business Operations

Toyota purchases supplies including parts, components, and raw materials from a number of external suppliers located around the world. For some supplies, Toyota relies on a single supplier or a limited number of suppliers, whose replacement with another supplier may be difficult. Inability to obtain supplies from a single or limited source supplier may result in difficulty obtaining supplies and may restrict Toyota's ability to produce vehicles. Toyota's ability to continue to obtain supplies from its suppliers in a timely and cost-effective manner is subject to a number of factors including the ability of Toyota's suppliers to provide a continued source of supply, and Toyota's ability to effectively compete and obtain competitive prices from suppliers.

Therefore, a loss of any single or limited source supplier or inability to obtain supplies from suppliers in a timely and cost-effective manner could lead to increased costs or delays or suspensions in Toyota's production and deliveries, which could have an adverse effect on Toyota's financial condition and results of operations.

Frequent Product Recalls Leads to Loss of Customer Confidence

The company has conducted a number of product recalls in the recent past, which could affect the brand image and overall sales of the company. For instance, in 2016, Toyota Motor Sales, USA, Inc. announced a recall of approximately 3,100 Model Year 2015 Yaris Hatch Back vehicles. During 2015, Toyota in the US conducted safety recalls of approximately 2,500 units of Model Year 2012-2014 RAV4 Electric Vehicle (EV) as components in the electric vehicle traction motor assembly, which is part of the propulsion system, could cause the vehicle to shift to neutral due to a software issue. Also in 2015, approximately 110,000 units of Model Year 2015 Camry, Camry Hybrid, Highlander, Highlander Hybrid, and 2014-2015 Model Year RAV4 vehicles were recalled since a circuit board for the electric power steering (EPS) was suspected to have been damaged during its manufacturing process.

Thus, frequent product recalls could negatively impact the consumer confidence in Toyota's products and dent the brand image. This could also result in significant penalties, which could affect sales and business growth.

Opportunity

Growing Global Automotive Industry Could Provide Immense Opportunities to Boost Financial Performance

The global automotive manufacturing industry has produced relatively consistent levels of growth over the past few years. The industry is expected to continue to grow positively till 2020. According to MarketLine, the global automotive manufacturing industry generated total revenues of $1,390.4 billion in 2016, representing a growth of 3.7% over 2015. Furthermore, the industry is expected to grow at a compound annual growth rate (CAGR) of 4% for the 2016–20 period to reach a value of approximately $1,616.4 billion in 2020. In addition, the industry production volume is expected to rise to 163.6 million units by the end of 2020, representing a CAGR of 3% for the 2016–20 period.

Toyota's Automotive operations include the design, manufacture, assembly and sale of passenger cars, minivans and commercial vehicles such as trucks and related parts and accessories. Toyota's product line-up includes subcompact and compact cars, mini-vehicles, mid-size, luxury, sports and specialty cars, recreational and sport-utility vehicles (SUVs), pickup trucks, minivans, trucks and buses. In FY2016, the company produced a total of 8,575,899 vehicles and sold 8,681,328 vehicles. Thus, the growing global automotive industry provides incremental growth opportunities for Toyota to enhance its financial performance.

Robust Outlook for Truck Market Supports Business Growth

The outlook for the global truck market is strong. According to MarketLine, the global trucks market generated total revenues of $758.6 billion in 201, representing a CAGR of 9% for the 2014–16 period. Moreover, the performance of the market is anticipated to remain strong, with an anticipated CAGR of 9% for 2016–18 period, which is expected to drive the market to a value of $906.5 billion by the end of 2018. Toyota's product lineup includes trucks (including vans) up to a gross vehicle weight of five tons which are sold in Japan and in overseas markets. Trucks are also manufactured and sold by Hino, a subsidiary of Toyota. Hino's product lineup includes large trucks with a gross vehicle weight of more than 11 tons, medium trucks with a gross vehicle weight of between five and 11 tons, and small trucks with a gross vehicle weight of up to five tons. The robust outlook for the truck market will enhance the demand for the company's products, thus enhancing its revenues and customer base in the medium to long term.

Threat

Stringent Environmental Regulations Affect Business Performance

The automobile industry worldwide is influenced by a broad spectrum of regulations governing the emission levels of exhaust fumes, carbon dioxide/fuel economy guidelines, noise level limitations, recycling-related restrictions and safety standards. These regulations have become increasingly stringent. The Air Pollution Control Law of Japan and the Road Vehicle Law and the Law Concerning Special Measures for Total Emission Reduction of Nitrogen Oxides from Automobiles in Specified Areas regulate vehicle emissions in Japan. Similarly, in the US, the federal Clean Air Act directs the Environmental Protection Agency (EPA) to establish and enforce air quality standards, including emission control standards on passenger vehicles, light trucks and heavy-duty vehicles. In 2007, EPA regulations that restrict emissions from passenger vehicles and light trucks operating at cold temperatures became effective. The new emissions standards that further restrict emissions from heavy-duty vehicles operating at cold temperatures are expected to be phased in from 2012 to 2015.

Furthermore, these emission regulations are periodically updated. For instance, in 2010, the EPA and the federal National Highway Traffic Safety Administration (NHTSA) issued a joint final rule to reduce the emission of greenhouse gases from passenger vehicles, light-duty trucks and medium-duty passenger vehicles for model years 2012 through 2016. In addition, in 2011, the EPA and the NHTSA issued a joint proposed rule to further reduce greenhouse gas emissions and improve fuel economy for passenger vehicles, light-duty trucks and medium-duty passenger vehicles for model years 2017 through 2025. The emission standards adopted across various regions can result in additional costs for product development, testing and manufacturing operations of Toyota, which could affect the company's operating margins, financial position and business performance.

Thus, any significant change in the regulation structure in any of the countries where Toyota operates may have a serious impact on its business operations.

Intense Competition from Large Players Impacts Market Share and Margins

The worldwide automotive market is highly competitive. Toyota faces strong competition from automotive manufacturers in its various markets. The competition among various auto players is likely to intensify in light of continuing globalization and consolidation in the worldwide automotive industry. The factors impacting competition include product quality and features, the amount of time required for innovation and development, pricing, reliability, safety, fuel economy, customer service and financing terms. Toyota competes primarily with global players such as Nissan, Ford, Hyundai, Honda, Volkswagen, General Motors, Maruti Suzuki, Mitsubishi, PSA, and Renault, among others. Thus, increased competition may lead to lower vehicle unit sales and large inventory, which may result in downward pricing pressure, thus impacting the financial condition and results of operations of the company.