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.

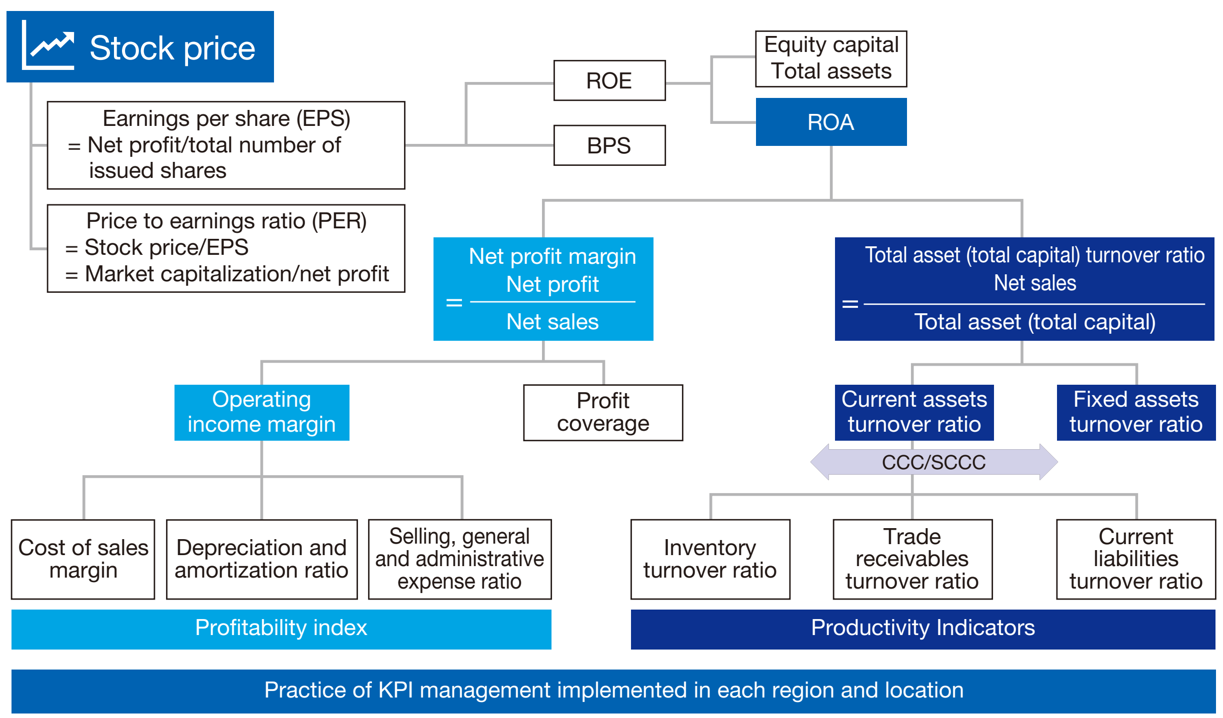
We intend to pursue stable management, even when faced with an uncertain and rapidly changing economic environment by promoting measures designed to: improve capital efficiency by scrutinizing our business assets; achieve cash flow-focused management by strengthening our power to create cash and accelerating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

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. In fiscal 2023, we achieved consolidated operating income of 76.9 billion yen, ahead of the target of the Medium-Term ’21 Plan, and our consolidated operating income margin was 13.9%.

As a manufacturing company that utilizes machinery, equipment, and other assets to increase earnings, we are focused on improving our return on assets (ROA). 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. Each month we review our ROE, together with our consolidated operating income and consolidated operating income margin, and hold internal discussions on ways to achieve our targets. The ROE for fiscal 2023 was 20.2%.

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

Building a strictly-disciplined, robust financial base for enhanced corporate value

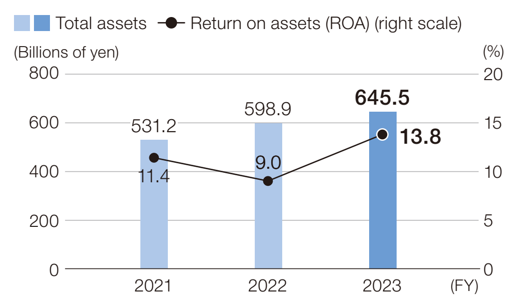


Financial situation

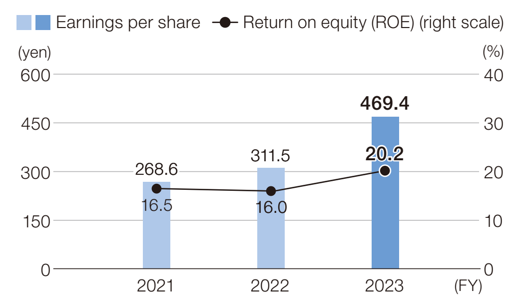
(Millions of yen)

	FY2021	FY2022	FY2023
Total assets	531,229	598,889	645,480
Equity capital	279,954	320,683	395,199
Cash and cash equivalents at end of the year	53,592	41,600	52,798
Interest-bearing debt at end of the year	128,784	135,436	102,714
Capital ratio (%)	52.7	53.5	61.2
Payout ratio (%)	28.3	25.7	21.3
Return on equity (ROE) (%)	16.5	16.0	20.2

Total assets / Return on assets (ROA)



Earnings per share / Return on equity (ROE)



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. When considering capital investments, we calculate the internal rate of return (IRR) based on future cash flows and compare it to the most recent weighted average cost of capital (WACC). As a general rule, management decisions to invest are made only for projects for which the IRR exceeds the WACC.

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.

Operating cash flow for fiscal 2023 increased by 86.5 billion yen due to the accumulation of profit and improvements in working capital while capital investments amounted to 34.1 billion yen, including growth investments such as digital-related investment and investment in a new plant in Serbia. Dividend payments during the fiscal year amounted to 10.8 billion yen, which were covered within the operating cash flow. In fiscal 2024, we expect to invest a total of 45.3 billion yen, which includes, in addition to digital-related investments, new capital investments at our U.S. plant and in R&D at our Serbia Factory. We will continue to invest within the scope of our operating cash flow, and remain disciplined to ensure that our free cash flow is stable and in a surplus.

In addition to the capital ratio and financial leverage, we will make quarterly fixed-point observations on the turnover ratio of trade receivables, inventory, trade payables, and others, to properly manage the balance sheet and cash flow. While maintaining strict financial discipline in that manner, we will consider investing in strengthening our supply framework for large-diameter light truck tires as they harbor strong growth potential given that light trucks and SUVs, areas in which we excel, form the bulk of sales in the U.S. market, as well as in developing highly unique products that leverage our strengths. Through these strategies, we will maintain and improve our current profitability, promote capital optimization, and return profits to shareholders by increasing dividends in an effort to 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 incorporating that impact into a quantitative model. We reviewed the performance of our ICP-based decarbonization investments, and then decided to introduce ICP as an official evaluation standard from fiscal 2024 based on external ICP price-setting trends. By considering the CO_2 reduction impact as a monetary value in investment decision-making, we will strive to promote decarbonization-related investment.

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.

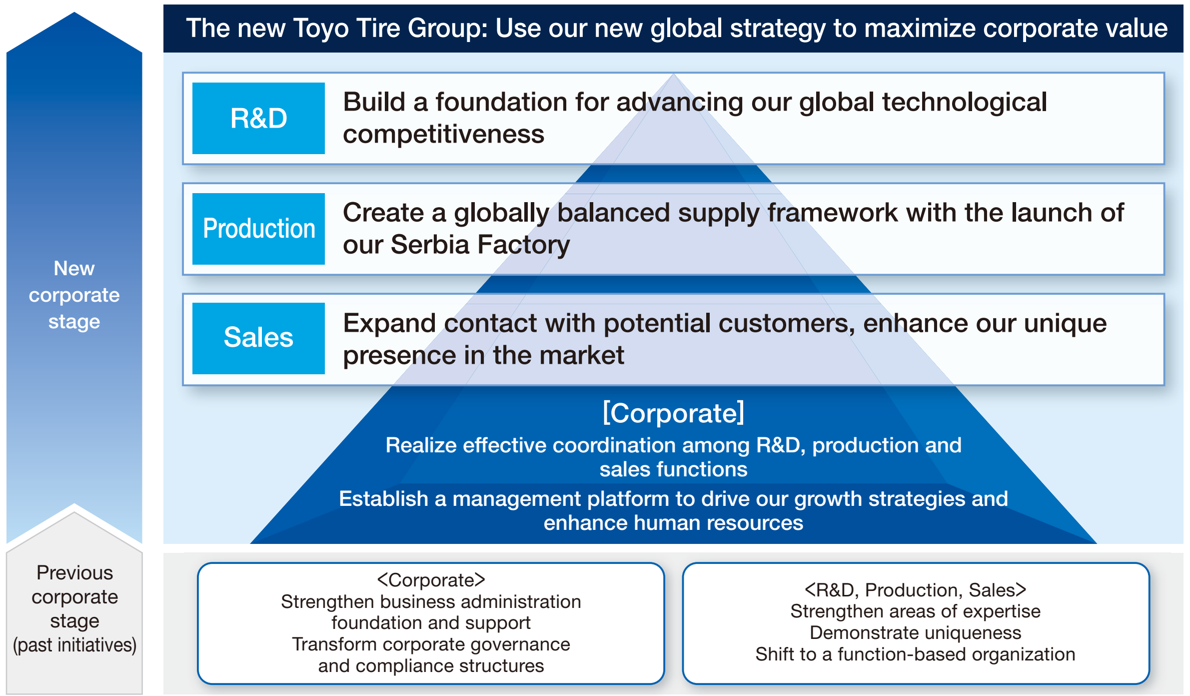
As part of this policy, we aim to return at least 30% of profit, excluding extraordinary profit and loss to reflect the actual performance of the business, to shareholders as dividends. We strive to provide long-term, stable returns to shareholders, taking into overall consideration factors such as the ratio of dividends to shareholders' equity and the actual amount of dividends.

Regarding specific dividends, we paid an annual dividend of 100 yen per share in fiscal 2023, an increase of 20 yen from the previous year, and in fiscal 2024, we expect to pay 105 yen per share. This will be done by adjusting for non-recurring special gains and losses included in profit attributable to owners of the parent and linking returns to real profit that more closely reflects actual profit values. We will work to realize a long-term stable return in a payout ratio of 30% or more, calculated by excluding special factors, in a way that both provides stability and reflects business performance.

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

- Launched the industry's first light truck tire for EV
  Looking to reduce rolling resistance and improve cruising distances by conducting our own unique aerodynamic simulations while maintaining the wear resistance and durability required to support the high torque and increased vehicle weight of EVs
- Developed a concept tire made from 90% sustainable materials
- Started joint research on sustainable materials with the University of Novi Sad in Serbia

Production

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

- Installed final equipment in the Serbia Factory in December 2023
  Actively developing the systems and training to support full production
- At our U.S. plant, we are gradually shifting production of low-inch tires to other bases and upgrading facilities so we can increase production capacity of large-diameter light truck tires
- As part of our effort to streamline production of automotive parts, we stopped production at our auto parts plant in the U.S. and transferred production primarily to Japan

Sales

Enhancing our approach to strategic models by launching original products inspired by tailored strategies in North America, Europe, Japan, and other Asia, and encouraging close cooperation between our tire and automotive parts businesses

- Working to consistently strengthen our relationships with local dealers in the North American market to gather more data on user needs, and leverage our dealer network to promote sales of high value-added products
- Continue to introduce sophisticated products primarily in the light truck tire segment
- Focusing on direct digital marketing through social media, while also improving our presence and building a quality brand image by participating in motorsports activities and signing sponsorship agreements with professional sports teams

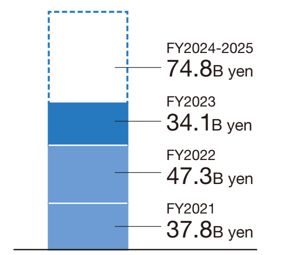
Progress on key performance indicators

We are accelerating some measures set forth in the Medium-Term '21 Plan such as the promotion of sales of priority products that offer high added value and the streamlining of business structures in the automotive parts business. Furthermore, we achieved most of the plan's targets ahead of schedule in fiscal 2023 thanks in part to a boost from external factors such as foreign exchange rates. Going forward, we will continue to promote various measures to reach the remaining targets that have not been met, and to further progress the targets that have already been achieved.

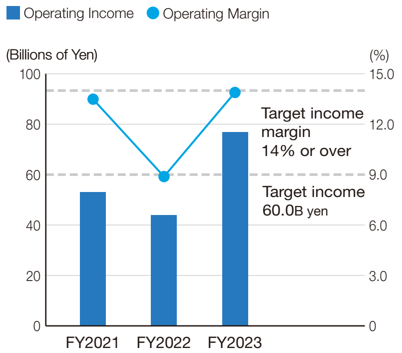
Achievement and progress of targets (FY2023)

Our targets	2023 Results
Operating Income 60.0 billion yen	76.9B yen
Operating Margin 14% or over	13.9%
ROE 12% or over	20.2%
Dividend payout ratio* of 30% or over	27% (3-year avg. 30%)
% of sales from priority products 55% or over	63%

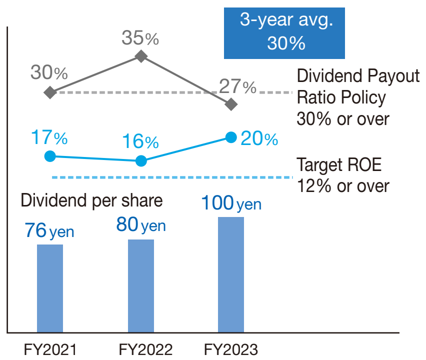
Capital Investment



Changes in Operating Income, Margin

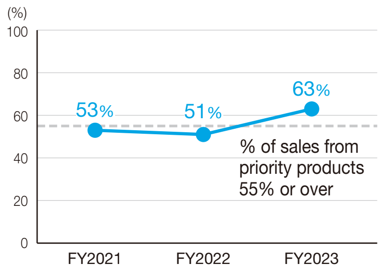


Changes in ROE, Dividend payout ratio*



*Calculated based on actual net income excluding extraordinary gains/losses

Changes in Percentage of sales from priority products

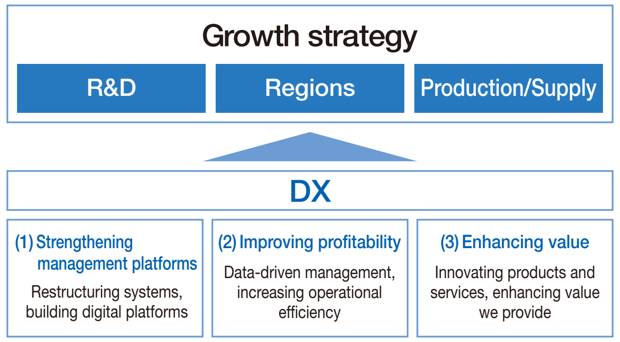


Priority products: Tire product categories that epitomize Toyo Tire's strengths and that are vital for achieving our targets for operating income and operating income margin, such as new products, core products, and differentiated products

Progress on Digital transformation

We position digital transformation (DX) as a set of initiatives designed to back up efforts to improve our corporate structure and to steadily realize the growth strategy laid out in Medium-Term '21 Plan. Our Digital Transformation Headquarters, which was established in 2021, promotes digital innovation that enhances company-wide cross-departmental cooperation. And, the headquarters is made up of designated DX personnel from each function who serve as intermediaries for promoting DX. We are also establishing a framework for DX education together with the Human Resources Department to increase the number of people with the right mindset and skills to fully comprehend and effectively utilize precious data.

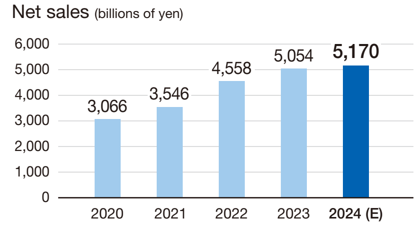
Regarding the DX initiatives which are divided into three stages and promoted: (1) Strengthening management platforms, (2) Improving profitability and (3) Enhancing value, we are steadily advancing initiatives in the first stage of strengthening management platforms, and are now starting to implement the second and third phases that will lead to improved profitability and enhanced value. We are in the process of establishing an integrated digital strategy that leads to both customer-oriented manufacturing and highly profitable operational management in order to support our overall growth strategy.



Progress of Tire Business

Basic strategy

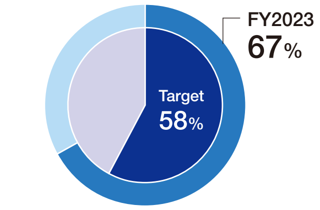
- Create differentiated products by further evolving our proprietary technologies
- Effectively utilize the extremely cost-competitive Serbia Factory
- Build a future-oriented supply platform through the global development of highly efficient production systems modeled on the Serbia Factory
- Consistently develop high value-added products tailored to specific needs
- Solidify and extend a dominant position in the large-diameter light truck tire segment in North America



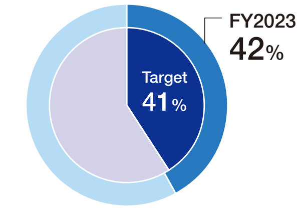
FY2023 review

We worked hard to expand sales of priority products such as large-diameter light truck tires in the North American market, resulting in year-on-year increases in unit sales and revenue in fiscal 2023.

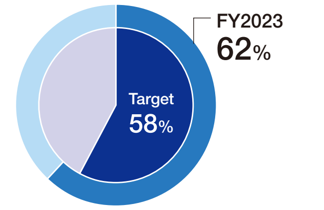
North America proportion of total sales (FY2023)



Ratio of units sold to North America (FY2023)



Ratio of priority products to total sales in North America (FY2023)

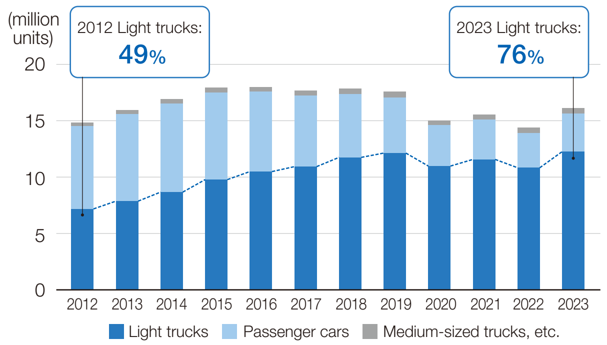


In the European market, unit sales declined year on year partly due to the impact of the Russia-Ukraine situation, tighter monetary policies, and the continued economic slowdown caused by higher prices. In the Japanese market, new vehicle production recovered, but sales of winter tires were stifled by warm winter weather. As a result, unit sales were flat year on year in fiscal 2023. However, revenue increased thanks to more prevalent price increases and a higher ratio of priority product sales.

The external environment and future outlook

The United States is a major sales region for Toyo Tire Corporation in which the ratio of small trucks to total new vehicle sales remains comparatively high at roughly 75% of total sales in fiscal 2023. Our company has a strong presence in the light truck replacement tire market, where demand is expected to increase in future.

Breakdown of new vehicle sales in the U.S. market



We also expect to see stable tire replacement demand in Japan and Europe, which both boast a high level of automobile ownership. Regarding new vehicle sales, we are seeing an increase in SUVs and a tendency toward installing larger diameter tires in new vehicles. We consider these trends as a great opportunity for expanding sales in areas in which we excel.

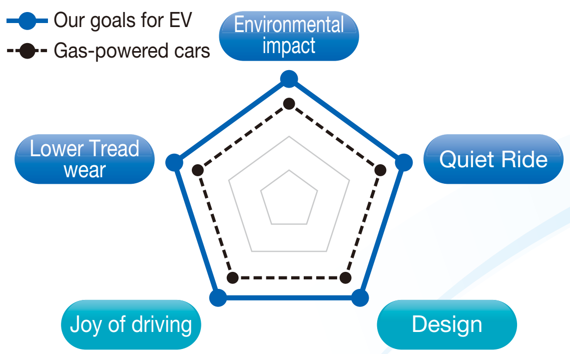
Requirements for tire performance will likely change and grow more sophisticated as the source of powering vehicles diversifies. Furthermore, the creation of new forms of mobility, such as green slow mobility, may require unprecedented new tire performance. Green slow mobility is a small mobility service that uses electric vehicles permitted on public roads that are capable of speeds up to 20 km/h to help alleviate social issues such as last-mile logistics and an aging population.

Individual measures

R&D

- Develop tires with high environmental performance to help improve the fuel efficiency of automobiles
- Develop technologies and products to handle the low tire noise, instant torque, and heavier body mass, due to the use of motors with the spread of EVs
- Develop products that set us apart from other companies by fully demonstrating our unique commitment to the joy of driving and offering of design features

Blending eco-friendly technologies and sophisticated features



Sales

- Promote sales activities with a focus on large-diameter tires for light trucks, in which we have a strong presence, by strengthening cooperation with national dealers with nationwide dealership networks
- Expand brand recognition and fan bases through direct marketing that maximizes social media and other digital tools, and participation in motorsports
- Increase our focus on product categories in which we excel in Japan, Asia, and Europe and concentrate on developing differentiated products

Our Brand

TOYO TIRES

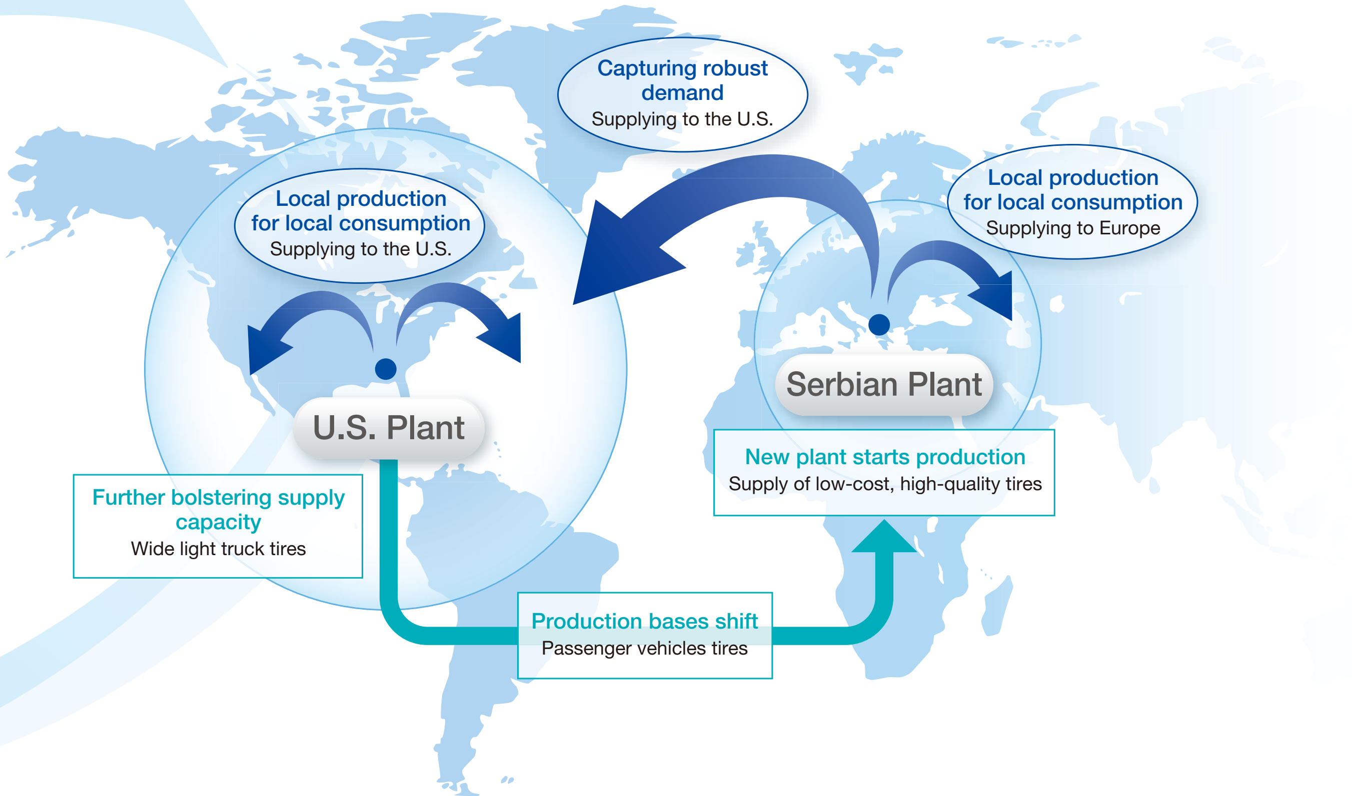
A brand that pursues a degree of excitement and surprise that transcends expectations and satisfaction with its unique imaginative sense and technological prowess, and makes driving ideals a reality. Toyo Tires offers a full product range from passenger car tires, light truck tires, and truck and bus tires.

NITTO

A brand that heeds the opinions of car enthusiasts, remains true to its motto of creating what customers really want, and offers an exquisite mix of freedom, innovation, and creativity. Nitto always strives to set trends by anticipating market needs through in-depth analysis of customer feedback, which leads to an overwhelming reputation in its own niche market.

Production

- Operate our Serbia Factory at full capacity to ensure timely supply to the European market and stable supply to the North American market
- Increase production at our U.S. plant of large-diameter light truck tires that are expected to witness even higher demand in the North American market
- Realize optimal global supply systems centered around efforts to establish production systems at the Serbia Factory and expand production capacity at our U.S. plant



Expand capacity at our U.S. plant

We intend to satisfy replacement tire demand for pickup trucks and SUVs, which is expected to continue to grow going forward, by increasing production ratios of large-diameter light truck tires at our U.S. plant.

Full production at Serbia Factory

We will establish a stable production system and promote various measures to ensure production is kept within the estimated costs. We will seek to increase market credibility by providing a stable supply of products to the North American market, shortening lead times to swiftly meet European demand and supplying high-performance tires.

Progress of Automotive Parts Business

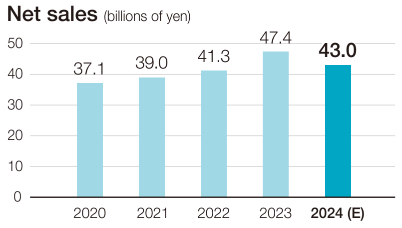
Basic strategy

- 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


Engine Mount


Motor Mount


Bush



FY2023 review

We moved into the black in fiscal 2023, two years ahead of the fiscal 2025 timeline, by terminating production of auto parts at our U.S. plant and generally streamlining our business structure, continuing our cost-cutting activities, and passing on fluctuations in raw materials prices. Going forward, we will be looking to generate consistent profits and improve profitability by further rationalizing production systems, reducing costs, and developing and selling high value-added products.

The external environment and future outlook

Automobile production is recovering now that the disruptions in supply chains and shortages of semiconductors caused by the COVID-19 pandemic have dissipated. From a medium- to long-term perspective, requirements for automotive parts' performance will likely change and grow increasingly sophisticated as vehicle power sources and mobility modes diversify. The proportion of battery electric vehicles (BEVs) is expected to rise in the future, but demand for hybrid electric vehicles (HEVs) is also proving strong. While demand for EV motor mounts and other EV-specific parts is increasing, we expect demand for our engine mounts and other main products to remain solid.

Achieve a stable profit in the automotive parts business

Having turned a profit in the automotive parts business earlier than planned in fiscal 2023, we will strive to ensure stable profits and generate greater profitability by consistently implementing improvements under a new streamlined framework and developing high value-added products.

Collaboration with tire business

Toyo Tire Corporation is engaged in two businesses that are vital to the mobility sphere, namely tires and automotive parts. Future performance requirements for tires and automotive parts will undoubtedly grow more diverse. We will strive to enhance our technological prowess and to develop and propose high value-added products by acquiring additional expertise and information through joint development projects and technical exchanges with automakers.

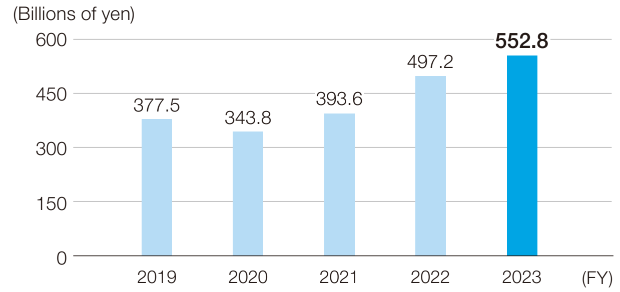
In addition, we will gather timely auto-related information to help anticipate and speedily develop the advanced technologies that future generations demand. Any information that we collect will also be shared with the tire business to help develop tires that satisfy the latest needs and trends.

We remain committed to pioneering the development of a mobility society through our own unique approach that features close collaboration between our tire and automotive parts businesses.

Link between tires and automotive components
[Making an impact on the mobility industry]

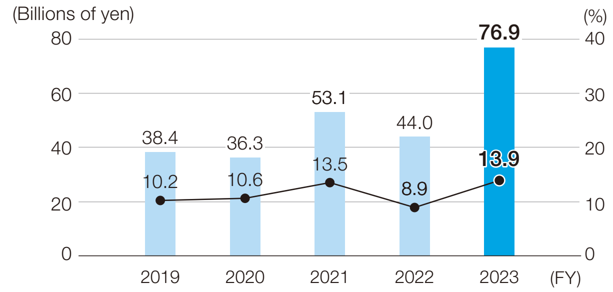
Financial Highlights

Net sales



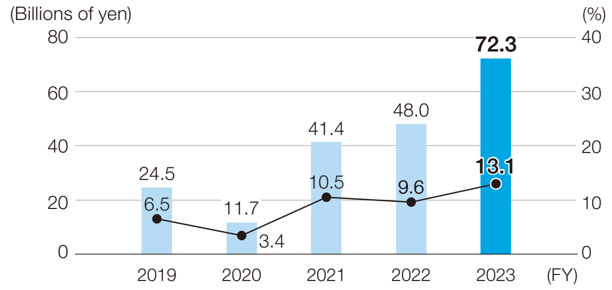
Operating income / Operating income margin

Operating income / Operating income margin (right scale)



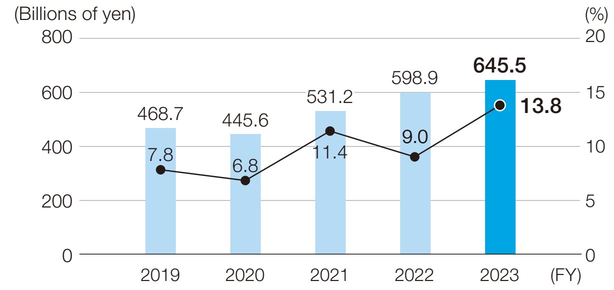
Profit attributable to owners of parent / Profit attributable to owners of parent margin

Profit attributable to owners of parent
Profit attributable to owners of parent margin (right scale)



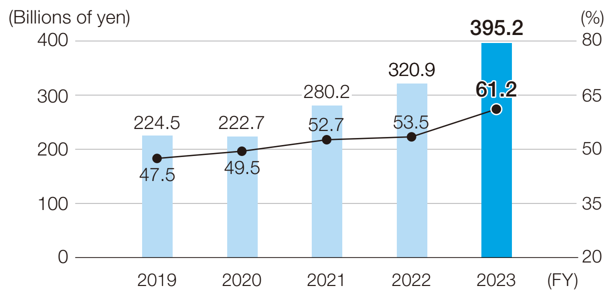
Total assets / Return on assets (ROA)

Total assets / Return on assets (ROA) (right scale)



Net assets / Capital ratio

Net assets / Capital ratio (right scale)



Earnings per share / Return on equity (ROE)

Earnings per share / Return on equity (ROE) (right scale)