Message from the President & CEO

Ensuring reliable growth by continually refining our profit-generating structures

Toyo Tire's Medium-Term '21 Plan succeeded in enhancing the company's profitability and strengthening its financial base by reinforcing collaboration between production, sales and R&D functions. Now, in this age defined by uncertainty, the company is aiming for even greater growth through faster decision-making and uniqueness that sets it apart in the industry. In this interview, President Takashi Shimizu discusses the growth philosophy behind the Medium-Term '26 Plan, as well as the foundations and strategies that will drive its achievement.

Q1 How has Toyo Tire achieved growth through quality transformation?

Management platforms built through the Medium-Term '21 Plan

The Medium-Term '21 Plan served not only as our roadmap for business growth, but also as the driver for a five-year transformation of the way we engage in management itself.

When I became president in 2015, the company was facing financial difficulties and a number of management challenges, such as product quality issues and governance. I made it my highest priority to build a business structure capable of generating stable profits. Without this structure, I felt that it would be impossible to address product quality issues, and the company's survival itself would be in jeopardy. We didn't hesitate in taking whatever decisive action was necessary, including overhauling our portfolio and reforming the organization. We positioned the field of mobility at the core of our business, and switched from an individual business-based structure to a function-based organization. This is a structure that takes a holistic approach to the business across the functional areas of production, sales and R&D. Our aim was to transform the organization into one that thinks together beyond departmental boundaries and strives for overall optimization.

The goals of the Medium-Term '21 Plan were to establish that cross-functional coordination and bolster our ability to respond promptly and flexibly to change. We happened to start holding daily meetings during the COVID-19 pandemic, and sharing updates across all functions enabled rapid decision-making. This practice has taken root as our standard mechanism. We fully visualized our earnings structure and focused on pursing quality (profitability) rather than scale. We also acted decisively to overhaul business models that did not align with this management policy. Naturally, there was certain amount of uncertainty and discord, these actions gradually fostered an aligned awareness that has helped us evolve into an organization that drives transformation by facing common challenges head on.

As a result, we achieved an industry-leading level of profitability and improved our financial health. I think our greatest achievement was becoming an organization that truly does what needs to be done.

Q2 How do you view the rapidly changing business environment?

Views on risks and opportunities in the business environment

A number of risks have begun to manifest that could have a major impact on our operations around the world, and the path ahead looks increasingly uncertain. In addition to inflation, fluctuating raw material prices and intensifying geopolitical risks, technological advances such as digital transformation and AI are changing the structure of industry itself. Then there are ESG-related requirements, such as climate change measures and stronger regulations, that vary in intensity and focus across regions and over time, requiring both sophisticated and agile responses from companies.

Europe, for example, has environmental and safety regulations regarding noise and wet-weather performance, and now discussion is progressing on new standards that cover things like tire wear particulate matter and performance evaluations across the entire lifecycle. For companies like us, this presents not only new regulatory requirements that need to be complied with, but also an expanding competitive domain where technological capabilities can make all the difference.

In an environment where many changes are happening simultaneously, conventional assumptions and competitive conditions often shift rapidly. Uncertainty poses risks, but it also presents opportunities to create new competitive advantages. As we find ourselves in this situation, we know that we will be tested more than ever on our ability to build corporate capabilities that translate into competitive advantage.

Q3 How will Toyo Tire secure a competitive advantage in this kind of environment?

The pursuit of decision-making speed and uniqueness

When uncertainty becomes the norm, I personally believe that competitive advantage is determined by the ability to adapt to change while still proceeding according to plan. It will become increasingly essential for us to internalize this adaptability as a structure within management. To that end, we are pursuing an even greater dimension of decision-making speed and uniqueness through our Medium-Term '26 Plan.

Up until now, we have followed a consistent process of using data-driven discussions to make on-the-spot decisions, then quickly moving on to implementation. I believe that this tight coupling between decision-making and action is a key source of our competitive advantage.

In terms of uniqueness, ours goes beyond products and branding to include the way we generate revenue. We have improved profitability by visualizing our earnings structure from multiple angles, pinpointing issues hidden beneath the surface of otherwise healthy results and taking rigorous action.

The stability of our business is also supported by the solid customer base and excellent brand reputation we have built up in North America. There is a specific segment in particular that forms a loyal core of support for our products, and this has allowed us to establish a value-added business model that avoids price competition. This base will continue to be a key element as we build a robust, self-reliant business structure.

Resilience in the face of change is ultimately essential, and we will further strengthen this in our management platforms to continue growing our corporate value.

Q4 In which segments will Toyo Tire focus on building competitive advantage?

Our growth strategy and differentiation drivers

The growth strategy of our Medium-Term '26 Plan is based on identifying potential areas of strength, allocating management resources accordingly, then using the successes to drive further growth.

In North America, we have focused management resources on the high-value-added wide light truck tire (WLTR) sector and established a business foundation that can generate stable profits. Yet if we are to achieve lasting growth over the medium to long term, we need to leverage our ability to supply products across multiple categories to strengthen our entire business foundation, ensuring we continue to be chosen by our customers and the market beyond just the specific areas where we have a competitive advantage. From this perspective, our plan is to expand our passenger car tire (PCR) and truck and bus tire (TBR) businesses by identifying specific segments to focus on within these categories. In other words, this means securing revenue in sectors where we can win and reinvesting it in other growth sectors. That is the kind of proprietary growth model we are working on.

Central to this policy is our PCR strategy, which focuses primarily on Europe. While this one of the markets where our company has historically achieved high profitability, our presence there gradually diminished from the 2000s as we made our historical and strategic shift toward North America. Europe is the mecca of the automotive industry; it has a car culture where cutting-edge technologies converge and performance is perfected. Manufacturers that compete here are seen as the leading players in the global market.

Through our Medium-Term '21 Plan, we quietly laid a foundation for regrowth in Europe by structurally reforming our sales, R&D and production. Now we have set our sights within PCR on the high-value-added segment of ultra-high-performance (UHP) tires. This is a segment where products tend to be chosen based not only on price but also function and brand, making it very compatible with the value-driven business model we established in North America. By narrowing this down to the large-diameter tire segment, we plan to clearly define a unique position enabled by our company's scale without having to compete based on volume. The European market is characterized by its rigorous quality requirements and wide variety of driving conditions, including high-speed driving. The performance and quality we cultivate there will serve as a driver of our competitive advantage globally as we build on those technologies to enhance the competitiveness of our products in North America and other regions.

Our founding TBR business is another sector where we're investing in growth opportunities. We have consistently demonstrated strong technical capabilities in design and production, such as ensuring uniformity in large-diameter tires, and have also been recognized for functional performance, including the durability and retreadability required in TBR tires. Having strengthened our financial base through the Medium-Term'21 Plan, we are now at a phase where we can leverage these capabilities to drive growth. As the North American TBR market continues to perform well, we plan to strengthen our supply capabilities in areas where we can demonstrate a performance advantage based on the needs of each use case, thereby driving greater profitability.

These strategies are supported by technology and production innovation. In the past, we utilized our proprietary manufacturing methods to produce products with superior design and uniformity, which helped give us a competitive advantage in the North American WLTR sector. However, we have since found that increasing demands for driving performance and other factors have made it difficult to maintain production efficiency with our traditional manufacturing methods. This made us realize that, rather than relying on past successes, we needed to take a fresh and objective look at the capabilities of our North American plants. After many open and impartial discussions by the Board of Directors, we reached a shared understanding across management that updating production infrastructure is vital to the growth of our North American business. This requires leveraging the strengths of our proprietary manufacturing methods while integrating insights gained from the latest non-proprietary equipment that has proven successful at our Serbia Plant. Through the renovation of our North American plants, we will pursue both greater performance and increased supply capacity, further enhancing the product capabilities of our North American WLTR business.

Ultimately, we must not simply remain satisfied with our current strengths, but use them as a starting point for continuous evolution. Using the earnings base we have built in WLTR to advance our European PCR technology and expand into TBR and other business areas, we plan to achieve both profitability and a strong competitive position in the future, thereby establishing a lasting competitive advantage.

Q5 How do digital transformation and human capital support this growth strategy?

The foundation for sound, lasting growth

Digital transformation at Toyo Tire forms the foundation for improving our decision-making speed and precision. We hold daily meetings to discuss the right products for each market and how to produce them at which facilities, and we base this on detailed data such as profitability. These initiatives can be considered the starting point that shaped our current portfolio, and represent a unique strength cultivated through our experience in North America that supports our profitability. There is, however, room for improvement in the ways we gather and analyze that information.

Under our Medium-Term '26 Plan, we will reform our enterprise resource planning and use AI to accelerate information gathering, centralize our data, and advance our analytics, further improving our ability to identify revenue opportunities and optimize capital allocation. This will allow us to establish a system to rapidly make optimal decisions that lead to further improvements in profitability.

Equally important is developing talent capable of interpreting and using that data. In the past we have worked on increasing expertise within each organizational function, but we now see it essential to unite these capabilities and foster human resources that can make cross-functional decisions regarding operations and management. We plan to enhance our decision-making capabilities as an organization by both continuing job rotations that allow employees to gain a variety of experience early in their careers, and incorporating insights mid-career hires bring from other organizations.

This integration of data and talent will strengthen our foundational decision-making through overall, rather than individual, optimization.

Q6 How will the company balance investment in growth, capital efficiency, and shareholder returns?

Our financial strategy and approach to capital allocation

Our company has made significant improvements in both our profitability and underlying financial base. With our Medium-Term '26 Plan, we aim to further raise the level of our earnings with a target operating income of 120 billion yen and operating income margin of 18% or higher by fiscal 2030. In terms of capital efficiency, we have made both ROE and ROIC clear KPIs to more accurately gauge the profitability of invested capital. We also plan to maximize corporate value by combining a progressive dividend policy with share buybacks.

Our style of financial management has always strived to balance growth investments, capital efficiency and shareholder returns. The Medium-Term '26 Plan builds on this approach to manage these three areas—investment in growth opportunities, maintenance and improvement of capital efficiency, and shareholder returns—as an integrated whole using cash generated from our earnings base as the starting point. In terms of growth investments, we will prioritize allocation to areas that contribute to expanding our business foundation and enhancing our competitive advantage based on the strategies outlined earlier.

Given our current financial position, we believe we can secure a certain amount of investment capacity in addition to our operating cash flow. We plan to allocate this capacity exclusively to projects that are expected to generate returns exceeding capital cost. We will also focus on enhancing the quality of our investment decisions from the perspective of medium- to long-term value creation, which includes addressing environmental and social issues.

To make investment decisions, we set multiple scenarios based on the assumption of uncertainty in the business environment, and use them to evaluate risks and returns from both quantitative and qualitative perspectives. Even after making an investment, we use KPIs to continuously monitor progress and make prompt adjustments as necessary. Through this disciplined approach to capital allocation, we aim to achieve lasting growth in corporate value.

The key thing is to not pursue these objectives individually, but to make decisions based on a consistent policy with the single goal of enhancing corporate value. Maintaining this consistency will ensure we allocate capital in the optimal way.

Q7 What is your philosophy for lasting growth?

I personally believe that the essence of management lies in designing a structure capable of generating profits no matter how the business environment changes, and ensuring that this structure is reliably implemented. Practicing this philosophy over time is what has led to our success thus far. By integrating our business strategy, capital allocation, and ability to execute into a unified approach through our Medium-Term '26 Plan, we will continue to enhance the quality of value we provide to our customers and society, and achieve lasting growth.