Financial Strategy

Medium-Term ‘21 Plan: Financial policies and targets

In the medium-term business plan, the Medium-Term ‘21 Plan, announced in 2021, Toyo Tire Corporation set out its future vision for three management platforms (digital and IT infrastructure, sustainability management, and organizational and human resource infrastructure) designed to create value through the solution of social issues and ultimately generate sustainable corporate growth. Right now, we are steadily progressing each management platform and earnestly working to strengthen the financial base that underpins these platforms.

We intend to pursue stable management, even when faced with an uncertain and rapidly changing economic environment, and build a robust financial base by promoting measures designed to: improve capital efficiency by scrutinizing our business assets; achieve cash flow-focused management by strengthening our power to create cash and accelerating cash cycles; and ensure financial soundness.

In terms of concrete targets, we have set targets in the Medium-Term ‘21 Plan for a consolidated operating income margin of 14% or more and consolidated operating income of 60 billion yen in fiscal 2025. We have also set a minimum 55% sales composition ratio for priority products, which is vital for achieving the aforementioned targets. We are promoting initiatives to maximize our strengths in order to increase profitability.

Furthermore, we set a minimum target for return on equity (ROE) of 12% during the medium-term plan because we are moving into a new corporate stage, and clarified our policy for improving capital efficiency as well as profitability.

We are determined to improve our own unique corporate value, which focuses on enhancing quality, by steadily achieving these financial policies and targets.

Financial situation

(Millions of yen)

	FY2020	FY2021	FY2022
Total assets	445,579	531,229	598,889
Equity capital	220,776	279,954	320,683
Cash and cash equivalents at end of the year	36,303	53,592	41,600
Interest-bearing debt at end of the year	110,578	128,784	135,436
Capital ratio (%)	49.55	52.70	53.55
Total payout ratio (%)	59.31	16.76	27.61
Return on equity (ROE) (%)	5.27	16.52	15.97

Investment and financial strategies

We have established a policy regarding the allocation of capital with due consideration of shareholder returns, and formulated the capital investment plans based on the tandem pursuit of profitability and potential growth.

We plan to make capital investments of 194.0 billion yen over the five years of the Medium-Term ’21 Plan. We intend to use operating cash flow generated during the period, along with additional procured funds if necessary, to cover the total amount of capital investment and shareholder returns.

To give a more specific breakdown, our basic approach is to allocate 50% of operating cash flow for capital investment required to ensure future growth from a medium- to long-term perspective, which we have strategically labeled as growth investment. Of the remaining 50%, 30% will be allocated for capital investment required to maintain and update facilities to preserve the competitiveness of our existing businesses as well as improve productivity, and 20% will be used to return profits to shareholders.

We plan to generate further growth while maintaining strict financial discipline. Light trucks and SUVs form the bulk of sales in the U.S. market, which are both areas in which we excel. Based on that trend, we intend to strengthen our supply framework for large-diameter light truck tires because we believe they harbor strong growth potential. We will also consider investing in highly unique product development that leverages our strengths. At the same time, we will provide shareholder returns and increase dividends by improving profitability, and meet capital market expectations.

Growth investment

Regarding growth investment, we will promote investment that is essential for ensuring future growth in the medium- to long-term, namely digital-related investment, market investment and investment in new R&D fields.

First, on digital-related investment, we aim to improve profitability by reorganizing our enterprise resource planning (ERP) system, and seeking to strengthen global data governance by, for instance, visualizing management resources and risks, accelerating business processes and improving the quality of our decision-making.

Second, in terms of market investment, we will invest management resources in building user-centric sales and marketing, including digital marketing, engagement activities designed to enhance our brand power and promotional activities to expand sales.

Third, in terms of investment in new R&D fields, we will strive to establish and commercialize technologies for next-generation vehicles in order to create forms of sustainable mobility that are worthy of a carbon-neutral society.

Environment and social (ES) investment

We expect to make further sustainability-related investments going forward in order to promote a shift toward sustainability management. Regarding decarbonization-related investments in particular, it can be difficult to incorporate any CO_2 reduction impact into the profit simulation used for verifying profitability and determining whether or not to promote regular investment projects. As a result, those investments may be considered unsuitable in terms of sustainability management.

With that issue in mind, we introduced internal carbon pricing (ICP) on a trial basis in fiscal 2023. ICP is a good way to visualize the impact of reducing CO_2 emissions by translating that impact into a quantifiable monetary value and to incorporate that impact into a quantitative model. We want to facilitate the consideration of the CO_2 reduction impact as a monetary value in investment decision-making because we believe this will help promote decarbonization-related investment.

Going forward, we will use ICP to review the performance of our decarbonization investments. We also plan to introduce ICP as an official evaluation standard in 2024 based on external ICP price-setting trends.

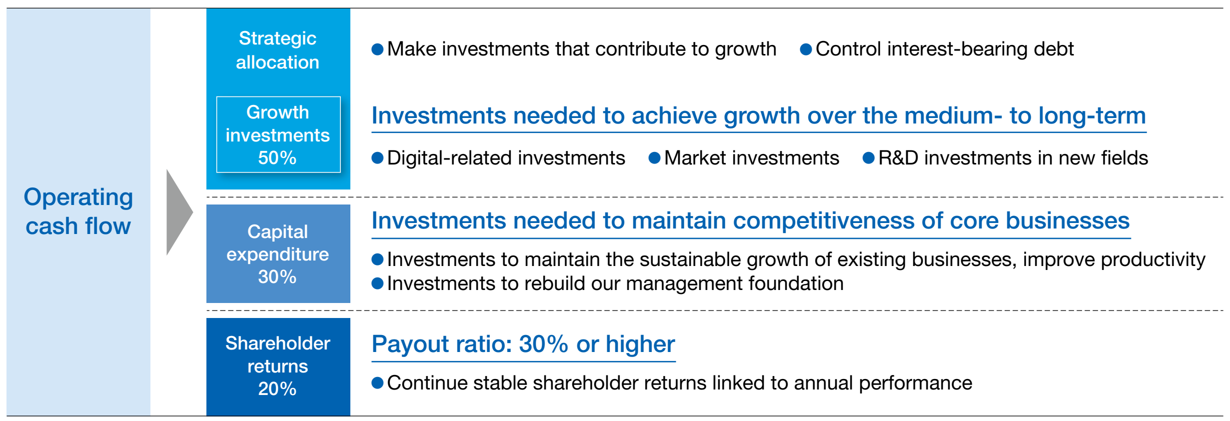
Shareholder returns

In our new corporate stage, we will set policies for capital investment and shareholder returns in addition to ROE indicators, and we will pursue both profitability and efficiency in a well-balanced manner.

As part of this policy, we want to provide returns to shareholders that reflect annual performance, while maintaining our commitment to the provision of stable dividends. We expect to achieve a dividend payout ratio of 30% or higher during the Medium-Term ‘21 Plan.

The ultimate aim is to realize a shareholder returns policy that provides stability and reflects business performance. This will be done by adjusting non-recurring special gains (losses) included in profit attributable to owners of the parent and linking returns to real profit that more closely reflects actual profit values.

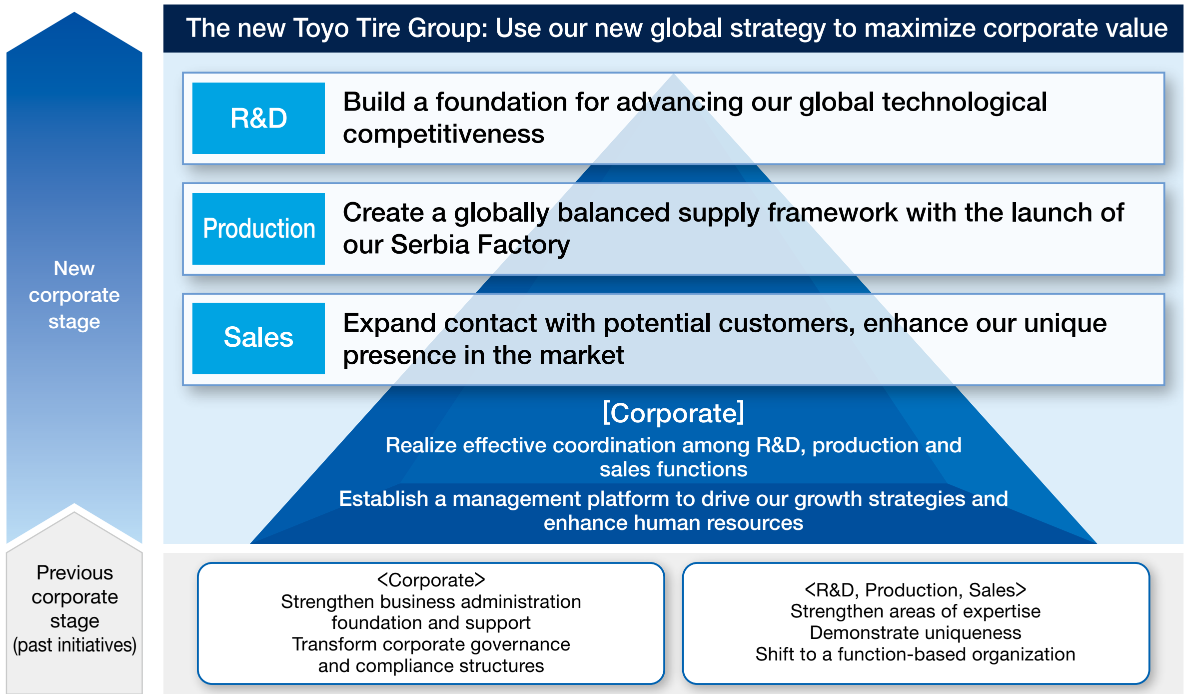
Three-year cash allocation



Medium-Term ’21 Plan Progress

This section explains the progress made on our five-year medium-term business plan that we call Medium-Term ’21 Plan. To help address the dramatic changes in our external environment, we are pursuing the plan’s goals by coordinating R&D, production, sales and other functions on a global scale and demonstrating an ability to adapt swiftly and flexibly to change.

Basic policy



Progress on R&D, production and sales strategies

R&D

Strengthen our proprietary technology by joining up the R&D of Japan, the U.S. and Europe to develop highly preferable and differentiated products that meet environmental and other next-generation mobility needs

We have developed and launched a new product with a new silica dispersing agent made from natural sustainable raw materials. In the field of materials development, we have created a technology for synthesizing the butadiene required for synthetic rubber from CO_2 jointly with the University of Toyama. This helps reduce environmental impact compared to petroleum-derived products. We are also actively developing the high-functioning EV tires with the superior rolling resistance and wear resistance required for EVs, and is working to create differentiated products that combine environment-conscious technologies with the sophisticated features for which we are renowned.

Production

Build a stable supply base for the North American market and make the Serbia Factory highly cost competitive

Production at the Serbia Factory, our first production base in Europe, began in July 2022. We aim to generate highly efficient production fueled by state-of-the-art equipment and systems that fulfills our desire to produce locally in Europe for local consumption and secures a stable supply of passenger car tires for the North American market. We are pressing ahead with the construction of an optimal global production and supply system inspired by the launch of the Serbia Factory. For instance, establishing a production system at the Serbia Factory will enable us to increase the production capacity of large-diameter light truck tires at our U.S. plant.

Sales

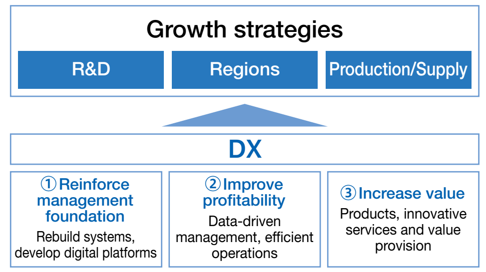
Strengthen offerings for strategic models by launching differentiated products for North America, Europe, Japan and Asia according to local market strategies, and creating tie-ups between tires and automotive parts

We will continue to launch new products with unique and sophisticated characteristics and use our wide-reaching sales network to actively expand sales of large-diameter light truck tires in the priority market of North America. In addition, we are boosting the sales ratio of priority products by introducing regionally tailored products in each market and participating in motorsports activities to improve our brand power and presence. In Japan, we are pressing ahead with efforts to build sales and logistics systems that are highly efficient and meet customer needs.

Digital transformation policy

With regard to digital transformation (DX), in 2021, Toyo Tire Corporation established a headquarter for each function to guide the establishment of a management platform capable of firmly supporting the growth strategies laid out in the Medium-Term ’21 Plan and underpin the required improvements in corporate structure to achieve that growth. We are strengthening inter-functional links across the board and promoting digital innovation in three separate stages. We are currently in the first stage of that process in which we are standardizing global operations by developing various infrastructure and rebuilding enterprise resource planning systems, and also building an integrated data platform that is key to data-driven management. The aim is to move swiftly into the second stage, which will help generate higher profitability and improve value.

On the technology and product development front, we proactively utilize data to optimize products through lifecycle management and improve productivity at our manufacturing sites. We are also formulating a sales strategy and developing priority products based on the centralized management and optimal operation of global inventories and precise data analysis. Our ultimate aim in using this digital strategy is to simultaneously ensure a customer-focused manufacturing framework and highly profitable business management that will support our growth strategies.



Progress on key performance indicators

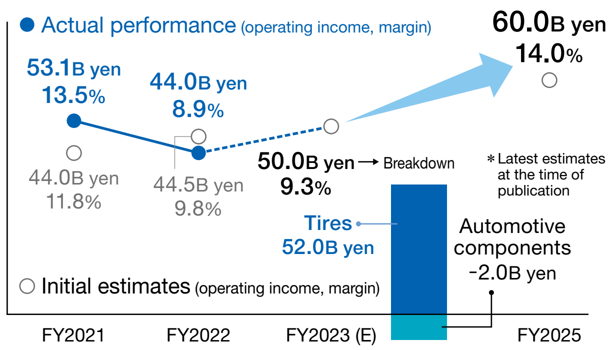
In fiscal 2022, the Toyo Tire Group achieved consolidated operating income of 44.0 billion yen and a consolidated operating margin of 8.9%. Compared to the smooth progress made toward our quantitative targets in the first year of the plan, progress in fiscal 2022 was temporarily hindered by changes in external factors caused by emerging geopolitical risks. However, the operating income target for fiscal 2025 is within reach and we plan to move forward with confidence in order to achieve that level.

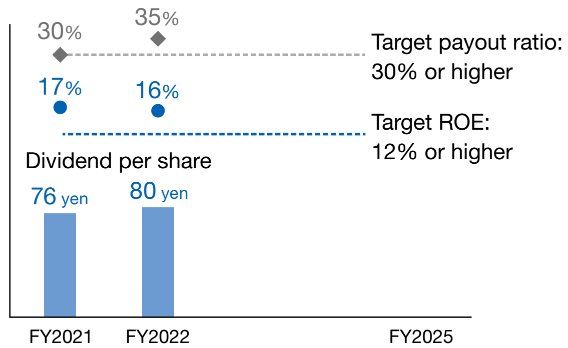
The fiscal 2022 return on equity (ROE) level of 16% remained above the 12% target. The policy on the dividend payout ratio stipulated in the medium-term plan to achieve a ratio of 30% or higher on a net profit after deduction of one-time gains (losses) basis remains unchanged. We will achieve a good balance between growth investments, investments in business continuity and shareholder returns.

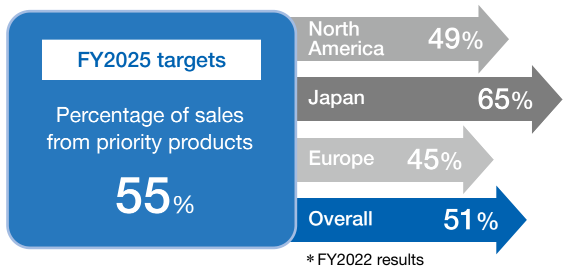
Flexibly adapt to environmental changes, attain upward profit track to achieve targets

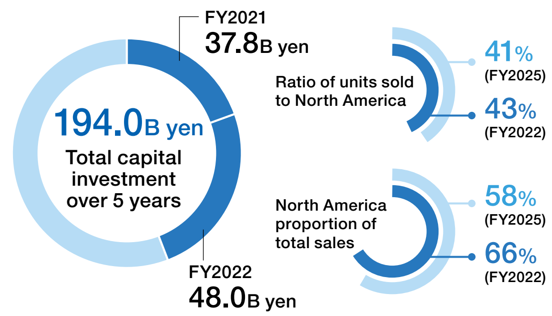
FY2025 targets — Consolidated operating income: **60.0B yen** | Consolidated operating income margin: **14% or higher**

Over Medium-Term ’21 Plan — ROE: **12% or higher** | Payout ratio: **30% or higher**







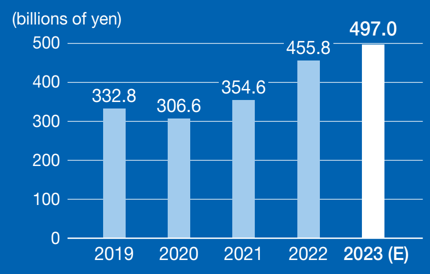


Business Overview

Tire Business

The primary business of the Toyo Tire Group, which accounts for approximately 90% of net sales, is the production and global sale of automotive tires for passenger vehicles, light trucks and SUVs, and trucks and buses, and other related products. The tire market is primarily classified into original equipment tires (global), replacement tires for the Japanese market and replacement tires for global markets. The replacement tires for the North American market in particular accounts for a significant proportion of our sales.

Net sales



The external environment

The United States is a major sales region for Toyo Tire Corporation. In that market, while some people were pessimistic about the economic outlook at the end of 2022, the latest employment and income environment has remained strong, economic sentiment is improving and private consumption is holding firm. Meanwhile, in Europe, corporate sentiment is expected to deteriorate and economic conditions are expected to remain soft as the positive benefits that accompanied the resumption of economic activities following the COVID-19 pandemic start to fade. In Japan, the economy has picked up thanks to the impact of various government measures, but close attention should be paid to the risk that a downturn in international economies could dampen the Japanese economy, and that continued high prices could dampen the pace of recovery.

The global economy is exhibiting a certain degree of resilience, and we believe that the ownership of light trucks, which is a key area of strength for us, will hold firm and demand for highly sophisticated large-diameter light truck tires will remain steady. We will work to further expand sales of large-diameter light truck tires and SUV tires, in which we excel, as well as other priority products by utilizing our global production bases in the U.S., Malaysia, China and Serbia and our global supply and demand system that can swiftly adapt to change to their full advantage. On another point, most people now expect the proportion of battery electric vehicles (BEVs) to new vehicle sales to certainly rise, so the outer diameter of tires is expected to increase in relation to the weight of the vehicles. The trend toward electric pickup trucks is also expected to advance in North America. We view this shift toward electric vehicles (EVs) as an opportunity and we plan to develop EV tires that leverage our strengths and introduce them into the market.

FY2022 review and future outlook

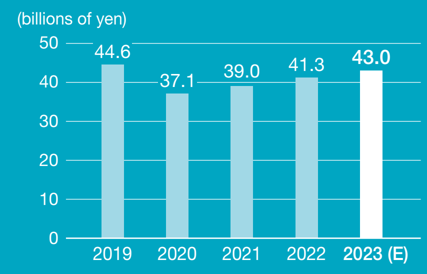
In the North American market, both sales volume and net sales increased year on year in fiscal 2022 compared to fiscal 2021 thanks to our focus on the sale of priority products, such as large-diameter light truck tires, as well as an improved product mix thanks to higher prices and expanded sales of priority products. In the European market, sales volumes declined year on year in the wake of the situation in Russia and Ukraine. However, net sales held steady year on year due to price increases in individual European markets and an improved product mix. In Japan, both sales volume and net sales increased year on year thanks to stronger sales of winter tires, focused sales of priority products and an improved product mix generated by higher prices and higher sales of priority products. In terms of the future outlook, we expect to generate an increase in both sales and profits going forward based on a forecasted increase in units sold and assumed positive benefits from revised ocean freight rates. We will also work to improve productivity at our plant in the U.S. and boost production beyond the previous year's level while steadily implementing our plan for full-scale operation at our plant in Serbia.

Basic strategy		● Create differentiated products by further strengthening our proprietary technologies ● Establish highly cost-competitive operations at the Serbia Factory, build a stable supply base and a highly efficient global production system by horizontally deploying the latest production systems ● Consistently develop high value-added products tailored to specific needs ● Solidify and extend a dominant position in large-diameter light truck tires in North America
Individual measures	R&D	● Develop products that offer environmental, sustainable and other elements in addition to our renowned sophisticated features ● Expand the application of modular design to promote early commercialization ● Introduce production equipment to prepare for EV shift
	Production	● Establish annual production capacity of 5 million units at the Serbia Factory ● Increase supply capacity of large-diameter light truck tires at U.S. plant
	Sales	● Consistently launch new products with unique and sophisticated features ● Prioritize development of digital marketing, generate synergies through stronger cooperation with existing sales network ● Pursue various categories of motorsports activities to help enhance performance and brand power

Automotive Parts Business

The Toyo Tire Group leverages its vibration control technology to supply products that improve automotive handling stability and soundproofing. We are striving to establish a solid position as a supplier by promptly proposing products that match the needs of automakers. Moreover, given the fact that automobile production sites are located across the globe, we are focusing our efforts on realizing an optimal supply network by establishing a production structure centered on Japan, the U.S. and China.

Net sales



The external environment

The environment surrounding the automotive parts business was affected by a reduction in production on the part of automakers that was caused by a shortage of parts and semiconductors in the wake of COVID-19. However, automaker production is expected to recover going forward. Sales for the Toyo Tire Group are predicted to increase on the back of higher sales prices for current products and products for new models, and the recovery in production by automakers. This trend was already pointed out in the previous external environment segment for the tire business, but the ratio of BEVs to new vehicle sales will undoubtedly increase in future, so we need to diligently consider the pending shift to EVs.

Toyo Tire Corporation's management can be characterized by its combination of two segments that are vital for mobility, namely tires and automotive parts. We will help promote the shift to EVs and develop next-generation mobility by pursuing a unique approach that links both the tire business and the automotive parts business.

The main products in this segment that best demonstrate our technological prowess include engine mounts, EV motor mounts and resin boots. We aim to make full use of the differentiation technologies that we have acquired through technical exchanges with automakers to promote the development of high value-added products and encourage orders, while maintaining and improving the required functionality. We seek to progressively improve automotive-related technologies, and wish to channel the early collection of information on vehicle trends into pioneering next-generation mobility technologies.

FY2022 review and future outlook

In fiscal 2022, we were affected by the production cuts instigated by automakers, but managed to partially reflect the soaring cost of raw materials in prices, which resulted in a year-on-year increase in net sales compared to fiscal 2021.

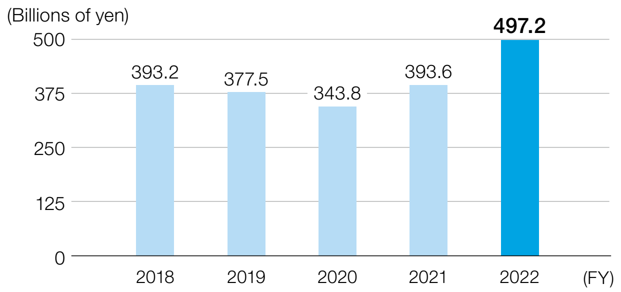
In terms of the future outlook, we expect to see an improvement on the profit front thanks to a recovery in vehicle production and a consequent increase in sales. We will continue to work on improvements by better reflecting conditions in the materials market and soaring energy costs in prices, streamlining raw material procurement and production processes and pursuing greater efficiencies in international transportation costs.

We recognize that turning a profit in the automotive parts business is an important issue for us. We have already made progress on streamlining operations at our plants and reducing selling, general and administrative expenses, but we are committed to further improving profit structures in order to move the segment into the black.

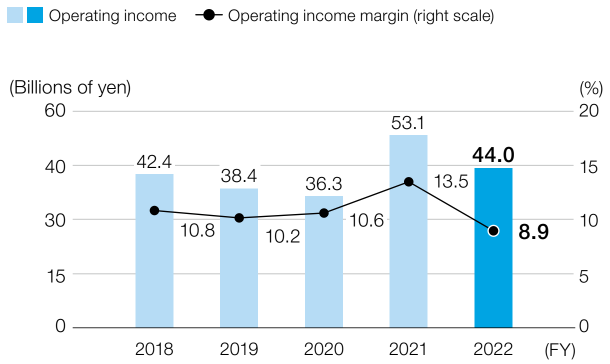
Basic strategy	● Establish a superior position as a system supplier by organically linking tires and automotive parts ● Encourage product use in next-generation mobility vehicles and other strategic models
Individual measures	● Develop approaches to encourage new orders for high value-added products ● Optimize production bases and ordering concepts to improve profitability

Financial Highlights

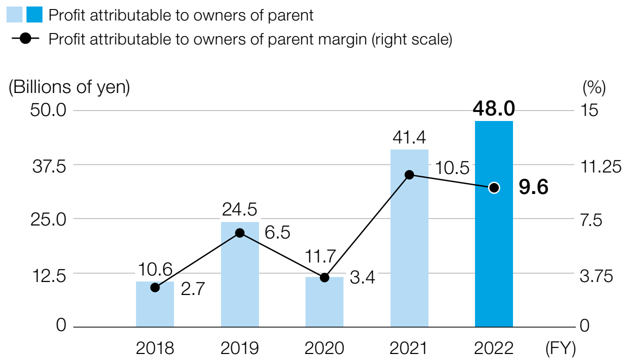
Net sales



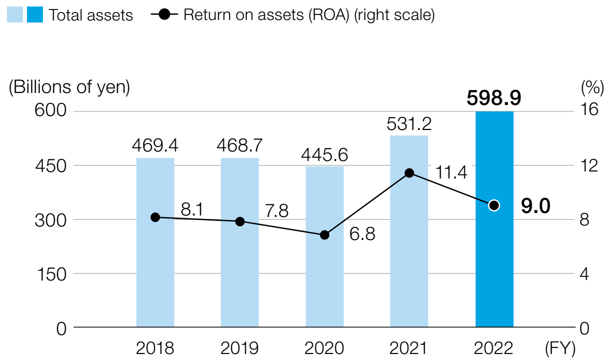
Operating income / Operating income margin



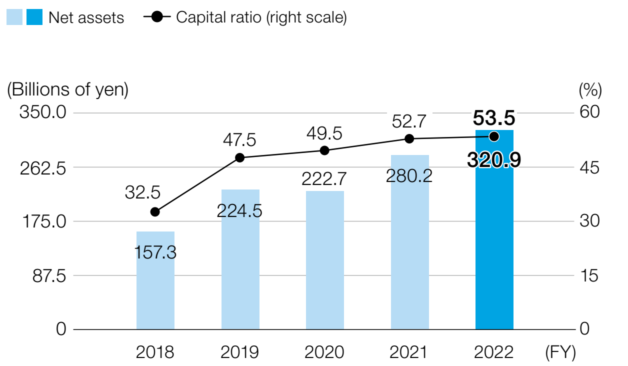
Profit attributable to owners of parent / Profit attributable to owners of parent margin



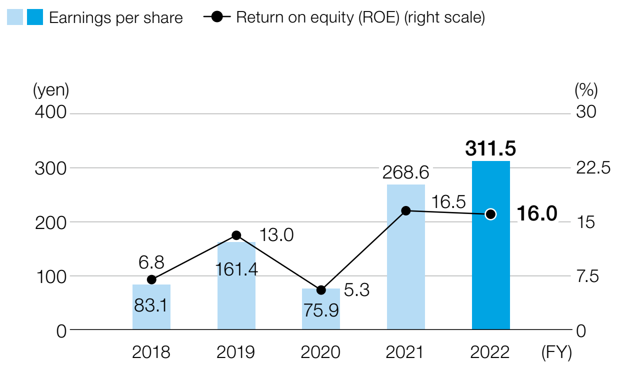
Total assets / Return on assets (ROA)



Net assets / Capital ratio

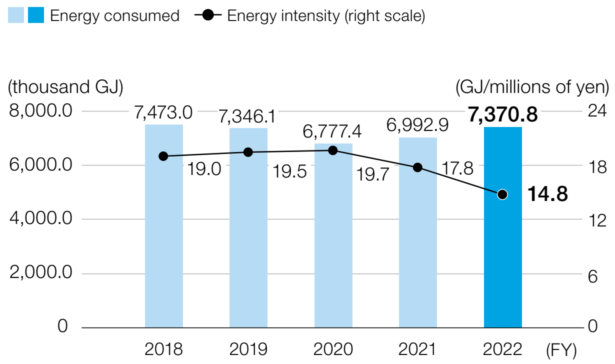


Earnings per share / Return on equity (ROE)



Non-financial Highlights

Energy consumed*

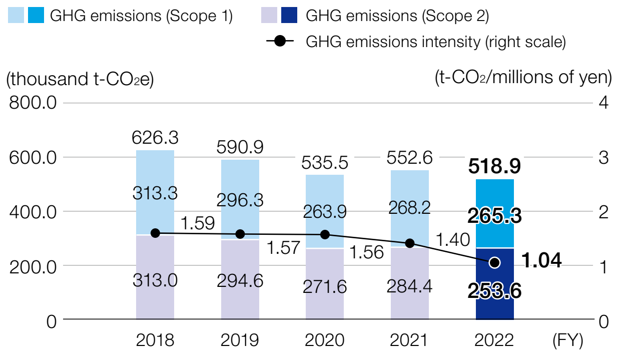


Energy consumed by source

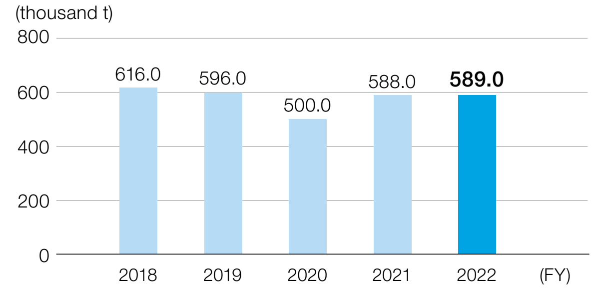
(thousand GJ)

	2020	2021	2022
Consumption of fuel from non-renewable energy sources (gas, heavy oil)	4,662.4	4,735.7	5,130.8
Purchased electricity consumption	1,818.8	1,944.2	1,923.5
Consumption of purchased electricity from renewable energy sources, consumption equivalent to procurement of non-fossil certificates	0.0	0.0	114.2
Consumption of fuel from renewable energy sources (photovoltaics)	0.4	0.8	0.7
Purchased steam consumption	295.8	312.2	315.8

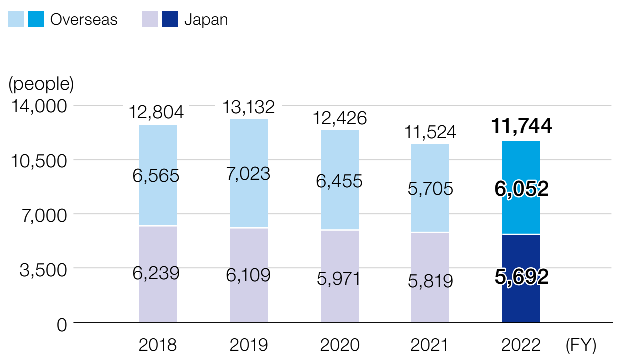
Greenhouse Gas (GHG) emissions*



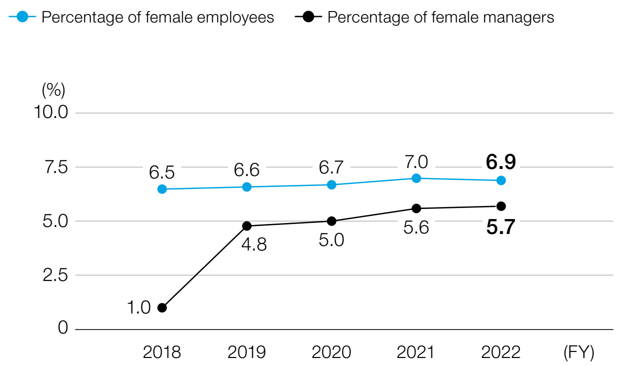
Raw materials used



Number of employees (consolidated)



Percentage of female employees / Percentage of female managers (non-consolidated)



*Scope of energy consumed and greenhouse gas emissions: production sites and administrative/technical sites in and outside Japan