

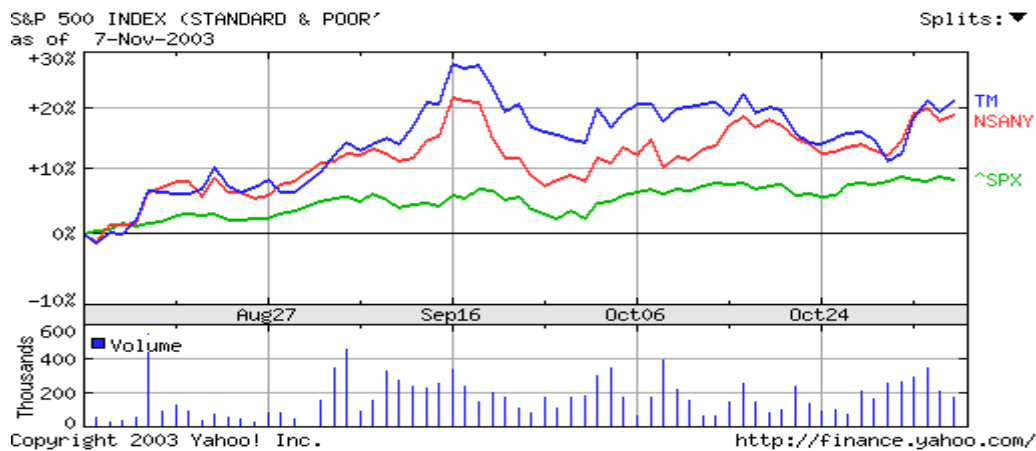
BLYTH FUND

TOYOTA MOTOR CORPORATION

Date: 10th November 2003
Proposal: Watchlist Proposal: Toyota Motor Corp.
Ticker: TM
Current price: 63.35
Analysts: Sujey Subramanian
Profile: Toyota Motor Corporation is primarily engaged in the design, manufacture, assembly and sale of passenger cars, recreational and sport-utility vehicles (SUVs), minivans, trucks and related parts and accessories worldwide. In addition, Toyota provides retail and wholesale financing, retail leasing and certain other financial services primarily to its dealers and their customers related to vehicles manufactured by Toyota. The major portions of Toyota's operations on a worldwide basis are derived from the Automotive and Financial Services business segments. (Multex Abridged Business Summary)

For the six months ended 9/30/03, sales increased 8% to Y8.224T. Net income rose 23% to Y524.46 billion. Revenues reflect an increase in car sales. Earnings reflect a decrease in costs of financing operations. (Multex Abridged Financial Summary)

Last Trade	63.35 (up 1.52%)	P/E (ttm)	14.11
52 week range	41.17 – 67.52	EPS (ttm)	4.49
Volume	179,800	Div & Yield	0.55 (0.88%)
Market Cap	109.31 B	Beta	0.974



Competition Overview:

	<u>TM</u>	<u>E</u>	<u>GM</u>	<u>HMC</u>	<u>Industry</u>
Market Cap:	109.31B	23.26B	24.07B	39.37B	259.78M
Employees:	264,096	350,321	350,000	126,900	3.60K
Revenue (ttm):	128.96B	163.42B	186.76B	66.16B	780.24M
Gross Margin (ttm):	20.66%	18.69%	20.21%	31.87%	17.80%
EBITDA (ttm):	20.68B	12.34B	10.07B	6.10B	41.02M
Oper. Margins (ttm):	8.41%	1.74%	1.64%	8.32%	3.65%
Net Income (ttm):	7.75B	1.55B	3.80B	4.30B	2.58M
EPS (ttm):	4.49	0.797	6.796	1.642	0.36
PE (ttm):	14.11	15.29	6.32	12.47	16.60
PEG (ttm):	1.58	2.36	1.37	0.79	1.18

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GENERAL:

Toyota Motor Corp's net income jumped a stronger than expected 23% in the six months ended Sept 30. Earnings announcement was made on November 5th, 2003. Company gained ground on Big Three in profitable segments of the US markets such as sport utility vehicles.

Record half-year net income of 524.46 billion yen (\$4.77 billion USD) up from 425.8 billion yen last year. Beat analysts' expectations for net profit ranging from 412.6 to 440 billion yen. Revenue increased 8% to a record 8.224 trillion yen from 7.613 trillion.

Toyota raised its outlook for profit at the parent firm, despite an expected drag on revenue from the yen's rise against the dollar. The company now expects to post a parent net profit of 510 billion yen on sales at the parent level of 8.7 trillion yen for the year ending in March. It previously had projected a parent net profit of 440 billion yen on sales of 8.3 billion yen.

Toyota is closing in on Chrysler to become the third-biggest carmaker in the U.S. Its U.S. share, rising steadily, is now above 11%. At its current rate of expansion, Toyota could pass Ford Motor Co. in mid-decade as the world's No. 2 auto maker. The No. 1 spot -- still occupied by General Motors Corp. with 15% of the global market -- would be the next target.

President Cho's goal is 15% of global sales by 2010, up from 10% today.

Reasons For Success: Cost cutting and growth in vehicle sales.

COST CUTTING:

-- Toyota has broken the Japanese curse of running companies simply for sales gains, not profit. Its operating margin of 8% -plus (vs. 2% in 1993) now dwarfs those of Detroit's Big Three. Even with the impact of the strong yen, estimated 2003 profits of \$7.2 billion will be double 1999's level. Toyota earns 6.4 cents of net income on every dollar in sales compared with the net income of less than a penny per dollar of sales for General Motors Corp and a loss of less than a penny for Ford Motor Co

-- Toyota has launched a joint program with its suppliers to radically cut the number of steps needed to make cars and car parts. In the past year alone, the company chopped \$2.6 billion out of its \$113 billion in manufacturing costs without any plant closures or layoffs. Toyota expects to cut an additional \$2 billion out of its cost base this year.

-- Flexible plants: Toyota is putting the finishing touches on a plan to create an integrated, flexible, global manufacturing system. In this new network, plants from Indonesia to Argentina will be designed both to customize cars for local markets and to shift production to quickly satisfy any surges in demand from markets worldwide. By tapping, say, its South African plant to meet a need in Europe, Toyota can save itself the \$1 billion normally needed to build a new factory.

-- Producing At The Market: Production of the RX 330 SUV started in Cambridge Ontario on Sept. 26. If the Canadian hands can deliver the same quality as their Japanese counterparts, Toyota will be able to reduce shipping costs by shifting Lexus production to the market where the bulk of those cars are sold.

GROWTH IN SALES:

-- Dependent on the U.S. business for some 70% of earnings. In US, Toyota's market share climbed to 11.2% this year compared to 10.4% last year.

-- The company has not only rounded out its product line in the U.S., with sport-utility vehicles, trucks, and a hit minivan, but it also has seized the psychological advantage in the market with the Prius, an eco-friendly gasoline-electric car. In October, when the second-generation Prius reached U.S. showrooms, dealers got 10,000 orders before the car was even available.

-- SUV sales in US growth: Ten years ago, Toyota had a puny 4% share. Today, it owns nearly 12%.

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Implication: Cost-cutting and process redesign will chop out billions in expenses. That will keep margins strong and free up cash to develop new models and technologies such as the Prius, to invest in global manufacturing, and to invade markets such as China and Europe.

CHINA:

Toyota is expected to announce soon an alliance in China with Gu angzhou Automotive Industry Group to produce the Camry.

Toyota is increasing its distribution network with a plan to increase sixfold the number of Toyota dealers in China to about 800 by 2010. Effort to take 10% of China's automarket by 2010. GM is also pursuing aggressive growth plans in China. Volkswagen currently has about 1/3 of the market, but down from 50% during past years.

Toyota formed a new Chinese sales company with its primary Chinese partner, First Automotive Works Group, called FAW Toyota Motor Sales. 32% owned by Toyota.

Goal: boost the number of Toyota dealers from current 130 to 200 in 2005 to 800 in 2010.

EUROPE:

SOME SUCCESS:

4.4% share in Europe compared to 3% less than a decade ago thanks to Toyota's best-seller in Europe, the Yaris.

GROWTH POTENTIAL:

The company's smooth-driving Lexus sedans sprinted to luxury-market leader in the U.S. during the 1990s, overtaking German rivals Mercedes and BMW -- as well as Cadillac and Lincoln -- by offering better quality and service at a lower price. But Lexus is going nowhere fast in Europe: After 12 years in showrooms, last year it registered sales of just 21,156 cars -- down 11% from 2001 -- compared with more than 234,000 in the U.S.

Now it wants to crack the high-end with a renewed push for Lexus. To make Lexus a success, though, Toyota needs to establish it as a separate brand.

RECENT NEWS ABOUT COMPETITION:

NISSAN:

Nissan to Recall 2.5 Million Cars World Wide:

Defect. Cost the company as much as 16 billion yen.

Nissan expects net profit will remain unchanged from last year at 495 billion yen on an 8% increase in sales to 7.45 trillion yen.

But: Nissan Motor Co. makes slightly more profit per vehicle in North America.

VOLKSWAGEN

Volkswagen's China Margins May Be Falling. Competition is quickly eroding margins

According to its estimates, Goldman said China generated over 80% of Volkswagen's first-half earnings.

While the German automaker once controlled more than half the China car market, over the past few years its share has been whittled down to about 38%, with the entry of competitors such as Toyota Motor Corp. and General Motors Corp. However, as China's car sales in the first nine months jumped nearly 70%, automakers, including Volkswagen have also seen their sales surge.

Using operating profits at Volkswagen's joint ventures in China and the number of cars sold by Volkswagen in China, Goldman calculated that in the first-half of the year Volkswagen had a margin of 8.8% versus an estimated 12% in the same period last year. The margin erosion accelerated in the third quarter down to about 5.8%, Goldman said.

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LEADERSHIP:

CEO Cho

Oversew the 1988 launch of Toyota's key U.S. plant in Georgetown, Ky., now the company's biggest U.S. factory. Given Toyota's booming U.S. sales in the late 1990s, few inside the company were surprised when Cho won the top job. Yet equally few had any clue that the new president was about to unleash so many powerful changes.

RISKS:

Toyota doesn't always get it right: Its early attempts at the youth market, minivans, and big pickup trucks all disappointed. It remains dependent on the U.S. business for some 70% of earnings. Its Lexus luxury sedans are losing ground to BMW in Europe, though Lexus has strong sales with SUVs in USA.

The average Toyota owner is about 46, a number the company must lower or risk going the way of Buick. BUT: Toyota is vigorously attacking the youth market with the \$14,500 Scion xB compact. Since the Scion's U.S. launch in California in June, Toyota has sold nearly 7,700 of them, 30% better than forecast.

Strong Yen: Detroit's Big Three are praying that a strong yen will hurt Toyota. If the yen sticks at 110 to the dollar over the next 12 months, Toyota could see its pretax profits shrink by \$900 million. BUT: Strong yen probably hurts Toyota less today than in the past. Many of its costs are now set in dollars: Last year, Toyota's purchases of parts and materials from 500 North American suppliers came to \$19 billion. The U.S. investment is an enormous natural hedge against the yen. About 60% of what is sold in North America is built in North America. Toyota is building an \$800 million plant in San Antonio, Tex., that will allow it to more than double its Tundra output, to some 250,000 trucks a year by 2006, with rigs powerful and roomy enough to go head to head with Detroit's biggest models.

GLOBALLY (Business Week):

- North America: Sales 1.94 million

Toyota's products keep gaining on the Big Three's models, while Lexus is a luxury leader. Toyota employs 35,000 people and runs 10 factories in the region, and has 11.2% of the US market.

- South America: Sales 97,000

Builds cars in Argentina, Brazil, Colombia, and Venezuela. Regionwide revenues fell 10% last year because of economic troubles in Argentina, but sales in Brazil grew after the launch of a new Corolla.

- Southwest Asia: Sales 268,000

Builds cars in Bangladesh, India, Pakistan, and Turkey. The durable Qualis SUV is a big hit in India and Toyota plans to start building transmissions there in mid-2004.

- China: Sales: 58,000

Playing catch-up with rivals Volkswagen and GM. Share today is about 1.5%, but Toyota wants 10% by 2010.

- Southeast Asia: Sales: 455,000

Assembles cars in seven countries and is expanding its factories in Thailand and Indonesia. Plans to export trucks, engines and components from region to 80 countries.

- Japan: Sales: 1.68 million.

Has maintained 40% plus market share for five years running. New models this year include the Sienta compact minivan, the sportier Wish minivan and a revamped Harrier SUV.

- Europe: Sales 756,000

Has a 4.4% market share led by the Yaris compact and a new Avensis with a cleaner diesel engine. Plans to boost production in Britain and France, Lexus though, is struggling.

- Africa: Sales: 140,000

Has manufacturing plants in Kenya and South Africa. Last year, it saw sales across the continent jump 10.5% thanks to a new Corolla sedan and Prado SUV.

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