
IS TOYOTA NAVIGATING A ROAD TO SUCCESS OR STEERING TOWARDS ITS OWN DOWNFALL?

Mobeen Tahir – Director, Research
27 Jun 2024

On 28 May, a news article in the Financial Times titled, “Toyota bets on new line of combustion engines in challenge to Tesla.” Having previously criticised Toyota’s lack of progress on electric vehicles (EVs), my initial reaction to this headline was, is this Toyota’s “Kodak moment”?

Kodak engineer Steve Sasson invented the digital camera in the company’s labs in the 1970s. While Kodak’s ethos of fostering innovation enabled this invention, the lack of foresight from its leaders, who worried about the digital camera cannibalising their existing business, quashed the idea and ultimately led to the company’s downfall. Sasson later told the New York Times, “It was filmless photography, so management’s reaction was, ‘That’s cute – but don’t tell anyone about it.’”

One needn’t be too imaginative to see the parallels with Toyota. The company is a behemoth in the automotive industry. Its Kaizen philosophy, which aims to ensure maximum quality, eliminate waste, and improve efficiency in both equipment and work procedures, has long been hailed in industry and academia as a blueprint for business success across sectors. However, despite being a pioneer in electric road transport with its hybrid cars, Toyota still lacks an effective EV strategy.

So, has Toyota lost its way, or does it have a strategy that will endure in the rapidly evolving and extremely exciting landscape of the automotive industry?

How investors can access the opportunity in the automotive industry

[WisdomTree Global Automotive Innovators UCITS ETF \(WCAR\)](#) offers investors a way to capture the growing excitement in the automotive industry. The ETF has been built by WisdomTree in partnership with automotive experts Berylls, who evaluate the focus of all companies in the automotive industry on innovation, growth, and sustainability, and LeanVal, who evaluate the fundamentals of each business. Companies are evaluated and selected based on their alignment with automotive trends like connectivity, autonomous driving, shared mobility, and electrification. As competition heats up, technology advances, and markets become increasingly excited about the sector, this ETF gives investors a forward-looking, well-diversified exposure across the most important companies in the automotive value chain.

[WisdomTree Battery Solutions UCITS ETF \(VOLT\)](#) offers investors a diversified exposure to the battery value chain. Our partnership with Wood Mackenzie enables us to reevaluate

the attractiveness of any given battery technology continuously. At each six-monthly rebalance, Wood Mackenzie evaluates all 37 subsectors in the value chain and assigns intensity scores, a measure of the importance of a subsector to the battery theme. By extension, all companies within the battery value chain receive updates to their intensity ratings, a measure of how attractive a company is based on its revenue generated from the different subsectors. This approach not only allows investors to capture a wide array of innovations, any of which could become the next big thing but also ensures that the strategy keeps one eye on the industry as it stands today and another on its future.

As of 4 June, Toyota features in both ETFs and BYD features in WCAR.

The focus on hybrids

Toyota's Chief Executive Koji Sato has stated that the new generation of internal combustion engines is designed to be used alongside batteries in hybrid vehicles. Toyota is not alone in this renewed focus on hybrids. In May, the Financial Times reported that executives from General Motors, Nissan, Hyundai, Volkswagen, and Ford emphasised hybrids' importance at the FT's Future of the Car Summit. The president of Hyundai said, "Electric is still the future. But now we are seeing a longer transition."

Even the new cool kid on the block, BYD, which is making waves globally with its EV sales, has just launched its fifth-generation dual-motor hybrid technology, claiming it can get 1,300 miles out of a single tank.

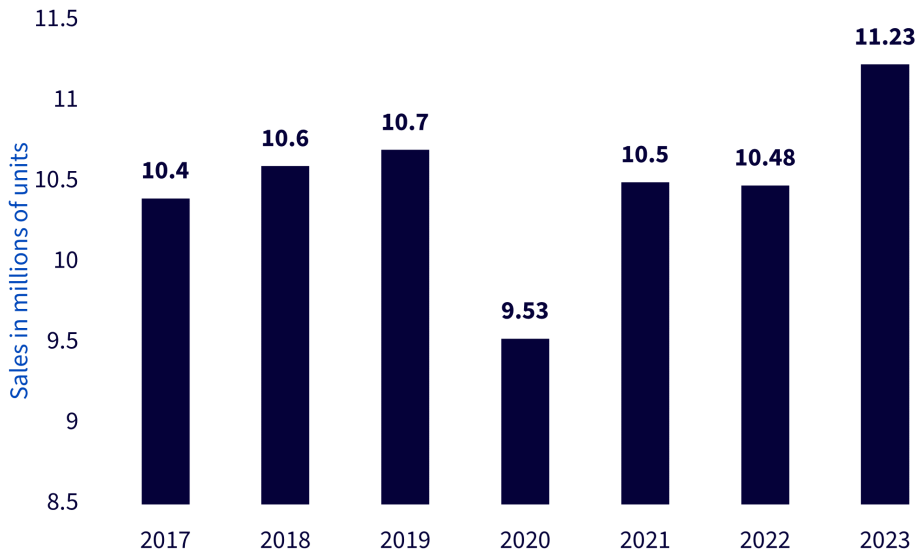
There is, however, an important distinction between BYD leaning in on hybrids and Toyota doing the same. BYD is clearly charging ahead with EVs at full throttle. In March 2024, among the top 10 plug-in EVs sold worldwide, seven were BYD models. BYD's foray into hybrids is one of the tools the company can use to expand into other markets worldwide after having established a strong presence in the local Chinese market.

In contrast, Toyota sold only 104,018 EVs between the Toyota and Lexus brands in 2023, accounting for less than 1% of the company's 11.23 million vehicle sales overall and an even smaller share of the nearly 14 million EVs sold worldwide. Toyota certainly did not rub shoulders (or bumpers) with BYD in the list of top EV models. However, Toyota's hybrid sales in 2023 were much stronger, tallying just over 3.4 million – a statistic that validates the company's effective strategy with the hybrid powertrain.

Business is strong

Toyota's vehicle sales were up in 2023 and have largely been steady in recent years, even in the pandemic-stricken 2020, which hit the automotive industry particularly hard (see figure below).

Toyota's vehicle sales from 2017 to 2023



Source: Statista, Mar 2024.

The most recent earnings report for Toyota wasn't bad either. In the first quarter of 2024, the carmaker's revenue was up 14.27% year-over-year (yoy) and net income was up 80.65% yoy¹. Toyota's share price also made strong gains in the first quarter, fuelled by a combination of healthy fundamentals and broader macroeconomic tailwinds for Japanese stocks.

Solid promises

Toyota has been working on solid-state battery technology for several years. Around June last year, it took the market by storm when it announced a technological breakthrough enabling the company to manufacture solid-state batteries at an industrial scale, overcoming a major hurdle that has hindered the technology's adoption in EVs so far. If Toyota can introduce an EV with a range of 750 miles and a charging time of 10 minutes in the next 2-3 years, as it claims, it could be a game-changer and potentially elevate Toyota to the leaderboard in the EV industry.

Toyota also became one of the early adopters of hydrogen fuel cell electric vehicles when it introduced the Mirai in 2014. A decade has passed, and hydrogen-powered cars have not taken off yet. But this could change, as many other carmakers are developing their own hydrogen powertrains.

Toyota's strategy, therefore, is clearly to diversify across different emerging automotive technologies beyond just lithium-ion powered electric vehicles.

The verdict

It would be extremely unfair to assert that Toyota is like Kodak in the late 2000s or Blockbuster in the early 2010s. Toyota continues to innovate, with its internal combustion engine vehicles and hybrids helping maintain its relevance in the automotive industry, and its business fundamentals remain very strong. However, in business, success cannot be taken for granted. Toyota still needs an effective approach to compete

in the EV space, which is where the future lies. But to do so, it may need to go beyond its Kaizen philosophy of continuous improvement and instead employ radical thinking.

¹ Google Finance, June 2024.

Related Products

- + [WisdomTree Global Automotive Innovators UCITS ETF - USD Acc \(WCAR\)](#)
- + [WisdomTree Battery Solutions UCITS ETF - USD Acc \(VOLT/CHRG\)](#)

Related Blogs

- + [Innovation on the road: Xiaomi enters the EV market](#)
- + [How AI is fuelling an iPhone moment for automobiles](#)

View the online version of this article [here](#).

IMPORTANT INFORMATION

Marketing communications issued in the European Economic Area (“EEA”): This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland.

Marketing communications issued in jurisdictions outside of the EEA: This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority.

WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as “WisdomTree” (as applicable). Our Conflicts of Interest Policy and Inventory are available on request.

For professional clients only. Past performance is not a reliable indicator of future performance. Any historical performance included in this document may be based on back testing. Back testing is the process of evaluating an investment strategy by applying it to historical data to simulate what the performance of such strategy would have been. Back tested performance is purely hypothetical and is provided in this document solely for informational purposes. Back tested data does not represent actual performance and should not be interpreted as an indication of actual or future performance. The value of any investment may be affected by exchange rate movements. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice. These products may not be available in your market or suitable for you. The content of this document does not constitute investment advice nor an offer for sale nor a solicitation of an offer to buy any product or make any investment.

An investment in exchange-traded products (“ETPs”) is dependent on the performance of the underlying index, less costs, but it is not expected to match that performance precisely. ETPs involve numerous risks including among others, general market risks relating to the relevant underlying index, credit risks on the provider of index swaps utilised in the ETP, exchange rate risks, interest rate risks, inflationary risks, liquidity risks and legal and regulatory risks.

The information contained in this document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares in the United States or any province or territory thereof, where none of the issuers or their products are authorised or registered for distribution and where no prospectus of any of the issuers has been filed with any securities commission or regulatory authority. No document or information in this document should be taken, transmitted or distributed (directly or indirectly) into the United States. None of the issuers, nor any securities issued by them, have been or will be registered under the United States Securities Act of 1933 or the Investment Company Act of 1940 or qualified under any applicable state securities statutes.

This document may contain independent market commentary prepared by WisdomTree based on publicly available information. Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or guarantee its accuracy or correctness. Any third party data providers used to source the information in this document make no warranties or representation of any kind relating to such data. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.

This document may contain forward looking statements including statements regarding our belief or current expectations with regards to the performance of certain assets classes and/or sectors. Forward looking statements are subject to certain risks, uncertainties and assumptions. There can be no assurance that such statements will be accurate and actual results could differ materially from those anticipated in such statements. WisdomTree strongly recommends that you do not place undue reliance on these forward-looking statements.

WisdomTree Issuer ICAV

The products discussed in this document are issued by WisdomTree Issuer ICAV ("WT Issuer"). WT Issuer is an umbrella investment company with variable capital having segregated liability between its funds organised under the laws of Ireland as an Irish Collective Asset-management Vehicle and authorised by the Central Bank of Ireland ("CBI"). WT Issuer is organised as an Undertaking for Collective Investment in Transferable Securities ("UCITS") under the laws of Ireland and shall issue a separate class of shares ("Shares") representing each fund. Investors should read the prospectus of WT Issuer ("WT Prospectus") before investing and should refer to the section of the WT Prospectus entitled 'Risk Factors' for further details of risks associated with an investment in the Shares.

Notice to Investors in Switzerland – Qualified Investors

This document constitutes an advertisement of the financial product(s) mentioned herein.

The prospectus and the key investor information documents (KIID) are available from WisdomTree's website: <https://www.wisdomtree.eu/en-ch/resource-library/prospectus-and-regulatory-reports>

Some of the sub-funds referred to in this document may not have been registered with the Swiss Financial Market Supervisory Authority ("FINMA"). In Switzerland, such sub-funds that have not been registered with FINMA shall be distributed exclusively to qualified investors, as defined in the Swiss Federal Act on Collective Investment Schemes or its implementing ordinance (each, as amended from time to time). The representative and paying agent of the sub-funds in Switzerland is Société Générale Paris, Zurich Branch, Talacker 50, PO Box 5070, 8021 Zurich, Switzerland. The prospectus, the key investor information documents (KIID), the articles of association and the annual and semi-annual reports of the sub-funds are available free of charge from the representative and paying agent. As regards distribution in Switzerland, the place of jurisdiction and performance is at the registered seat of the representative and paying agent.

For Investors in France

The information in this document is intended exclusively for professional investors (as defined under the MiFID) investing for their own account and this material may not in any way be distributed to the public. The distribution of the Prospectus and the offering, sale and delivery of Shares in other jurisdictions may be restricted by law. WT Issuer is a UCITS governed by Irish legislation, and approved by the Financial Regulatory as UCITS compliant with European regulations although may not have to comply with the same rules as those applicable to a similar product approved in France. The Fund has been registered for marketing in France by the Financial Markets Authority (Autorité des Marchés Financiers) and may be distributed to investors in France. Copies of all documents (i.e. the Prospectus, the Key Investor Information Document, any supplements or addenda thereto, the latest annual reports and the memorandum of incorporation and articles of association) are available in France, free of charge at the French centralizing agent, Societe Generale at 29, Boulevard Haussmann, 75009, Paris, France. Any subscription for Shares of the Fund will be made on the basis of the

terms of the prospectus and any supplements or addenda thereto.

For Investors in Malta

This document does not constitute or form part of any offer or invitation to the public to subscribe for or purchase shares in the Fund and shall not be construed as such and no person other than the person to whom this document has been addressed or delivered shall be eligible to subscribe for or purchase shares in the Fund. Shares in the Fund will not in any event be marketed to the public in Malta without the prior authorisation of the Maltese Financial Services Authority.

For Investors in Monaco

This communication is only intended for duly registered banks and/or licensed portfolio management companies in Monaco. This communication must not be sent to the public in Monaco.