



Toyota Gets a Spoke in its Wheel...

From humble beginnings as a spin off from Toyota Industries, the Toyota Motor Corporation has grown to be a market leader in the automotive industry. The company was built on the management philosophy of the “Toyota Way” – *Challenge, Kaizen* (improvement) *Genchi Genbutsu* (go and see), *Respect and Teamwork*; that has propelled it towards the title of industry leader in car manufacturing and production. The premise on which the company became a leader in the industry came under stringent attack as a result of fatalities attributed to mechanical faults in several models produced in the U.S.

Since its launch, Toyota has grown to be a large multinational corporation and has expanded to different worldwide markets and countries. In 2006 it attained the title of most profitable automaker, generating over \$13 billion in profits, and in 2008, displaced General Motors as the world's largest automaker. During that same year Fortune Global 500, dubbed Toyota Motor Corp as the fifth largest company in the world.

It has not been all glitz and glam for the Japanese giant, however, as the onset of the global financial crisis in 2008 forced Toyota Motor Corp to forecast its first annual loss in 70 years. In January 2009, Toyota announced the closure of all its Japanese plants for 11 days in an effort to reduce output and stocks of unsold vehicles.

This was only the beginning of a bumpy ride for Toyota. In September 2009, just three months after Akio Toyoda (grandson of founder Kiichiro Toyoda) took over the reins of management, Toyota issued its first recall; this was followed by subsequent recalls in January and February 2010, which were focused mainly in the U.S, China and Europe.

September 29 2009 - Toyota issues a global recall of 5.3 million vehicles to correct the problem of rapid acceleration caused by accelerator pedals being entrapped by the floor mat. Twelve models were involved in this recall in the U.S, China and Europe, and this was the start of the worst crisis ever experienced by Toyota.

January 21, 2010 - A mere four months later, Toyota issued another recall of 4 million vehicles in the United States. This recall involved 8 models, 3 of which are also involved in the floor mat entrapment recall.

February 9 2010 – Toyota Motor Corp recalled its Prius and the 2010 Lexus models for inconsistent braking problems when the anti-lock braking system activates. Approximately 147,500 vehicles in the US were involved in this last recall. The Prius recall was another major hit for the company as it is the world's top selling gas-electric hybrid and its fuel efficiency has drawn intense interest amid concerns about global warming and dependence on fossil fuels.

To date, Toyota has recalled approximately 8.5 million vehicles worldwide, at an estimated cost of US\$1.1 billion to the company, in addition its share prices on global exchanges continue to slide resulting in a loss of US\$33 billion in market value

since January 21 2010.

Toyota has claimed that the defects are mechanical and are the result of the rapid expansion of the company. Critics however, are alleging that these problems may be linked to more complicated electronic issues.

The bulk of the recalls have been in the United States, the world's second largest car market and Toyota's major target market, where approximately 6 million vehicles were recalled. It has been forecasted that Toyota's February sales will be down 10% from one year ago.

The spate of recalls has had limited impact upon China, the world's largest car market, due to Toyota's minimal presence in that market, estimated at 5% market share, however, this will undoubtedly have significant implications for the future of the brand. Nonetheless Akio Toyoda visited China after his stint on Capitol Hill where he testified in a probe launched against the company by the SEC. Analysts theorize that if Toyota loses China, its global position would be challenged and hence assume the visit was meant to address issues of confidence that may affect the brand.

Toyota's recall problems have damaged its valuable image of quality and dependability which consumers attribute to this Japanese car brand. Many experts think U.S. automakers such as Ford Motor and General Motors and Korean automaker Hyundai Motor could be the biggest winners as they take advantage of Toyota's misfortune.

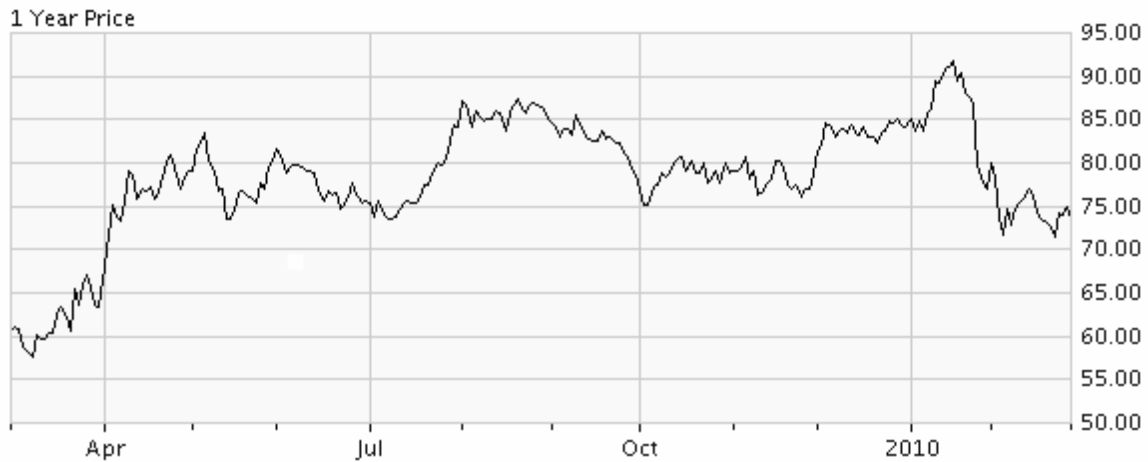
Vehicle Sales in China jumped 53% last year to 13.6 million units. Toyota is targeting 800,000 vehicle sales in China for 2010; which would represent 13% growth in China's market compared to analyst's estimates of 10%. In Europe, Toyota has predicted that its vehicle sales will fall 5% to 840,000.

Toyota dealers in the U.S are continuing to support the Japanese automaker although the company is currently facing 49 lawsuits on behalf of customers in the US and Canada, and 13 individual lawsuits by individuals in the US, in addition to a possible criminal investigation by the Fed. Toyota is working around the clock to restore confidence to the entire market. The company has issued statements and advertisements taking responsibility for their mistakes and outlining the steps they intend to take to fix these mistakes and prevent such problems from occurring in the future. One such step is the installation of the 'Smart Pedal' braking system, which automatically cuts engine power when the brake and accelerator pedals are pushed simultaneously. Additionally the company has also launched top-to-bottom reviews of quality controls, and hired independent safety experts to ensure all quality controls are being met.

Toyota estimates that the global recall of its vehicle will cut its demand by 100,000 units however, the company still predicts a return to profits for fiscal year ending March 31 2010. The share price of Toyota, which is the world's biggest car maker by market value, is expected to fall below 3,000 yen (US\$ 32.86) after the full cost of the recall crisis becomes clear. At this level the company's stock will be priced at 0.9 times its corporate value, which is the same value at which Bridgestone Corporation's stock bottomed following its 6.5 million tyre recall in 2000.

Toyota stocks closed at 3,275 yen (US\$35.87) on 23 February 2010 on the Nikkei. Therefore, with the current book value of 1, price to book ratio of 0.9 equates to approximately 2,887 yen (US\$ 31.62). As at 23 February, Toyota's stock price fell 22% from a 14-month high on 15 January, erasing more than \$30 billion from its market value. The share price gradually moved up to US\$73.68 by 1 March, a 17% increase from the price it traded a year ago on the NYSE. (See Figure 1)

Figure 1: Changes in Toyota Share Price



Source: *Investorguide.com*

For the current fiscal year (ending March 2010) Ian Wyatt, co-founder and president of Business Financial Publishing, estimates the company will earn only US0.59 cents per share due to poor sales during the recession as well as the negative impact of the recall. It is also expected that the company will earn US\$3.29 per share in the coming fiscal year. The discrepancy between estimates is due to the uncertainties facing Toyota on the market. Based on the current share price, Toyota is trading at a reasonable price-to-earnings ratio of 22-times forward earnings. Once the company gets production back on track and the global economy improves, it is expected that earnings will improve dramatically. Assuming the company is able to effectively resolve the problems with its products, and restore consumer confidence in its brand, Toyota's shares could trade at US\$85 in the coming fiscal year.

Current Happenings in Local and International Markets:

- No Air Jamaica takeover
- High energy costs could affect food prices
- Jamaica's credit upgraded, IDB confirms 'unprecedented' support
- Guyana on list of 'next decade' oil and gas producers
- Job losses in U.S. probably deepened as snow forced shutdowns
- Fed Presidents say rates need to be low early in U.S. recovery
- Stocks Rise before U.S. Employment Report; Greek Notes Rally
- European Stocks Climb for sixth day before U.S. Payrolls report
- Brazil inflation quickens to fastest in 21 months

Table 1: Regional Market Performance (as at 4 March 2010)

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
TTSE Composite	801.97	0.07	3.94	4.53	-5.07
All Trinidad	1,170.63	-0.16	3.98	6.11	1.71
JSE Index	81,765.18	3.32	9.01	-1.85	-1.09
JSE Select	2,092.06	7.29	22.15	10.22	14.12
All Jamaica	75,561.44	5.98	18.18	6.48	12.22
BSE Composite	768.96	-0.47	-2.32	-2.21	-15.22

Table 2: International Market Performance (as at 4 March 2010)

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
S&P 500	1,122.97	1.82	3.10	-0.88	57.53
Nasdaq Composite	2,292.31	2.60	5.58	-0.70	69.33
Dow Jones Industrial	10,444.14	1.19	2.54	-1.32	51.90
German Dax	5,795.32	4.75	2.49	-4.18	48.94
FTSE 100	5,527.16	4.72	5.33	0.49	51.60
Nikkei 225	10,145.72	0.43	-0.58	-4.78	39.15
Hang Seng	20,575.78	0.86	1.64	-5.72	66.86
Eurostoxx	2,816.10	4.91	0.82	-6.68	44.90

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