

Business Analysis of Toyota Based on Enterprise Value Multiple and PEST Analysis

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Abstract. Toyota is a long-established automobile manufacturing company with both a broad market and abundant economic activities. This paper conducts a business analysis of the Toyota company by analyzing the accounting statements and financial data of Toyota company for sales, profitability, and stock value. Overall, Toyota has an advantageous position in terms of sales compared to other competitor companies and also in terms of profitability by analyzing the marginal net profit, it is concluded that Toyota's profitability is in the middle to upper level compared to other competitors. In the stock value analysis, by comparing the enterprise value multiple and the price-to-earnings ratio analysis, it is concluded that Toyota has the highest price-to-earnings ratio compared to other competitors, thus concluding that Toyota has a high stock return and a rich investment value. This research paper provides relevant business analysis for major companies in the automotive manufacturing industry for the last two years, reflecting the business conditions of different companies and the future prospects of Toyota.

Keywords: Sales Revenue; Profitability; Marketing; Toyota; Enterprise Value Multiple.

1. Introduction

Industrial development and the development of highly organized production processes were driven by the evolution of social requirements. Mass production was the primary emphasis of the productive systems at the start of the 20th century, which was supported by Henry Ford's implementation of Frederick Taylor's Scientific Management principles in the automobile industry [1]. As a result, Toyota has taken its place in the automobile manufacturing industry. With the global economic development, cars have been downgraded from an expensive luxury to a necessity, and different car companies and different types of cars have emerged, whether Toyota will still be able to hold its position or be eliminated by the times. In this paper, this paper will analyze the accounting statements and financial data of Toyota and other competitors in the last two years.

One of the most often used fundamental methods for analyzing financial statement ratios is to assess the performance of enterprises. It is one of the most important methods for evaluating an association's success over time and comparing it to the performance of the other key components of the business [2]. For studies related to profitability: A company's primary purpose is profitability, and it's critical for an organization to be both successful and long-lasting. The purpose of this study is to evaluate the performance of Honda Motor Company Ltd. in Japan in relation to internal and external issues. The data analysis demonstrates that macroeconomics and firm-specific characteristics (debt to income) have an impact on the company's profitability [3]. Political, Economic, Social, and Technological Analysis, or PEST Analysis, is a framework of macro-environmental aspects used in the environmental scanning part of strategic management, according to the pertinent research on the method [4].

Research results related to the business analysis of automotive manufacturing companies. A company's primary purpose is profitability, and it's critical for an organization to be both successful and long-lasting. The purpose of this study is to evaluate the performance of Honda Motor Company Ltd. in Japan in relation to internal and external issues. The data analysis demonstrates that macroeconomics and firm-specific characteristics (debt to income) have an impact on the company's profitability [5]. This paper will analyze the sales revenue, marginal net income, price-to-earnings ratio, and enterprise value multiple in Toyota's accounting statements and analyze the macro environment by combining PEST analysis. Relevant research results on financial statements.

2. Basic Descriptions of Toyota

Toyota, a multinational automaker with its headquarters in Japan, was established in 1937. Toyota, Lexus, Daihatsu, and Hino are some of their brands. Toyota employed 370,870 people worldwide as of the end of 2017, had 51 foreign manufacturing facilities in 28 different countries, and had sales in over 170 different nations (Toyota 2020) [6]. Toyota's mission statement is to "lead the future mobility society by enhancing lives all around the world with the safest and most responsible means of human transportation." Because of our commitment to quality, never-ending innovation, and concern for the environment, this paperwork exceeds expectations and is rewarded with a smile. This document will accomplish our challenging objectives by harnessing the abilities and zeal of those who are sure there is always a better way. As a well-established car manufacturing company, Toyota has a significant presence in the industry. The basis of people's daily lives is laid by the manufacturing industry, which plays a significant role in society as a whole. One of the biggest manufacturing companies in the world, Toyota Industries Group primarily concentrates on the production of automobiles [7]. The car manufacturing industry has an important economic position and Toyota has been in the top 10 of the Forbes lists for a number of good times. But does Toyota's business situation still have a leading edge. This paper analyses Toyota's sales and financial position over the last two years to value the company's shares and analyzes the company's position in recent years, and makes recommendations based on the results and an outlook on Toyota's future prospects.

In addition, research findings on changes in Toyota's marketing strategy indicate that Aspects of success like organizational skills, long-term thinking, aggressive expansion plans, ownership, and R&D have spread from established to emerging markets, but others, like the ability to identify customer requirements and wants, have expanded. Overall, this paper draws the conclusion that Japanese MNEs are adaptable, practical, and pragmatic in their approach to the Chinese market rather than "Western" or "Japanese" [8]. Because of its adaptable and practical sales approach, the Toyota Corporation has been able to increase its competitiveness in the market and, at one point, surpass all other automakers in terms of production volume. However, Toyota is not without flaws. One of these is that, as a locally owned Japanese corporation, it is subject to the family responsibility system, where the top level has unrestricted decision-making authority. As a result, Toyota is less adaptable in terms of corporate decision-making than other multinational corporations. The good news is that Toyota has a wide range of chances to regionalize and focus its international operations, thereby boosting its multinational business. Toyota firms use lean production, careful supplier management, effective distribution, and low service costs for high-quality products to achieve a cost leadership strategy today. Due to the high caliber and effectiveness of its automobiles, Toyota has gradually but surely gained the admiration and love of consumers.

3. Balance sheet

3.1 sales revenue

This paragraph will focus on the accounting performance analysis based on sales revenue, and profitability through Toyota's financial statements. Sales revenue is a visual indicator of how well a company is competing in the market. The higher this indicator is, the greater the company's share of the market and the more sales it will generate, for example. Table 1 shows the sales revenue of Toyota, Ford, Volkswagen, and Honda for the years 2021 to 2022 (the source of data is the companies' annual financial reports).

Table 1. The sales revenue of Toyota, Ford, Volkswagen, and Honda for the years 2021 to 2022

	Toyota	Ford	Volkswagen	Honda
2021 sales revenue (\$Billions)	\$244.9	\$136.3	\$250.2	\$131.7
2022 sales revenue (\$Billions)	\$282.4	\$145.8	\$280.2	\$145.5
Increase	15.3%	6.9%	11.9%	10.5%

The chart shows that Toyota's sales in the last two years have been relatively good compared to the rest of its competitors in the market. In 2022, sales reached \$282.4billions and increased by 15.3% compared to the previous year, which is the highest growth rate compared to the other competitors (Ford by 6.9%, Volkswagen by 11.9%, and Honda by 10.5%). Therefore, Toyota has a dominant position in the industry in terms of marketing, which provides the company with a large amount of available capital and profits, and Toyota should continue to develop this strength in marketing and invest and develop new products through sales revenue to generate more revenue.

3.2 marginal net profit

In addition, this paragraph will analyze the profitability of Toyota and other competitors. Profitability is a very important indicator for a company, as it is a visual indicator of the company's ability to grow its capital and is one of the indicators that investors look for. Table 2 will reflect the marginal net profit of Toyota, Ford, Volkswagen, and Honda from 2021 to 2022 (the source of data is the companies' financial annual reports).

Table 2. The marginal net profit of Toyota, Ford, Volkswagen, and Honda from 2021 to 2022

	Toyota	Ford	Volkswagen	Honda
2021 Net profit margin (%)	8.4	13.2	5.7	5
2022 Net profit margin (%)	9.2	14.2	8.6	4.86

As can be observed in Table 2, Toyota's marginal net profit is relatively good compared to its competitors, being in the upper-middle range. It is worth noting that Ford has a relatively high marginal net profit from 2021 to 2022 (13.2% and 14.2%). Higher net profit means that the company has greater profitability, which facilitates access to financing investment activities, which in turn helps to expand the industry and undertake other investment activities. Fortunately for Toyota, the company's marginal net profit is steadily increasing, up 9.5% from the previous year, which indicates that the company is in a steady growth phase and, combined with the growth in sales, is optimistic about profitability in the future.

4. Marketing

4.1 EV/EBITDA and P/E ratio

This paragraph will assess the value of Toyota and its Ford, Volkswagen, and Honda companies by analyzing their enterprise value multiples and price-to-earnings ratios. The Enterprise Value Multiple EV/EBITDA (The enterprise value (EV)/EBITDA multiple substitutes earnings before interest, taxes, and depreciation (EBITDA) for net profits per share (PE) and utilizes enterprise value (EV), the market worth of all capital invested in the business.) is another measure of a company's profitability, similar to marginal profit, and generally the higher the multiple, the more profitable the company is [9]. The P/E ratio (the ratio of market price per share to earnings per share for stock) is a measure of the return on the value of a company's stock, usually the higher the P/E ratio the higher the return on the value of the company's stock but also the greater the risk [10]. Alternatively, a lower P/E ratio means that even though the company's stock may not offer great returns under these conditions, the investment risk is low and therefore a higher P/E ratio is not better and needs to be assessed in conjunction with other indicators. The chart below shows the overall figures for Toyota and its Ford, Volkswagen, and Honda companies (the source of the data is the companies' annual financial reports).

Table 3. The Multiple methods overviews of Toyota, Ford, Volkswagen, and Honda in 2022

Variable	Toyota	Volkswagen	Honda	Ford Motor Company
EBITDA (2022)(USD)	39,151,484	361,202	11,687,809	-1.74
EPS (2022)(USD)	14.03	3.44	2.66	-0.009
Share Price (USD)	181.82	25.1	28.59	17.2
Price/Earning (USD)	9.87	5.31	9.84	8.42
Market Cap (USD)	201.66b	83.83b	45.66b	61.27b
Price per share	138.48	18.27	26.17	-0.075
Enterprise Value (USD)	342.96b	205.38b	76.56b	154.80b
Enterprise Value/EBITDA (USD)	0.06	4.06	0.05	6.7
Industry based (MEDIAN) FOR P/E RATIO	8.42	EPS USING MEDIAN	118.13	
Industry based (AVERAGE) FOR P/E RATIO	7.86	EPS USING AVERAGE	110.23	

Based on Table 3 it can be concluded that Toyota's enterprise value multiple is low (0.06) compared to other companies (Volkswagen 4.06 and Hord 6.7 are almost tens of times the multiples of Toyota's enterprise value), which means that the company's profitability in 2022 is less outstanding compared to other companies in the same industry, but it also means that the company's stock is attractive. Also based on the P/E ratio, it can be seen that Toyota has the highest P/E ratio (9.87), which indicates that the company's stock has a greater rate of return and investors prefer the company's stock, thus a higher P/E ratio helps Toyota in its financing activities. However, it is worth noting that a higher P/E ratio also means that the stock is riskier and, based on the enterprise value multiple and the marginal net profit analysis above, the company's stock is largely overvalued.

4.2 PEST

On the other hand, the macro external environment of the company is analyzed through PEST. PEST analysis is a model that examines four environmental factors—political, economic, social, and technological—using an environmental scan [11]. Additionally, it is a part of the external analysis in market research and offers firms a summary of the numerous components in the larger environment. The state, potential, and operational orientation of a firm, as well as the growth or decline of a market, may all be studied using this strategic tool. As a result, this part uses a PEST analysis of Toyota to offer decision-making advice.

Politically, due to the global epidemic situation, there are different policy attitudes in various countries, which have an impact on the company's ability to trade overseas. Economically, overall national income is growing and the number of employed people is increasing, which is beneficial to Toyota's product sales, and more and more consumers are choosing to buy cars as a means of transportation, which can be observed through Toyota's sales revenue. In terms of society, as the world's population grows, production methods and values change and cars are no longer a luxury but a necessity, so the changing social environment is contributing to the development of the automotive industry. In terms of technology, new energy-powered (electric, hybrid, solar) vehicles are reducing carbon emissions and the development of smarter operating systems and driverless (AI intelligence) vehicles are certainly raising the profile of the automobile.

5. Suggestion

Based on the above analysis of sales in the accounting statements, it can be seen that Toyota's sales in the last two years have been in a superior position compared to its competitors. It is therefore

recommended that Toyota should continue to maintain its advantage by developing its sales capacity and promoting the development and manufacture of new products. This will enable the company to make more sales profits and thus contribute to its industrial expansion and investment activities, as well as increase Toyota's short-term discounting power and strengthen its capital chain. For the assessment of Toyota's P/E ratio and multiple EV/EBITDA, it is higher compared to Ford, Volkswagen, and Honda. This also indicates that the return on Toyota's stock is greater, thus facilitating the attraction of capital injections from other investors and facilitating access to more investment capital. This tends to continue as the P/E index also reflects the profit potential of a company, and investors tend to prefer companies with higher P/E ratios for investment, so the financing situation for Toyota is positive in the future. However, it is worth noting that higher P/E ratios are not beneficial or harmless. While a higher P/E ratio reflects a higher rate of return for the stock, it also reflects a higher level of risk, which is bad news for risk-averse investors. Toyota should therefore be aware of changes in the stock market and try to maintain the strength of the company's stock to reduce the likelihood of risk and allow the company to grow steadily.

6. Conclusion

This paper focuses on the business analysis of Toyota and presents the results, recommendations, and speculations on the future prospects of Toyota. The analysis of sales revenue in the accounting statements shows that Toyota has been in a dominant position in terms of the sales market compared to its competitors in the last two years, so it is hoped that Toyota will continue to maintain its sales dominance. In addition, the profitability analysis by comparing marginal net income concluded that Toyota has a relatively high level of profitability, which is very important for the company because investors are very concerned about the profitability of the company, so a high level of profitability brings higher earnings for Toyota. As for the stock valuation, by comparing the enterprise value multiple and the P/E ratio, it is found that Toyota's P/E ratio is higher than other competitors, which means that Toyota's stock has a higher return capability and can attract more investors, but also increases the risk of the stock, however, it is worth noting that Toyota's enterprise value multiple is not larger, so it is recommended that Toyota companies pay more attention to stock market movements, allowing for early judgment and regulation. Overall, this paper provides a business analysis of Toyota for the last two years, explaining the company's operations and related financial analysis. It will give the reader a more concise understanding of the development of related companies in the automotive manufacturing industry and how they compare.

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