

# TOYO TIRE Corporation New Medium-Term Business Plan

## “Mid-Term ’21 Plan”

(Presentation scripts)

### **Table**

Greetings everyone. My name is Takashi Shimizu, the President of Toyo Tire Corporation.

I am pleased to share with you today our Mid-Term ’21 plan. In the past, we would estimate the likely size of our company at the end of the next mid-term period, and base our plan on that scenario. This time, we began by reaffirming our strengths and the ideal state of our business, and confronting possible changes and challenges unique to us. From there, we discussed what transformation was necessary for the company to reach a higher stage of development.

In the limited time available, I will provide you with key highlights of our new mid-term business plan.

### **Page 2 : The TOYO TIRE Philosophy**

One year ago, COVID-19 began its full-scale spread across the world. Since then, each of us has had to live through this uncharted "life with Covid."

And we won't be returning to that life before the pandemic. We must instead face this irreversible paradigm shift and find a way to maintain and grow our business in a sustainable manner. We do this by reaffirming a future vision for our company. That includes our relationship with different stakeholders such as our employees.

In the U.S., we did not suspend our operations. Rather, we were designated an “essential business”, which allowed us to continue to do business. It made us realize the critical role of the tire business there.

We included our Corporate Philosophy on the first slide of this presentation because we want the world to know why we exist, and our plan to live up to those words.

### **Page 3 : Goals Under Mid-Term '21 Plan**

In 2019, we changed our corporate name to “TOYO TIRE”. At that time, we announced a new business direction that reaffirms our commitment to the auto industry; specifically automobile tires and parts.

We will leverage our strengths to grow even stronger. We turn to our advantage the things we don't have. Embracing change and driving progress. These are the three essential points for our company.

They are also the ideas around which our Mid-Term '21 plan was designed to take us through 2025. Those ideas will prepare us to respond to changes quickly and flexibly through collaboration among our global organization.

### **Page 4 : 1. The Mid-Term '17 Plan in Review (section slide)**

I will now review the results from our Mid-Term '17 plan covering the 2017~20 financial periods.

### **Page 5 : The Mid-Term '17 Plan in Review (Net Sales & Operating Income)**

The Mid-Term '17 plan established targets of 480.0 billion yen in consolidated net sales and 60.0 billion yen in consolidated operating income. After careful consideration, we deferred parts of our production expansion plans. The mid-term period also saw negative currency swings. Both events caused us to miss the plan targets.

During this period, we consolidated the DiverTech Business segment. We divested the chemical industrial products business and rigid polyurethane foam business to concentrate on the auto parts business. Our future will be in the mobility sector, which also encompasses the tire business.

2020 was the final year of Mid-Term '17. The pandemic created an adverse operating environment as demand collapsed. We responded with agility and flexibility, leveraging our unique strengths by promoting priority products, substantially reducing inventory, and bolstering cash flow. These measures not only preserved our profits but enabled us to increase year-over-year operating margins. This lays the groundwork for us to now take the offensive.

## **Page 6 : The Mid-Term '17 Plan in Review (Technology & Product Strategies)**

As part of Mid-Term '17, we deployed a number of technology and product strategies.

In 2017, as if to anticipate the era of autonomous driving and electric vehicles, we introduced “*noair*”, an air-less, maintenance-free concept tire. We fitted them to test vehicles, and offered the public a ride.

Our highly original product development program rests on the twin pillars of “foundational material design technology”, and “high-efficiency, high-precision simulation technology”. During Mid-Term '17, we made great strides in those areas through the use of vast quantities of data. This accelerated the design development process, and will enhance our ability to create good looking, high performing tires, which is our core strength.

These unique technological advances allowed us to develop and launch a series of innovative, high value-added products.

## **Page 7 : The Mid-Term '17 Plan in Review (Brand Strategy)**

Throughout Mid-Term '17, we pursued a strategy of increasing our global brand presence under the banner, “Boldly taking roads hitherto untraveled to carve out our own path.” We wanted to embrace this frontier spirit, and in 2019, rolled out our new brand statement: “Open Roads Await”. Since last April, we added the global slogan, “Ignite your BLUE”, to celebrate those whose inner passions burn with the intensity of a blue flame.

In our primary markets, we fused together our branding and marketing efforts to pitch TOYO TIRES’ unique world view. This included major sports team sponsorships, showcasing customized SUVs and pick-up trucks fitted with our large-diameter tires, and supporting teams in rally events.

## **Page 8 : The Mid-Term '17 Plan in Review (Sales and Market Strategy)**

Next is a review of our Mid-Term '17 sales and market strategies.

In North America, our single most important market, we launched in 2020 the long-awaited Open Country A/T III light truck tire. Although local production was increased substantially, it has not been enough, as we increased segment share to 5.3%, placing us 7th and climbing.

In Japan, our SUV tire sales grew 20% from 2016, the result of expanding the OPEN COUNTRY lineup, combined with strategic sales promotions. We also formed a tactical sales unit dedicated to selling truck and bus tires as we prepare for further growth in that segment.

In Europe, we announced a new manufacturing plant in Serbia. We also opened an R&D center in Germany, laying the foundation to develop cutting-edge raw material technology.

And in Asia, we completed phase II expansion of our Malaysian Plant. It now produces tires to meet growing global demand. For our original equipment tire business, we did not pursue volume, focusing instead on our stronghold in the SUV and light truck segment.

All told, we achieved our sales mix goal, weighted towards SUV and light truck tires. In North American, sales for that segment reached 38% by units and 56% by value of our total sales, as we steadily captured the growing demand for large-diameter tires.

## **Page 9 : The Mid-Term '17 Plan in Review (Supply Strategy)**

For our supply strategy, we monitored the business climate, assessed our chances, and put plans into action. We first optimized our operations, designated product focus for each plant, and made plans for a new facility based on sustainable growth.

In the U.S., we initiated phase V expansion, took the first step towards phase II expansion in Malaysia, and increased truck and bus tire capacity at our China and Japanese Kuwana plants. Our supply chain is centered around our North American market, which is our primary revenue source. They are configured to capture demand in each product segment.

**Page 10 : The Mid-Term '17 Plan in Review (DiverTech Business; Corporate Infrastructure)**

The DiverTech operation was originally formed as our non-tire business, making rubber or polyurethane foam industrial products. Those businesses have been sold off, leaving just the tire and auto parts businesses. We are now well-positioned to focus and pursue growth in the mobility sector.

The auto parts business continues to struggle, affected by fixed pricing of legacy products. We are actively reducing the deficit by leveraging our tire business in negotiating with OE customers, and through cost reduction efforts.

To ensure a prompt, objective decision-making system of governance, we have steadily restructured our organization, establishing special committees, and adopting and inculcating employees in our corporate philosophy.

Finally, in 2017, we replaced the vertically-aligned business silos that existed since the company's founding with a flat structure organized by function. Each function is now collaborating more and making decisions rapidly.

**Page 11 : 2. The Business Environment (section slide)**

I will now explain our Mid-Term '21 plan beginning with our forecast for the company's future operating environment.

**Page 12 : Macro Trends Amidst a Period of Unprecedented Turbulence**

The pandemic has brought profound changes in consumer and business behavior. It has forced a rebalancing of social, environmental, and economic interests. A widening economic disparity has accelerated the populist movement. Such geopolitical trends present important changes to the business environment.

In our primary markets of the U.S., Japan, and Europe, we expect everyone's focus to be on the economic recovery and sustainability.

I will next explain market trends in the automotive and tire business segments.

### **Page 13 : Market Trends in Automotive & Tire Business**

In the U.S., we expect the share of registered electric and plug-in hybrid electric vehicles to grow as they capture a larger share of new vehicle sales. We also expect SUV and light truck share of the market to continue to increase. Therefore, we believe this tire segment, accounting for 60% of our current sales mix, has the potential to grow.

The U.S. tire market will continue to see tight supplies as punitive duties on China imports remain, and anti-dumping duties on imports from four other Asian countries are levied. Collectively, those imports account for 20% of U.S. demand.

In Japan, we predict a slow post-COVID recovery for the economy. Registered vehicles, new vehicle production, and tire demand will all decline slightly, but market share of popular SUVs and EVs can expect to increase.

A similar trend can be seen for Europe, except that total registered vehicles will start to decline after 2025 as a result of tighter environmental regulations.

### **Page 14 : 3. Basic Policy for Mid-Term '21 Plan (section slide)**

Next, I will walk you through our new five-year business plan through 2025. We start with our thought process and basic policies behind the Mid-Term '21 plan.

### **Page 15 : Mid-Term '21 Plan Inherits from Mid-Term '17 Plan**

In August 2019, we published our global strategy paper, "Next Stage in Our Growth Strategy". It is a roadmap that takes us through the great upheaval of the auto industry, to that next stage. We will leverage the capital and business alliance with Mitsubishi Corporation. We will harness our fundamental strengths: The expertise and uniqueness that we cultivated; the functional capabilities that we honed; and the corporate governance and compliance framework that we transformed and reinforced. On this platform, the Mid-Term '21 plan is constructed to allow us to pursue our own unique course to reach our destination in 2025.

## **Page 16 : Mid-Term '21 Plan Key Performance Indicators**

Our fiscal policy will be guided by financial indicators weighted towards efficiency, and which strikes a balance between growth and return, to take us to the next level.

Our reason for existence will be measured by the high “consolidated operating margin”, to be achieved by increasing the sales mix of our priority products.

The resulting consolidated operating income target is 60 billion yen in the final year of our mid-term plan. We will challenge ourselves to absolutely meet this goal by executing our growth strategies. We will further our advantages, starting with our strong presence in North America.

During this Mid-Term '21, we will establish policies for capital investment, shareholder return, and a benchmark ROE, promoting a balanced approach to profitability and efficiency.

## **Page 17 : 4. Growth Strategy (section slide)**

We will now explore in detail the Mid-Term '21 plan for each of the following categories:

- ✓ Research & Development
- ✓ Regional sales
- ✓ Original equipment tires
- ✓ Production and supply
- ✓ Solution business initiatives

## **Page 18 : Growth Strategy (R&D)**

I will begin with our Research and Development strategy.

During the last mid-term, we expanded our R&D base from Japan to North America and Europe. These facilities are linked together to form a tripolar development system. They will develop and reinforce critical differentiation technologies in the following three areas: High performance design, customer-oriented product development, and next-generation technology development.

High performance design is technology that simultaneously achieves multiple performance requirements at a high level. We will enhance and refine our capability in: tire structure design; material compounding; and evaluative technology to visualize tire behavior. With this dual approach, we aim to further evolve and advance the performance of our products.

Customer-oriented product development is the ability to timely realize unique products with strong consumer appeal. We first explore consumer expectations to accurately stay a step ahead of the marketplace. We then leverage our AI-enabled simulation technology, T-MODE, to quickly launch highly original products in North America and beyond.

Our goal is to anticipate the future, and develop technology to meet it. We will increase the use of sustainable materials to reduce our environmental impact, and commercialize any unique solutions that are developed along the way.

## **Page 19 : Growth Strategy (R&D)**

A carbon-neutral future will require different types of products. Through our technology, we can realize solutions necessary for a sustainable mobility future. We will challenge ourselves to develop the technology and commercialize products for next-generation vehicles.

As we develop products for electric vehicles, we must consider the following four factors: Attention to improving electric efficiency, not fuel economy; the lower noise levels of the electric motor; increased torque; and increased vehicle weight resulting from heavier battery mass. Applying our technology, we will develop tires that not only satisfies the requirements of enhanced low rolling resistance, improved treadwear, and noise abatement, but also distinguishes our product with spirited performance and novel design characteristics.

## **Page 20 : Growth Strategy (North America)**

I will now turn to our sales strategy for each region, beginning with North America, our single most important market.

In North America, we will not only increase sales of our wide light truck tires, which has an outstanding brand presence, but also aggressively increase sales of our truck and bus tires, using the expanded production capacity at the Kuwana plant. We will also harvest sales in new segments such as all-season tires. Enhancements and investments will be made in those differentiated product lines where our strengths lie.

Underpinning our business growth in North America is our sales and marketing activities with a thorough focus on the market and users. We will continue to proactively invest our management resources to enhance our brand power through digital marketing, fan engagement, and other promotional activities designed to increase sales.

With the U.S. holding company at its core, the local operations engage in: Unique product planning; product development at the local R&D center (one leg of the global tripolar R&D system); producing quality tires using a unique manufacturing system; and a fine-tuned sales operation; all of which will increase our enterprise value.

## **Page 21 : Growth Strategy (Europe, Japan, Asia)**

In each of the European, Japanese and Asian markets, we plan to develop priority products to suit local tastes.

In Europe, the start of our Serbia plant will give us a highly competitive supply source, and the R&D center will develop distinctive products emphasizing performance. These are the weapons we will deploy to strengthen our existing customer base, and to grow volume while shifting the sales mix towards performance-oriented priority products.

In Japan, we plan to launch high-performance products with an eye for growth categories such as for SUVs, our highly desirable OPEN COUNTRY, and others that combine a quiet ride and long tread life.

At the same time, we will initiate our "bold hardware reorganization" and "revolutionary digitization" programs, drastically change the sales organization, significantly reduce fixed costs, enhance sales capabilities with the use of digital tools, and use these transformations to push the sales mix towards priority products.

In Asia, we will work to improve our brand position by expanding our sales network with region-specific products developed for our Malaysian factory. We will also strengthen our digital marketing program through the appointment of brand ambassadors.

## **Page 22 : Growth Strategy (Original Equipment Tires)**

Next is our strategy for original equipment tires.

The core of our business, tires and auto parts, are indispensable for mobility. As such, it is our mission to contribute to the development of electric vehicles and next generation mobility with our unique approach and business combination. The resulting ripple effect will benefit the replacement tire business, expanding our sales channels, providing us greater brand recognition, and a captive customer base, resulting in an upward profit spiral.

By developing original equipment tires and engaging in technology exchange with auto manufacturers, we can innovate and enhance our capabilities by deploying simulation and other technologies. Having early access to future vehicle trends will also allow us to act in anticipation of next-generation mobility technology. We will continue to develop and propose new products by linking together the tire and auto parts businesses.

## **Page 23 : Growth Strategy (Production and Supply)**

The next topic is our production and supply strategy.

Last month, we commenced additional production of wide light truck tires at our newly expanded U.S. facility. In April 2022, our Serbian plant becomes operational. It will use locally-sourced, cutting-edge materials and state-of-the-art equipment to produce high-performance, priority products, distributing them from this geographically-advantageous location. Our goal is to achieve 30% lower cost compared with tires made at our Sendai plant, making the Serbian plant the lowest cost facility in the Toyo Tire network. It will supply 2 million tires to North America and 3 million within Europe.

Meanwhile, to optimize our supply chain, we recently announced the closure of our Silverstone plant in Malaysia, which annually produces three million smaller diameter size tires. We will concentrate resources into our other Malaysia plant, enhancing its function as one of our global supply hubs to support growing demand.

Our China plant gives us flexibility to quickly adapt to changing demand in the Chinese and Japanese markets. The Sendai plant in Japan will shift towards producing high-value-added tires for the local and North American markets. We will persist in our efforts to strengthen the production base and improve productivity by visualizing the manufacturing processes and quality control data.

## **Page 24 : Solutions Business Initiatives**

In the age of connected, autonomous, shared, electric vehicles (CASE), there will be unparalleled demand for tire safety and efficiency.

To meet this need, we will roll out tire sensing technology for enhanced safety, and tread wear diagnostic technology for greater economic efficiency. Both will be deployed through our unique solutions business.

The treadwear diagnostic technology is being developed through field trials in conjunction with a transportation company affiliate of Mitsubishi Corporation. Our goal is to be able to accurately predict the end of useful tread life. Once integrated into our technology platform, this will be deployed as part of our fleet management service.

The tire sensing technology will detect forces exerted on the tire in real-time. We have refined the technology through field tests. From customer vehicles fitted with the sensor, we have gathered data to an unprecedented degree. The technology will be developed to suit the needs of discerning customers and service conditions.

We will offer and deploy a variety of user-oriented solutions as we blend data gathered through the tires with new elemental technology.

## **Page 25 : 5. Capital and Business Alliance with Mitsubishi Corporation (section slide)**

Two years have passed since we signed a capital and business alliance agreement with Mitsubishi Corporation. I will now explain how we envision leveraging this alliance under the Mid-Term '21 plan.

## **Page 26 : Effect of the Capital & Business Alliance with Mitsubishi Corporation**

Our relationship with Mitsubishi Corporation is at once comprehensive and collaborative. We share the same goal of shoring up Toyo Tire's management foundation, and increasing enterprise value. By 2020, this framework had generated an additional 1.4 billion yen in operating income. We achieved this by ending our export outsourcing arrangement, which eliminated commissions. We also increased tire sales within Japan by using Mitsubishi's distribution network and functions, which also helped reduce logistics and insurance expenses.

We also liquidated our three overseas joint venture sales companies with Mitsubishi, and plan to liquidate the remaining two this year.

Please refer to the accompanying slides for details regarding our alliance programs, which is expected to generate 10 billion yen in benefits. Our next joint focus will be on the Japanese and Asian markets, as we can quickly implement our plans and achieve profitability.

For the Japanese market, we have compiled a list of over a thousand prospective industrial tire users, as we begin full-scale sales expansion. For other Asian markets, we have increased opportunities for sales of SUV tires, and initiated expansion of sales channels for new car and commercial tires by securing retail shelf space.

The alliance capital invested in production expansion is proceeding to plan, and those plants that have commenced production are contributing to our earnings. We are confident the Serbian Plant will raise our operating income by at least 4.0 billion yen once operations begin as scheduled.

Last year, our credit rating increased to an "A" rating. This is attributable to: The steady progress in replacing the seismic isolation rubber products in affected buildings; strong and resilient earnings; and the capital contribution which put the company on a strong financial footing. This vote of confidence helped us keep our feet on the ground through the pandemic.

Mitsubishi has also supported us by sending twenty-four of their employees to work on key projects as core members. By working with our employees, they helped solidify our management base.

The 10 billion yen generated from the results of the alliance will be included in our profit target for fiscal 2025, as we work to achieve the overall profit goals.

**Page 27 : 6. Creating Management Foundation to Support Sustainable Growth**  
**(section slide)**

Next, I would like to talk about our new management foundation.

**Page 28 : Creating Management Foundation to Support Sustainable Growth**

The new focus for our management is to think from a long-term global perspective; to lead the integration of business and value creation. As we solidify our financial position, we will forge ahead with the three imperatives of digital innovation, sustainability, and human resource development.

The first imperative is digital innovation. This will be one of the foundations for increasing profitability, and we will implement the necessary infrastructure to realize this. Specifically, we will upgrade our enterprise resource planning (ERP) system to better manage resources and risks, accelerate business processes, and strengthen data governance globally.

The second imperative is sustainability. We are all responsible for the development of a sustainable society. Together with our supply chain partners, we will make sustainability and ESG a part of our management culture. I will chair a special committee to systematically and with integrity address future risks based upon a correct understanding of the environment, while also finding solutions to social issues and creating value through our business activities.

The third imperative is human resources development. We will be introducing a new merit rating and human resources training system. It is designed to raise job satisfaction, and attract individuals with diverse abilities. We will optimize the mix of personnel and recruit individuals with specific skill sets.

Our business activities and management base is supported by a financial foundation. To make our company more efficient and resilient to changes in the business environment, we will increase our focus on asset efficiency and cash flow. With a robust financial foundation, we can withstand any business climate, and realize sustainable growth. To build that foundation, we will strengthen our capacity to generate cash on a global basis, and shorten the cash conversion cycle. During the Mid-Term '21 period, our goal is to achieve an ROE of 12% or higher, thereby increasing our enterprise value.

## **Page 29 : Role of Digital Transformation (DX) to Streamline the Management**

### **Foundation**

We have begun our digital transformation across three layers. This April, we will elevate the digital task force from division level to a headquarters function. This will strengthen interdivisional cooperation, and engage everyone on a company-wide level.

The first layer of strengthening the management foundation has already begun. Starting with infrastructure development, we shift to data-driven management, which accelerates operational efficiency. That takes us to the second layer, where we improve our profitability.

For R&D and product development, we will make greater use of data to, optimize product commercialization as part of life-cycle management, increase productivity on the shop floor, manage and optimize global inventory, and pursue sales strategies and deploy priority products following detailed data analysis. We will use these digital strategies to support a growth strategy centered on manufacture of customer-oriented products and high margin business.

## **Page 30 : 7. Investment Plan and Shareholder Return (section slide)**

My last topic will cover our approach to investment planning and shareholder returns.

### **Page 31 : Investment Plan and Shareholder Return**

Our investment planning and capital allocation policy is grounded on financial discipline and reinforcing our financial foundation. We do this by using capital efficiently and bolstering the balance sheet. Specifically, we use operating cash flow and capital funding (as necessary) generated during the five-year mid-term to cover our needs for strategic capital allocation, investments (including growth investments), and shareholder returns.

Regarding shareholder returns, while maintaining the principle of steady dividend payouts, we provide shareholder returns by achieving business results every term.

Our plan anticipates a dividend payout ratio of over 30% during the mid-term period. We intend to realize shareholder returns that are stable and tied to our performance by linking the ratio to our profitability, adjusted for non-recurring and special profits and losses included in net income.

## **Closing**

The global spread of the new coronavirus has drastically changed the landscape, and even now, we must remain vigilant to the threat while sustaining our business operations. While the speed of change has been fierce, the future remains uncertain, and during such times, we must take careful steps, building up strength, and making progress a step at a time.

This Mid-Term '21 plan is designed to guide our growth, not by chasing after quantity, but through pursuit of quality. Instead of “newer” and “bigger”, we will make full use of what we have and grow it, while taking necessary steps to rebuild and reorganize, incorporating change, and elevating the foundation.

Our goal for this company is to promote group strength and to become a more resilient organization, capable of drawing on our unique advantages.

I now invite you to share with us your various expectations and comments.

Thank you for listening.

(Announced dated February 25, 2021

Presenter : Takashi Shimizu, President and CEO)