

## Toyota (TM US)

FUNDAMENTAL VIEW <sup>1</sup>

As of 29 Feb 2024

- Toyota's slower ramp of battery electric vehicle (BEV) production and sales relative to its peers was a common investor concern a year ago. However, with the recent slowdown in consumer adoption of BEVs in North America and Europe and Toyota's dominance in the hybrid electric vehicle (HEV) market, those concerns have abated, at least for the time being. Importantly, Toyota management has indicated its profitability of its HEV portfolio is on par with its ICE portfolio profitability. We continue to believe that Toyota's market leading position in HEVs provides consumers with a more eco-friendly option than traditional ICE vehicles that can serve as a bridge to EVs while the charging infrastructure is built out and the cost of producing EVs is reduced.

## RISKS &amp; CATALYSTS

As of 29 Feb 2024

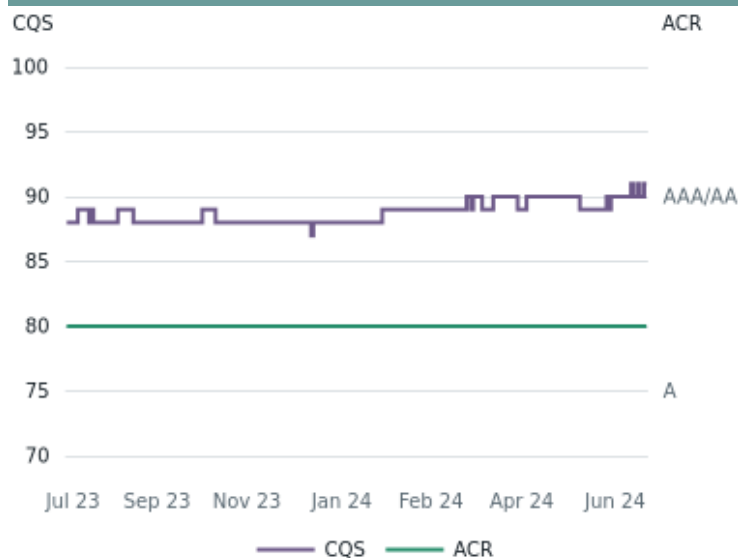
- Toyota lowered its FY24 wholesale unit forecast based on a downward revision of expected wholesales in Japan, partially offset by a projected increase in wholesales in North America and Europe. The company now expects to wholesale 9.45 mn units in FY24, a 7% YoY increase, down from its previous projection of 9.60 mn units or a 9% YoY increase. The lower wholesale shipments in Japan is largely due to the suspension of shipments of Daihatsu due concerns regarding side-collision safety tests on its small cars.
- Management raised its FY24 revenue and operating income forecasts based on an expected increase in current benefits and cost reduction efforts, partially offset by higher operating expenses. The FY24 revenue forecast was boosted by 1% from its previous forecast and now represents projected revenue growth of 17% YoY. Its FY24 consolidated operating income projection was increased 9% above its previous projection, following a more than 50% projection increase last quarter. The consolidated operating profit improvement represents an expectation for a 400 bp YoY operating profit margin expansion.

CREDIT QUALITY SCORE (CQS)<sup>2</sup>

As of 21 Jun 2024

## CURRENT CQS

91

CQS OUTLOOK <sup>3</sup>HISTORICAL RATINGS: AVERAGE AGENCY RATING (ACR)<sup>4</sup> VS CQS

## KEY METRICS

As of 29 Feb 2024

¥ BN	FY20	FY21	FY22	FY23	LTM F3Q24
Automotive Revenue	26,800	24,652	28,606	33,777	40,007
EBIT	2,124	1,778	2,519	2,486	4,482
EBIT Margin	7%	7%	8%	7%	13%
EBITDA	2,946	2,654	3,526	3,671	5,699
EBITDA Margin	9.9%	9.8%	11.2%	9.9%	15.6%
Total Liquidity	9,890	11,557	15,864	17,725	n/m
Net Debt	(447)	597	(1,719)	(2,825)	(2,825)
Total Debt	2,235	3,872	2,580	2,724	2,724
Gross Leverage	0.8x	1.5x	0.7x	0.7x	0.5x
Net Leverage	-0.2x	0.2x	-0.5x	-0.8x	-0.5x

## BUSINESS DESCRIPTION

As of 29 Feb 2024

- Toyota Motor Corp. (TMC) engages in the manufacture and sale of motor vehicles and parts. It operates through the following segments: Automotive, Financial Services, and All Other. The Automotive segment designs, manufactures, assembles and sells passenger cars, minivans, trucks, and related vehicle parts and accessories. It is also involved in the development of intelligent transport systems. The Financial Services segment offers purchase or lease financing to Toyota vehicle dealers and customers. It also provides retail leasing through lease contracts purchased by dealers. The company was founded by Kiichiro Toyoda on August 28, 1937, and is headquartered in Toyota, Japan.
- Toyota Financial Services Corporation (TFSC), a wholly owned subsidiary of TMC, oversees the management of Toyota's finance companies worldwide. Toyota Motor Credit Corporation (TMCC) is the company's principal financial services subsidiary in the United States. Under terms of the credit support agreement between TFSC and TMCC, TFSC agrees to: (1) maintain 100% ownership of TMCC; (2) cause TMCC and its subsidiaries to have a tangible net worth of at least \$100,000; (3) make sufficient funds available to TMCC so that it will be able to service the obligations arising out of its own bonds, debentures, notes and other investment securities and commercial paper. The terms of the credit support agreement between TMC and TFSC are very similar to the terms of the TFSC and TMCC credit support agreement.

## GLOSSARY

<sup>1</sup> The **Fundamental View** is our current assessment of credit quality and our expectation of how credit quality will trend over the next year or longer.

<sup>2</sup> The **Credit Quality Score (CQS)** is a number between 5 and 100. It is a medium-term credit score for corporates and financial institutions that utilizes a combination of sector fundamental scores and equity market signals. Values of CQS above 50 generally indicate investment grade credit quality.

<sup>3</sup> The **Credit Quality Score (CQS) Outlook** is the near-term (3 month) outlook for the CQS, based on its trend, volatility and distance from the adjacent CQS risk bucket.

<sup>4</sup> The **Agency Composite Rating (ACR)** is the average senior unsecured rating from one or more major rating agencies.

Quantitative scores provided by CreditSights Analytics, LLC. Scores are shown are for the lesser of (1) 2 years and (2) date of CreditSights inception of quantitative coverage.

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