

Toyota Motor Corporation TM [NYSE] | ★★★★★

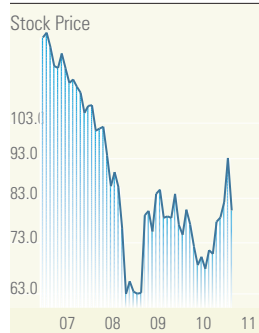
Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Stewardship	Morningstar Credit Rating	Industry
79.48 USD	117.00 USD	70.20 USD	198.90 USD	High	Narrow	B	A+	Auto Manufacturers

Honda to Resume Production April 11; No Update From Toyota

by David Whiston, CFA, CPA, CFE
Senior Stock Analyst
Analysts covering this company do not own its stock.

Pricing data through April 04, 2011.
Rating updated as of
April 04, 2011.

Currency amounts expressed with "\$"
are in U.S. dollars (USD) unless
otherwise denoted.



Analyst Note Mar. 31, 2011

Honda Motor announced Thursday that it will resume light-vehicle production in Japan on April 11 and production of parts for vehicles outside Japan on April 4. However, the company estimates that output for both parts and vehicles will be only 50% of original production plans. This news means all Honda Japanese factories will be operational by April 11, which is good news, since it appears Honda's supply chain has been damaged the most by the earthquake. Honda's Japanese production is primarily hybrids, subcompacts, and most Acura models.

Toyota Motor's status has not changed beyond production resuming for replacement parts and the Prius and two Lexus hybrid models. The situation remains very dynamic, and we expect more updates throughout April. Many media outlets recently reported on Toyota's rationing U.S. dealer orders of replacement parts but failed to mention that according to a Toyota press release Tuesday, less than 1% (about 233 of more than 300,000 part numbers) of part numbers are being rationed for specific customer orders only. Thus the part shortage is not as widespread as it appeared, and these parts are currently at adequate levels. Toyota just wants to prevent hoarding by dealers in anticipation of future shortages.

We expect additional global supply-chain delays for the entire auto industry as rolling blackouts will make production of semiconductors, paint pigment, and other parts difficult for some time. We still do not plan to cut our fair value estimates for Toyota or Honda, as the yen has not strengthened to well below JPY 80 to the dollar. It is likely that both firms will eventually announce large reductions to fiscal 2012 earnings guidance that was given before the quake, but we expect both firms to make up the lost production and profits over the next few years. We continue to be optimistic about the recovery in global automotive demand beyond the delays caused by the earthquake. We think U.S. light-vehicle sales for late April

and all of May will be lower than true demand levels, as we expect by that point inventories will be too low for many models made by both U.S. and Japanese automakers. Thus, although we expect the situation to get worse before it gets better, we still think the long-term outlook is bright.

Thesis Dec. 28, 2010

A weak dollar, slowly recovering global demand for light vehicles, and a recall crisis have created a very difficult environment for Toyota. Although its image has suffered, the automaker is one of the best positioned in the industry.

Product is what drives consumer demand for Toyota vehicles, with sales increasing at a 4% compound annual rate since fiscal 2001. Toyota's strength is simple—it makes many types of quality vehicles that people want to buy. The Lexus luxury brand has done very well in America, and the midsize Camry has been the top-selling U.S. passenger car since 1997. Toyota also recognized the need for fuel efficiency far sooner than Detroit, with the hybrid Prius first sold in Japan in 1997.

Expanding production to growing emerging markets, as the firm did with the Corolla in Brazil in March 2008 and the Camry in Russia in 2007, will boost sales and mitigate the severe downturn in U.S. auto sales. Using a full product lineup to meet demand all over the world has paid off. The sources of operating profit outside Japan have become more diversified, whereas fiscal 2007 relied on North America for more than 50% of international operating income. In fact, Asia excluding Japan contributed more than half of international operating profit in fiscal 2010. The company will keep increasing local production in key markets such as China and India. The next generation of vehicles is on the way, with plug-in hybrids being tested for mass sale in 2011 and the supercompact, very fuel-efficient Toyota iQ on sale in Japan and Europe. The iQ may come to the United States under the Scion brand.

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Close Competitors	Currency(Mil)	Market Cap	TTM Sales	Oper Income	Net Income
Toyota Motor Corporation	USD	124,614	226,549	5,971	5,712
Daimler AG	USD	74,900	114,554	1,383	-923
Honda Motor Company	USD	64,595	103,896	7,151	6,482
Ford Motor Co	USD	58,821	128,954	6,658	6,561

Morningstar data as of April 04, 2011.

Toyota's other strength is its manufacturing expertise, which is so good that Ford CEO Alan Mulally cited Toyota as a model of how Ford should operate. Using the Japanese philosophy of continuous improvement, or kaizen, Toyota partners with its suppliers and constantly revamps its floor operations to save material and labor costs. This manufacturing expertise is now being applied to quality in light of the more than 8 million vehicles recalled in early 2010. In 2010, the company formed a new quality committee, which has a chief quality officer from every region. This change should improve Toyota's internal communication and let headquarters be more aware of customer concerns from all over the world.

More plants outside Japan will also help Toyota deal with the negative effects of the weak dollar. In fiscal 2010, about 70% of Toyota's vehicle sales were outside Japan (with 29% coming from North America), but only 42% of production was based outside the country. Future plant openings are uncertain, however, as the global recession means that even Toyota has excess capacity. Still, as the expert operator in its industry with a strong product, Toyota can profit at the expense of its competitors, in our opinion.

Valuation, Growth and Profitability

We are raising our fair value estimate to \$117 per share from \$115. To translate our yen fair value estimate to U.S. dollars, we use an exchange rate of JPY 83.7 to \$1. We forecast revenue to increase about 6.5% on a five-year compound annual growth basis and model the operating

margin to average 6.2%. We expect capital expenditures will average 6.3% of sales, and we employ a 10% weighted average cost of capital to discount projected cash flows. Although we have provided a single-point estimate for Toyota's intrinsic value, the firm's high degree of operating leverage makes our fair value estimate very sensitive to our assumptions. For example, changing our year five operating margin of 8.5% by 1 percentage point, while holding all other assumptions constant, would increase or decrease our fair value estimate by as much as \$12. We also model a JPY 418.2 billion payment for what we expect will eventually be a settlement for lawsuits related to sudden acceleration incidents. This change only reduces our fair value estimate by \$3. We have valued Toyota's financial services business at 1.5 times book value because the subsidiary has no exposure to the subprime mortgage crisis and Toyota is a strong automaker.

Risk

Toyota faces many risks. The company operates in a very cyclical industry that is experiencing one of its worst declines ever. Plus, it's uncertain if Toyota can fix its reputation after so many quality problems. Political risk also looms from the Obama administration, which has issued strict fuel efficiency rules for the 2016 model year. The investment costs to meet these guidelines will probably raise prices for consumers. Toyota is the market leader in California, the largest U.S. vehicle market, so it has the most to lose with harsher regulation. Large fixed costs create a high degree of operating leverage that can cause profits to swing widely in response to relatively small changes in demand. Profits could continue to be hurt by the strong yen relative to the dollar for some time to come. Finally, no barriers to entry exist to prevent a rising automaker from taking out Toyota in the U.S. the same way Toyota took out the Detroit Three's dominance. To reflect the significant degree of operating leverage

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inherent in a large manufacturer and the possibility that commodity costs could rise beyond our forecast, our fair value uncertainty rating is high.

Bulls Say

- We do not see litigation from the recall crisis significantly affecting Toyota's fair value estimate.
- Its popular vehicles allow Toyota to use fewer incentives than the Detroit Three, boosting the firm's profits and improving the resale value of vehicles.
- Significantly lower pension and retiree health-care costs give Toyota a cost advantage over the Detroit Three, although this advantage is less than it used to be.
- Toyota's manufacturing process is the envy and gold standard of the auto industry.

Bears Say

- Environmental laws are becoming stricter, which will make cars more expensive to produce and more expensive for consumers to buy.
- The weak dollar will make increasing profits harder for Toyota than in the past.
- The auto industry suffers from global overcapacity that creates pricing pressure and makes it difficult to earn high economic profits for all participants.
- Detroit firms could soon have labor cost parity with transplant automakers in the U.S.
- Recent Toyota quality problems in the U.S. may give Detroit rivals a chance to reclaim share in this critical market.

Financial Overview

Financial Health: Toyota is in excellent financial shape. The company has a very small debt load and tons of cash. Flexibility is important because it gives the company

plenty of room to acquire more capital in the debt markets, if needed. As of Sept. 30, Toyota's consolidated cash and cash equivalent balance was JPY 3.9 trillion. At year-end fiscal 2010, the firm had unused long-term credit lines of JPY 5.7 trillion.

Company Overview

Profile: Founded in 1937, Toyota Motor Corporation has grown to become the world's largest automaker. Its brands include Toyota, Lexus, Scion, and Hino, and market share in Japan is more than 45% while U.S. share is about 15%. The firm also owns nearly 23% of Denso, a parts supplier. Toyota sold 7.2 million vehicles in fiscal 2010; automotive sales were JPY 17.7 trillion. Toyota also has a financing arm, holds ownership in telecommunications firm KDDI, and manufactures homes.

Management: Toyota has a management structure that differs from most public U.S. corporations. A board consisting of 27 directors and 49 nonboard managing officers run the company. Former president Katsuaki Watanabe became vice chairman in June 2009 and Akio Toyoda became president. Toyoda is grandson of the company founder and should bring a fresh approach to the head office. At 54, he is the youngest president in company history and is the first Toyota president to have gone to school in America. He also has worked in the U.S. in investment banking and at Toyota's former joint-venture plant with General Motors in California. We think Toyoda will seek to expand Toyota's manufacturing presence outside Japan to take advantage of a strong yen. In Japan, the president makes most of the operating decisions just as a CEO would in an American firm. Like many foreign companies, Toyota is exempt from certain rules required of U.S. companies, such as the need for independent directors. Toyota has taken steps to be more investor-friendly by filing regular U.S. generally accepted accounting principles financial statements since fiscal

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2004 and bringing in some corporate auditors from outside the company. In the U.S., Toyota trades as an ADR, with 1 ADR equal to 2 common shares of the Japanese stock.

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Analyst Notes

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Mar. 24, 2011

Japan Quake Impact Hits Global Auto Industry

There are several new developments in global automotive production as a result of the Japan earthquake. Although we are not going to change any fair value estimates at this time for the automakers mentioned, we continue to see the situation as very fluid, and inventories are likely to get scarce at least for a short time in April.

The Wall Street Journal reported Wednesday that Toyota Motor has told its North American employees that North

American production will have some shutdowns, but the timing, extent, and models affected are not known. General Motors has already shut down its Shreveport, La., plant for all of this week because of a parts shortage. The plant makes the Chevrolet Colorado and GMC Canyon midsize pickup trucks. We suspect this plant was chosen to free up remaining part inventory for more critical GM models. Ford Motor has not had any shutdowns yet but is monitoring the situation hourly, and we would not be surprised to see it announce a plant shutdown soon. For the automakers in

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Analyst Notes (continued)

this note, we think any share price declines from the event risk of more plant shutdowns are short-term in nature and would be a buying opportunity should the stocks become 5-star rated. Our opinion would change negatively should the nuclear situation get far worse or if the yen were to strengthen to well below JPY 80 to the dollar.

We expect nearly all automakers to suffer production delays in April once their parts inventories deplete. This depletion probably would not happen until the middle of the month but could affect a number of vehicles because of shortages in electronic parts for navigation systems, engine and transmission devices, and high-tech safety systems. The Journal also has reported that a key part shortage comes from a Hitachi mass airflow sensor that is affecting automakers in Japan, North America, and Europe. Hitachi has 60% share of the global auto market for this part, and its plant north of Tokyo was damaged in the quake. Hitachi is expected to resume production this weekend, but we think full output is not likely, given the rolling blackouts in Japan. Siemens and Bosch also make the part, but we think automakers will not be willing to switch suppliers quickly, considering vehicle program specifications already in place with Hitachi.

Toyota did announce good news Thursday in that it is resuming production Monday for certain hybrid vehicles (Toyota Prius, Lexus HS 250h, and Lexus CT 200h) made in the Tsutsumi and Kyushu plants. No information was given as to how many actual units can be made, but again, damaged transportation infrastructure throughout northern Japan and rolling blackouts may delay parts to these plants. For a more thorough discussion of the quake's impact on Toyota's production, please see our March 16 note.

Honda Motor announced Thursday that it is extending its auto production shutdown through April 3, but motorcycle production at the Kumamoto plant will resume Monday. The most severe Honda plant damage happened at its engine, transmission, and chassis plant in Tochigi. The repair work at this plant is nearly complete, but some automotive development and procurement functions are being moved for several months to other Honda facilities. For a more thorough discussion of the quake's impact on Honda's production, please see our March 18 note.

Mar. 22, 2011

Toyota, Honda Extend Japan Plant Shutdowns

On Tuesday, Toyota Motor Corporation and Honda Motor Company announced extensions to their Japanese production shutdowns. Toyota will now be shut down through Saturday while Honda will be closed through Sunday. No information has been given as to how much longer beyond these dates the shutdown will last. The situation remains very fluid in Japan, and we had said previously that further production delays would not surprise us. Media reports say about 30% of Honda's supply base does not know when it can resume production, but the

company has not confirmed this statistic, nor has Toyota given a comparable figure.

Toyota did resume production of replacement parts Thursday and for parts for overseas plants Monday. All 13 of Toyota's North American vehicle and engine plants are running normally but are not doing any overtime. Honda previously told its U.S. dealers that it cannot order Japan-made vehicles for the month of May. U.S. inventories for both firms are still at acceptable levels but are likely to be far too thin in about a month or less for key

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models such as most Lexus and Acura vehicles and the Toyota Prius, if production does not resume soon. Please refer to our March 16 Toyota note and our March 18 Honda note for further details on products affected by the quake.

We are leaving our fair value estimate in place for both companies. The nuclear situation seems to be improving and Nissan has already resumed Japanese production, so

there is hope things will get better in April. The yen is still holding against the dollar following coordinated intervention by the G-7 and Bank of Japan, so the sustained strengthening against the dollar (well below JPY 80) that we warned could force a fair value reduction has not occurred yet.

Mar. 16, 2011

Toyota and Honda Japan Production Halt Continues

Toyota Motor Corporation announced an extension to its plant shutdowns for all of Japan, which originally were intended to last through Wednesday. On Wednesday, the company announced the shutdown will remain through March 22, and there has been no decision regarding when Japanese production will resume. The only good news is that Toyota will resume production of replacement parts for current Toyota owners on March 17, and production of parts for factories outside Japan will resume on March 21. Although the company is still ascertaining the extent of the damage to its supply base and transportation infrastructure, the resumption of some part production gives hope that the rest of the supply chain can recover soon, barring a nuclear catastrophe. We expect more production announcements from Toyota and Honda management once they have achieved a better understanding of the extent and magnitude of the damage. Further production delays would not surprise us.

We are not going to reduce our fair value estimate for Toyota or Honda at this time, but one concern we have related to future profits is the strong yen. So far the yen is at a level the automakers have been dealing with for some time. However, if the exchange rate falls well below JPY 80 to the dollar, then we will have to consider fair value estimate reductions, especially for Toyota. A nuclear

disaster would be the other main reason to reassess our valuations. We stress to investors that this situation remains very fluid.

Toyota's assembly plants appear to only have minor damage, as nearly all of its Japanese production is far south of the Sendai region. The main exception is the new Miyagi plant near Sendai, which makes about 120,000 Yaris vehicles a year, and a Scion plant. We have no reason to believe there is major damage to these plants, but it is possible the infrastructure near the plant is damaged. The key risk for all Japanese automakers is what happens if the supply chain forces Japan production to be down for several weeks or even months. Toyota is far more exposed to Japanese production shocks than Honda, since it makes about 45% of its global production in Japan, compared to about 27% at Honda. We estimate Toyota exported over 1 million vehicles from Japan in 2010, compared to just over 300,000 units at Honda. Toyota's exposure to the strong yen is about twice that of Honda, and there is the risk of further yen strengthening should the massive liquidity injections from the Bank of Japan fail to offset Japanese investors selling U.S. treasuries to buy yen to fund reconstruction efforts.

Toyota's product exposure is mostly in the high-margin Lexus luxury segment, and in hybrids and subcompacts.

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About two thirds of Lexus vehicles sold in America in 2010 are made in Japan. The only Lexus model not made there is the popular RX crossover, which is assembled in Canada. According to Automotive News, Toyota had 44 days' supply of Lexus vehicles in the U.S. as of March 1, and a 65 days' supply for all Toyota U.S. vehicles. Thus, there is not a major disruption yet to overseas business, but there will be in a few weeks time if Japanese production fails to resume. Nearly all Camry and about 72% of Corolla volume is made in North America so the issue with the North American plants is whether or not production of parts from Japan for these factories will need to be suspended beyond March 21. Further risk would be if U.S. gas prices substantially breach \$4 per gallon while Toyota still cannot resume hybrid, Yaris, and Scion production. Toyota dominates the small American hybrid market, with the Prius alone making up about half the segment. Such a delay would be good news for the Detroit automakers, who we believe now possess competitive compact and subcompact products, unlike in 2008. A long-run positive for Toyota is that, eventually, many Japanese consumers will need to replace

vehicles destroyed in the disaster. We see Toyota best positioned to get that business, because it is the dominant Japanese player.

Honda's exposure is also significant, but we see most risk linked to its Japan business than its key U.S. market. In 2010, Honda produced 87% of the vehicles it sold in the U.S. in North America, by far the best of the Japan Three. Honda's plant shutdowns remain in place through March 20. This shutdown primarily impacts one motorcycle plant, its hybrid and subcompact business (Honda Fit), and the Acura RL and TSX. The Fit was the second best-selling car in Japan last year, and would also be in higher demand in America should gas prices rise significantly. As of Wednesday, Honda is reporting no immediate impact on its North American operations. However, that could change if the delay continues since some parts for North American factories are imported from Japan. Honda's March 1 inventories were 63 days overall, and 56 days at Acura.

Mar. 09, 2011

Toyota Announces Global Vision Plan

Toyota Motor Corporation announced its Toyota Global Vision Plan at a presentation in Tokyo on Wednesday. Most of the material is not significant to stockholders, in our opinion, and we are not changing our fair value estimate. Still, there is new information that we found noteworthy, especially regarding operating targets and management structure. We like that president Akio Toyoda wants to streamline decision-making by reducing the size of the board to 11 members from 27. The new composition will be the chairman, president, five executive vice presidents and four directors "responsible for corporate planning, accounting, and government affairs." One layer in decision-making among senior management is also being

eliminated. Furthermore, the total number of executives is going down to 60 from 77 and the number of executives outside Japan is increasing to 15 from 13.

The company also revealed profitability and operational goals; some are for 2015 and others are to be implemented as soon as possible. The immediate goal is to implement more quality, product, and cost initiatives to allow Toyota to post a consolidated operating return on sales of 5%, or about JPY 1 trillion, assuming volume of 7.5 million units, JPY 85 to the dollar, and JPY 110 to the euro. The goal is to remain profitable even if a recession caused unit sales to fall 20%. For fiscal 2011, guidance is for operating profit of JPY 550 billion and unit sales of 7.53 million. The

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yen/dollar exchange rate has a material impact on Toyota's earnings so if Toyota plans for JPY 85 to the dollar and the dollar strengthens, we would expect a significant windfall to Toyota's results.

The Associated Press reported that during the presentation, president Toyoda gave a 10 million vehicle sales number by 2015, but the presentation did not list any unit volume forecast. The 2015 target given in the presentation was to have a 50/50 sales mix between industrial and emerging markets compared with 60/40 in 2010. Other goals to improve profits are to make Lexus a global brand via emerging-market expansion as well as to increase its

distribution reach in established markets. Toyota will have 10 more hybrid vehicles by 2015 and will continue to develop plug-in hybrids, pure electric, and fuel cell vehicles. The company will also consider expanding capacity in emerging markets, which we think it must do as global auto demand rises, to minimize its exposure to foreign exchange risk. The company produces too many vehicles in Japan, in our opinion. Although the vision outlined today is short on specifics, we liked what he heard and continue to believe Toyota's stock is one of the cheaper names in our automaker coverage.

Feb. 08, 2011

Toyota Reports Fiscal Third-Quarter Results, Fair Value Unchanged

Toyota reported third-quarter fiscal 2011 results that were down year over year but did increase its guidance. We are leaving our fair value estimate unchanged. Management's tone drastically improved in prepared comments as senior managing director Takahiko Ijichi said cost-cutting efforts have exceeded expectations and the company now expects "to overcome the rapid and acute yen appreciation and achieve a substantial increase in operating income."

Toyota also reported an improved sales outlook in Japan and the rest of Asia. Japan is Toyota's largest market since the company has over 40% share. The new guidance is for revenue of JPY 19.2 trillion (up from previous guidance of JPY 19 trillion), operating income of JPY 550 billion (up from JPY 380 billion), and net income of JPY 490 billion (up from JPY 350 billion). The higher guidance and optimistic outlook is good news and expected given our long-standing opinion that vehicle sales in key markets such as the United States are well below normal levels.

However, we found the third-quarter results weak for

several reasons. The automotive group posted a JPY 27.5 billion operating loss compared to a JPY 124.5 billion operating profit in the fiscal third quarter of 2010. The culprit appears to be a 12.5% decline in automotive revenue as well as non-financial-services gross margin declining to 9.7% from 12% in the year-ago quarter. The gross margin decline is likely a headwind from rising commodity costs. The Japanese auto market continues to be weak due to the macroeconomic environment and Toyota's underperforming U.S. vehicle sales in 2010. For the quarter, Japan was the only region where Toyota posted an operating loss (JPY 122.5 billion). However for the fiscal year to date, the loss in Japan has narrowed to JPY 174.4 billion from JPY 223.8 billion through the first three quarters of fiscal 2010. Slide 7 of the earnings presentation shows that the strong yen was the largest contributor to the year-over-year decline in third-quarter results. The strong yen makes vehicles made in Japan much more expensive for consumers outside Japan, and currency deducted JPY 100 billion for the quarter. We expect quarterly results to improve throughout fiscal 2012 since we believe the U.S. market is on its way to recovery and

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Japan results are expected to improve.

On the same day Toyota reported earnings, the U.S. Department of Transportation released its results of an investigation into last year's sudden acceleration recall. As we expected, the government found no issue with Toyota's electronics and instead concluded the problem came from mechanical issues that have already been fixed. We

continue to deduct the equivalent of about \$5 billion in our valuation for an eventual settlement but also believe Toyota's balance sheet is a fortress that can easily withstand any legal judgment. The company has over JPY 3.5 trillion (\$42.7 billion) in cash before even including liquidity from credit lines.

Nov. 05, 2010

Toyota Reports 2Q Fiscal 2011 Results

Toyota Motor Corporation reported good second-quarter fiscal 2011 results, and we are leaving our fair value in place. The company continues to lose money in Japan and Europe, but North America, Asia, and the financing arm continue to boost results. Operating income for the quarter increased 92.2% from the prior year to JPY 111.5 billion. Asia, excluding Japan, contributed the most operating income at JPY 74 billion (a 92.1% year-over-year increase) while North America contributed JPY 36.2 billion (an 18.4% increase). Higher volumes drove the increase, but unfortunately Toyota's largest market of Japan continues to lose money. The operating loss in Japan did improve, however, to negative JPY 24.5 billion from negative JPY 45.7 billion. The captive financing arm posted operating income more than twice the size of the automotive business thanks to lower loan-loss provisions and more loan volume. Although we think the recent expiration of Japanese government subsidies on vehicle purchases will keep Japan in the red, we expect higher global volumes in the U.S., emerging markets and the finance arm to offset

headwinds from the very strong yen and Japan. In the first half of fiscal 2011, volume contributed JPY 570 billion of operating income improvement while currency effects deducted JPY 120 billion.

These results confirm our opinion that Toyota can still do well in a depressed auto sales environment in its key markets of the U.S. and Japan despite the yen trading at a 15-year high against the dollar. The company also raised its fiscal 2011 guidance to operating income of JPY 380 billion from JPY 330 billion despite lowering revenue guidance to JPY 19 trillion from JPY 19.5 trillion. The first-half dividend will be JPY 20 per share (flat with first-half fiscal 2010) but no guidance yet on the full year amount. The balance sheet remains loaded with cash at over JPY 3.9 trillion, and we think Toyota will do even better than it is now when the yen finally weakens against the dollar. Unfortunately for all Japanese automakers selling in the U.S., we do not expect the desired change in the exchange rate to happen anytime soon as the U.S. government keeps increasing the money supply.

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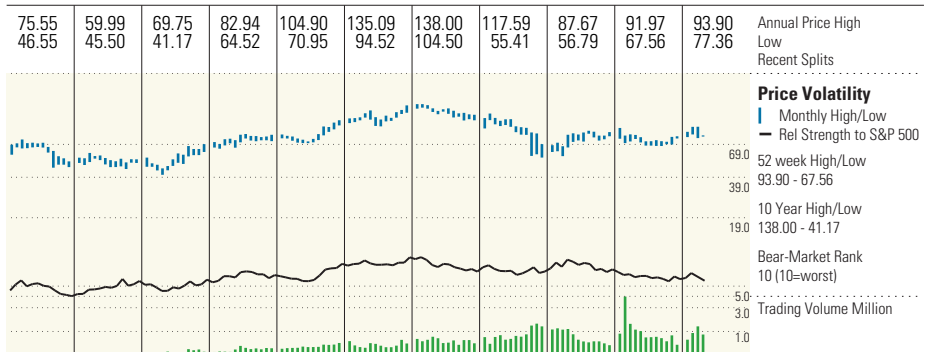
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Sales JPY Mil 226,549 **Mkt Cap USD Mil** 124,614 **Industry** Auto Manufacturers **Sector** Consumer Cyclical

Founded in 1937, Toyota Motor Corporation has grown to become the world's largest automaker. Its brands include Toyota, Lexus, Scion, and Hino, and market share in Japan is more than 45% while U.S. share is about 15%. The firm also owns nearly 23% of Denso, a parts supplier. Toyota sold 7.2 million vehicles in fiscal 2010; automotive sales were JPY 17.7 trillion. Toyota also has a financing arm, holds ownership in telecommunications firm KDDI, and manufactures homes.

1, Toyota-cho Toyota City
Toyota City, JP 471-8571
Phone: 81 565282121 Website: <http://www.toyota.co.jp>

Morningstar Rating ★★★★★ **Last Price** 79.48 **Fair Value** 117.00 **Uncertainty** High **Economic Moat™** Narrow **Stewardship Grade** B
per share prices in USD



Growth Rates Compound Annual					
Grade: C	1 Yr	3 Yr	5 Yr	10 Yr	
Revenue %	-7.7	-7.5	0.5	4.4	
Operating Income %	—	-59.6	-38.4	-14.1	
Earnings/Share %	—	-49.3	-28.4	-6.0	
Dividends %	-54.6	-25.6	-1.6	8.7	
Book Value/Share %	3.0	-3.3	4.1	6.4	
Stock Total Return %	-0.7	-5.4	-4.5	2.7	
+/- Industry	-2.6	-2.2	0.0	7.4	
+/- Market	-13.8	-4.5	-4.9	2.0	

Profitability Analysis				
Grade: D	Current	5 Yr Avg	Ind	Mkt
Return on Equity %	4.9	8.2	6.4	22.5
Return on Assets %	1.7	3.0	1.5	8.5
Fixed Asset Turns	3.0	3.0	3.6	7.3
Inventory Turns	12.2	11.5	10.7	14.4
Revenue/Employee JPY K	713.0	664.2*	—	936.8
Gross Margin %	13.0	15.9	16.5	40.2
Operating Margin %	2.6	5.1	3.2	14.7
Net Margin %	2.5	3.8	2.1	10.0
Free Cash Flow/Rev %	1.5	—	5.8	0.1
R&D/Rev %	—	—	—	9.8

Financial Position		
Grade:	03-10 JPY Mil	12-10 JPY Mil
Cash	24170	24924
Inventories	15222	16936
Receivables	69094	71329
Current Assets	139914	145524
Fixed Assets	71820	76357
Intangibles	—	—
Total Assets	324800	360451
Payables	28707	27115
Short-Term Debt	58840	65712
Current Liabilities	114364	123384
Long-Term Debt	75079	82683
Total Liabilities	213929	234319
Total Equity	110870	126132

Valuation Analysis				
	Current	5 Yr Avg	Ind	Mkt
Price/Earnings	21.1	—	18.8	16.8
Forward P/E	15.2	—	—	13.6
Price/Cash Flow	5.4	5.8	5.1	8.9
Price/Free Cash Flow	36.9	—	9.8	18.5
Dividend Yield %	1.3	—	0.1	1.7
Price/Book	1.0	1.4	1.5	2.3
Price/Sales	0.5	0.7	0.6	1.4
PEG Ratio	0.2	—	—	1.8

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	YTD	Stock Performance
-18.5	4.8	30.9	20.4	29.3	30.1	-19.3	-35.8	30.4	-5.3	1.1	Total Return %
-5.5	28.2	4.5	11.4	26.3	16.5	-22.8	2.7	7.0	-18.1	-4.9	+/- Market
-11.7	51.9	-2.6	11.7	14.8	0.2	-17.8	16.1	-3.4	-16.5	8.1	+/- Industry
0.7	0.8	0.9	1.1	1.1	1.3	2.1	4.1	1.4	1.3	1.3	Dividend Yield %
93894	96725	118649	136333	170953	217700	169762	102621	131963	123281	124614	Market Cap USD Mil

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	TTM	Financials
119918	113957	124531	149854	172610	187669	205266	228633	203383	203722	226549	Revenue JPY Mil
19.0	20.8	20.4	19.8	19.8	19.5	19.7	18.1	10.1	12.0	13.0	Gross Margin %
7218	8705	10215	14444	15558	16757	19189	19745	-4567	1586	5971	Oper Income JPY Mil
6.0	7.6	8.2	9.6	9.0	8.9	9.3	8.6	-2.2	0.8	2.6	Operating Margin %
6160	4430	6032	10069	10898	12241	14092	14940	-4329	2252	5712	Net Income JPY Mil
3.26	2.44	3.44	6.04	6.64	7.49	8.77	9.46	-2.76	1.44	3.64	Earnings Per Share JPY
0.38	0.39	0.51	0.72	0.94	1.72	1.93	2.47	2.03	1.00	1.06	Dividends JPY
1868	1828	1777	1695	1648	1627	1606	1589	1570	1568	1568	Shares Mil
29.20	34.66	41.22	50.94	52.91	58.41	70.16	75.79	69.42	80.45	77.36	Book Value Per Share JPY
13036	12199	16751	19782	22060	22441	27756	25931	14631	27504	22410	Oper Cash Flow JPY Mil
-10966	-12327	-12935	-12898	-17895	-24722	-24306	-24004	-23032	-15454	-19136	Cap Spending JPY Mil
2070	-127	3815	6884	4166	-2281	3449	1927	-8401	12050	3274	Free Cash Flow JPY Mil

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	TTM	Profitability
4.1	3.0	3.8	5.5	5.1	5.2	5.3	5.3	-1.4	0.7	1.7	Return on Assets %
9.9	7.7	10.4	15.2	13.7	14.1	14.7	14.4	-4.0	2.0	4.9	Return on Equity %
5.1	3.9	4.8	6.7	6.3	6.5	6.9	6.5	-2.1	1.1	2.5	Net Margin %
0.80	0.78	0.78	0.82	0.80	0.80	0.78	0.81	0.67	0.64	0.67	Asset Turnover
2.4	2.7	2.8	2.7	2.7	2.7	2.8	2.7	2.9	2.9	2.9	Financial Leverage

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	12-10	Financial Health
10588	10512	13047	11832	11294	6014	143	1452	7185	25550	22140	Working Capital JPY Mil
24886	27938	34422	40186	46698	48016	53059	59706	63799	75079	82683	Long-Term Debt JPY Mil
57122	54515	59243	77383	84225	89899	100263	118470	101865	110870	126132	Total Equity JPY Mil
0.44	0.51	0.58	0.52	0.55	0.53	0.53	0.50	0.63	0.68	0.66	Debt/Equity

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	TTM	Valuation
17.8	16.5	12.9	12.2	15.3	16.0	10.3	14.8	—	20.2	21.1	Price/Earnings
0.9	0.8	0.7	0.8	0.9	1.2	0.7	0.4	0.7	0.5	0.5	P/E vs. Market
1.8	1.5	1.7	1.6	2.0	2.3	1.5	0.9	1.2	1.0	1.0	Price/Sales
8.7	6.5	5.7	6.5	8.6	10.9	5.8	2.3	5.1	5.2	5.4	Price/Book
											Price/Cash Flow

Quarterly Results						Industry Peers by Market Cap				
Revenue JPY Mil	Mar 10	Jun 10	Sep 10	Dec 10		Mkt Cap USD Mil	Rev JPY Mil	P/E	ROE%	
Most Recent Period	58386.1	53102.5	55415.3	56584.1		Toyota Motor Corpora	124614	226549	21.1	4.9
Prior Year Period	38010.3	39435.9	48575.5	58541.9		Daimler AG	74900	114554	—	-2.1
Rev Growth %	Mar 10	Jun 10	Sep 10	Dec 10		Honda Motor Company	64595	103896	9.7	13.1
Most Recent Period	53.6	34.7	14.1	-3.3						
Prior Year Period	-99.4	-99.4	-99.2	-98.8						
Earnings Per Share JPY	Mar 10	Jun 10	Sep 10	Dec 10						
Most Recent Period	0.79	1.32	0.73	0.72						
Prior Year Period	-5.17	-0.51	0.15	1.08						

Major Fund Holders				
				% of shares
Fidelity Diversified International				0.10
American Beacon Lg Cap Value Inst				0.02
Fidelity Select Automotive				0.01

*3Yr Avg data is displayed in place of 5Yr Avg

TTM data based on rolling quarterly data if available; otherwise most recent annual data shown.

Morningstar's Approach to Rating Stocks

Our Key Investing Concepts

- ▶ Economic Moat™ Rating
- ▶ Discounted Cash Flow
- ▶ Discount Rate
- ▶ Fair Value
- ▶ Uncertainty
- ▶ Margin of Safety
- ▶ Consider Buying/Consider Selling
- ▶ Stewardship Grades

At Morningstar, we evaluate stocks as pieces of a business, not as pieces of paper. We think that purchasing shares of superior businesses at discounts to their intrinsic value and allowing them to compound their value over long periods of time is the surest way to create wealth in the stock market.

We rate stocks 1 through 5 stars, with 5 the best and 1 the worst. Our star rating is based on our analyst's estimate of how much a company's business is worth per share. Our analysts arrive at this "fair value estimate" by forecasting how much excess cash--or "free cash flow"--the firm will generate in the future, and then adjusting the total for timing and risk. Cash generated next year is worth more than cash generated several years down the road, and cash from a stable and consistently profitable business is worth more than cash from a cyclical or unsteady business.

Stocks trading at meaningful discounts to our fair value estimates will receive high star ratings. For high-quality businesses, we require a smaller discount than for mediocre ones, for a simple reason: We have more confidence in our cash-flow forecasts for strong companies, and thus in our value estimates. If a stock's market price is significantly above our fair value estimate, it will receive a low star rating, no matter how wonderful we think the business is. Even the best company is a bad deal if an investor overpays for its shares.

Our fair value estimates don't change very often, but market prices do. So, a stock may gain or lose stars based

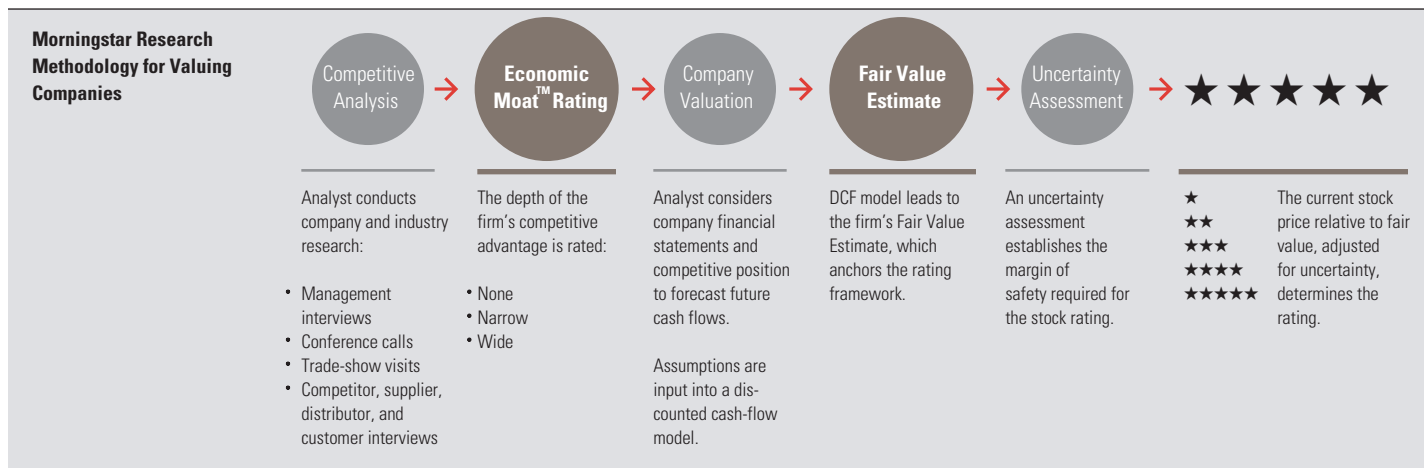
just on movement in the share price. If we think a stock's fair value is \$50, and the shares decline to \$40 without much change in the value of the business, the star rating will go up. Our estimate of what the business is worth hasn't changed, but the shares are more attractive as an investment at \$40 than they were at \$50.

Because we focus on the long-term value of businesses, rather than short-term movements in stock prices, at times we may appear out of step with the overall stock market. When stocks are high, relatively few will receive our highest rating of 5 stars. But when the market tumbles, many more will likely garner 5 stars. Although you might expect to see more 5-star stocks as the market rises, we find assets more attractive when they're cheap.

We calculate our star ratings nightly after the markets close, and issue them the following business day, which is why the rating date on our reports will always be the previous business day. We update the text of our reports as new information becomes available, usually about once or twice per quarter. That is why you'll see two dates on every Morningstar stock report. Of course, we monitor market events and all of our stocks every business day, so our ratings always reflect our analyst's current opinion.

Economic Moat™ Rating

The Economic Moat™ Rating is our assessment of a firm's ability to earn returns consistently above its cost of capital in the future, usually by virtue of some competitive advantage. Competition tends to drive down such



Morningstar's Approach to Rating Stocks (continued)

economic profits, but companies that can earn them for an extended time by creating a competitive advantage possess an Economic Moat. We see these companies as superior investments.

Discounted Cash Flow

This is a method for valuing companies that involves projecting the amount of cash a business will generate in the future, subtracting the amount of cash that the company will need to reinvest in its business, and using the result to calculate the worth of the firm. We use this technique to value nearly all of the companies we cover.

Discount Rate

We use this number to adjust the value of our forecasted cash flows for the risk that they may not materialize. For a profitable company in a steady line of business, we'll use a lower discount rate, also known as "cost of capital," than for a firm in a cyclical business with fierce competition, since there's less risk clouding the firm's future.

Fair Value

This is the output of our discounted cash-flow valuation models, and is our per-share estimate of a company's intrinsic worth. We adjust our fair values for off-balance sheet liabilities or assets that a firm might have--for example, we deduct from a company's fair value if it has issued a lot of stock options or has an under-funded pension plan. Our fair value estimate differs from a "target price" in two ways. First, it's an estimate of what the business is worth, whereas a price target typically reflects what other investors may pay for the stock. Second, it's a long-term estimate, whereas price targets generally focus on the next two to 12 months.

Uncertainty

To generate the Morningstar Uncertainty Rating, analysts consider factors such as sales predictability, operating leverage, and financial leverage. Analysts then classify their ability to bound the fair value estimate for the stock into one of several uncertainty levels: Low, Medium, High,

Very High, or Extreme. The greater the level of uncertainty, the greater the discount to fair value required before a stock can earn 5 stars, and the greater the premium to fair value before a stock earns a 1-star rating.

Margin of Safety

This is the discount to fair value we would require before recommending a stock. We think it's always prudent to buy stocks for less than they're worth. The margin of safety is like an insurance policy that protects investors from bad news or overly optimistic fair value estimates. We require larger margins of safety for less predictable stocks, and smaller margins of safety for more predictable stocks.

Consider Buying/Consider Selling

The consider buying price is the price at which a stock would be rated 5 stars, and thus the point at which we would consider the stock an extremely attractive purchase. Conversely, consider selling is the price at which a stock would have a 1 star rating, at which point we'd consider the stock overvalued, with low expected returns relative to its risk.

Stewardship Grades

We evaluate the commitment to shareholders demonstrated by each firm's board and management team by assessing transparency, shareholder friendliness, incentives, and ownership. We aim to identify firms that provide investors with insufficient or potentially misleading financial information, seek to limit the power of minority shareholders, allow management to abuse its position, or which have management incentives that are not aligned with the interests of long-term shareholders. The grades are assigned on an absolute scale--not relative to peers--and can be interpreted as follows: A means "Excellent," B means "Good," C means "Fair," D means "Poor," and F means "Very Poor."
