

GO BEYOND

New Business Plan – “Mid-term ’14”
(Transcript)

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Good afternoon.

I am Akira Nobuki, President of TOYO TIRE & RUBBER CO., LTD..

It is my honor to have this announcement session for the Mid Term Business Plan 2014 “MTBP14”.

Thank you for your attendance.

Additionally, let me take this opportunity to express my deep appreciation for your dedication in advancing our business activities and performance.

Today, I would like to release the details of our MTBP14 but first, let me summarize today’s presentation.

I will explain the current business conditions, reviewing previous MTBP11 and will position our new MTBP14 with some key performance indicators.

Through business strategies including investment plans and dividend policies, I will focus on clarifying our growth scenario.

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In May 2011, we stated the company’s “Vision 2020” and also “MTBP11”, aiming to lead our activities to reach the milestones for 2015.

In 2013, the Operating Income and Operating Margin targets were achieved ahead of schedule and with Net Sales we are positioned to over-achieve in 2014.

Five year terms were included in MTBP11 and we experienced drastic paradigm shifts. Originally, more economic growth was expected in rising nations, but time after time it slowed down, but on the other hand, the North American economy showed a strong growth trend.

Under such an unpredictable situation, we consistently focused on expanding tire production capacities.

Externally, the strong Yen and advantageous raw material price encouraged our operations. Internally, KAIZEN activities with markets and product mixes as well as improving our portfolio to utilize management resources, played essential roles in bringing success to MTBP11.

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Looking at the achievements in the MTBP11 milestones of 2015, we were in need of setting new milestones.

The MTBP14 has been constructed to create further growth.

Let's review MTBP11 in detail.

The upper section of this slide, on the left is the business strategy of MTBP11 and the key performance indicators are on the right.

The lower sections, on the left are the actions we had taken until 2013 and results are on the right.

In "Tire Business", we have stated three strategic markets. Japan, United States, and Asia with enhanced supply abilities.

Moreover, in response to the recovery in the North American economy, we have moved into a fourth expansion of our plant in Georgia, USA.

Also, as a technology-oriented manufacturer we have launched a superior fuel-efficient tire, "NANOENERGY".

It is not only these activities as a whole, but each individual step that has brought us fulfillment of our stated milestones and we are able to position ourselves to be ahead of schedule to reach MTBP11 goals.

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For the "Diver Tech Business", over many years, we have raised trust and our market reputation, but have had difficulties to activate globally.

The challenges of establishing a business base have been ongoing and step by step, we are starting to make foot prints in Thailand, Mexico and China.

Unfortunately, some MTBP11 targets require more steps to be taken to reach the point where we want to be.

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While creating growth on the global stage, the “Corporate Division” has also supported our own backyard.

The difficult experiences of the Great Eastern Japan Earthquake resulted in improvements to our Business Continuity Plan.

In March of 2013, we established a new management structure to strengthen corporate activities towards “Vision 2020”.

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With these key elements all in place, we are positioned to accomplish MTBP11 milestones by 2014.

The Operating Income has tripled from 2011 and our Operating Margin was recorded 10% higher than what was reported in the “Vision 2020” plan.

Due to structural reforms and the delay in catching up with the increase in world demands, Toyo group had struggled to surpass Net Sales of 300 billion Yen in the past. However, now, we are breaking through the 400 billion Yen mark, into the next stage.

There are still various issues and tasks to overcome. However, the dedication and spirited efforts of our team in facing the challenging activities in MTBP11 had favorable results.

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Now, let's look into MTBP14.

Toyo group employees share a belief in our company creed, corporate philosophy and brand statement and on top of these fundamentals, MTBP14 exists as a milestone towards sustainable growth.

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By reorganizing a new starting point as of 2014, internally, we have considered business conditions through 2018 and made several targets for 2016, midway between our 2014 and 2018 targets.

In 2015, we will celebrate our 70th anniversary and in 30 years' time in 2045, we will be a 100 year enterprise.

To express our strong attitude and intention to step into a high performance growth stage, we have created the slogan “Go Beyond” with MTBP14.

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The key performance indicators for MTBP14 are on this slide.

By December 2016, we target 470 billion Yen in Net Sales, 52 billion Yen in Operating Income, an Operating Margin of 11.1% and ROA over 10%.

We will expand our businesses to have a sustainable Operating Margin over 10%.

The assumed exchange rate is 100 Yen to USD and 135 Yen to EUR.

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Let's move into the details of the core strategies of the "Tire Business" and the "Diver Tech Business" as well as the fundamental strategies for "Corporate".

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On this slide, the theme and challenges of the "Tire Business" are clarified.

Under aggressive global competition, we will position ourselves to exist with originality, solidifying our presence in the markets.

Three key strategic challenges of MTBP14 are on the bottom right side.

- Extend our presence in SUV/CUV markets
- Achieve product competitiveness through original technologies
- Strengthen the Truck and Bus Tire developments

The key performance indicator in December 2016 is 380 billion Yen in Net Sales, 46 billion Yen in Operating Income, and an Operating Margin of 12.1%.

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Taking a moment to deal with product strategy, the world demand for tires is very strong and due to the addition of upstart companies in rising nations, there is aggressive competition in the Passenger Car Tire markets.

However, at the current stage, SUV/CUV tire market is relatively ordinal with limited competitors.

Our strength in original performance, quality and designs is focused in the North American SUV/CUV category to make the customers value our efforts.

We will further consider markets and products mix, through enhancement of our current strengths in the market and we will solidify our existence to lead ourselves into sustainable growth.

By December 2016, SUV/CUV tires sales will be 40% of our worldwide tire sales. This will also lead and enhance our revenue base.

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Regarding Truck and Bus Tires, we used to receive good feedback from the market in terms of implementing market needs in the actual tires. However due to the delay in our tire development, we have fallen behind the market demands and competitors in some performance areas of our product lines.

Recognizing this current situation, we will launch fuel-efficient and extended-life enhancements to the market in a timely matter.

We will further maintain our growth as a full-line tire supplier with our original development technology.

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It is essential to grow with the expansion of the vehicle market and we will focus on the vehicle mixes in the market/region utilizing our scale and originality.

As they say, when in Rome, do as the Romans do. There are various stages of tire demands in the world. We will keep continuous analysis of the situation and will choose to supply the most required tires at the desired place on time.

In MTBP14, we have categorized worldwide tire markets into three groups.

The graph of this slide is showing the increase of tire sales along with changes in the composition.

You can identify how important it is to solidify our North American market.

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Let's look into these three groups.

In the North American Market, there is significant growth in SUV/CUV categories and over 40% of new vehicles from auto manufacturers are launched in this category.

In North America, we will target our SUV/CUV tire market share to be 6% by 2016 through enhanced marketing, tire development and also supply capabilities from tire production to sales channels.

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In Japan, Europe and the Middle East market, we will enhance the fundamentals of our tire business.

In Japan, minivan tires and 660cc vehicle premium tires, fuel efficient tires and winter tires will be the focus.

In Europe, the economy has bottomed out and we will increase fuel-efficient tires and winter tires. Especially in Russia, we will focus on enhancing the SUV/CUV categories.

In the Middle East, the demand is extremely high, but it was beyond our capacity in the past. We will strengthen partnerships with individual distributors, expanding SUV/CUV tires and make a contribution to steady growth.

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China, South East Asia and Central America are also potential markets.

We will carefully review the social and political conditions and take action towards reaching milestones.

In China, it is our first priority to maintain our existence in the SUV and premium tire markets and to enhance product mixes.

In South East Asia, we will strengthen supply capabilities as well as sales channels with fuel-efficient tires and premium tires.

In Central America, SUV and ultra-high performance tires will be reinforced.

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As for branding, we will continuously support exciting motor sport activities in the USA as shown on this slide and accelerate SUV/CUV tire sales.

To create dynamic images and recognition of both “TOYO” and “NITTO”, our two top brands, we will keep continuous and aggressive branding activities.

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In addition, as we have announced the premium sponsorship of the high performing soccer team AC Milan, our global profile will be raised throughout the world.

To strengthen this premium image, we will further activate our marketing in each region and country.

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Next I will talk about the supply strategy.

We have tire plants in Japan, USA, China and Malaysia and as committed in MTBP11 we have worked to expand production capabilities.

In 2010, our overseas tire production was only 10% of our total tire production, but in 2013 we managed to increase to 35%.

Recently, we have used Passenger Car Tire volume to show production capacity.

However, as we move into more of SUV/CUV tire categories, it is much more appropriate to use the volume of rubber usages.

As of MTBP14, we will describe our production capacity with rubber consumption.

In 2013, rubber consumption was up to 214 thousand tons, which equals 40 million Passenger Car Tires.

For 2016, we are targeting 270 thousand tons and expecting overseas tire production to be 50%.

As you can see on this slide there will be a significant increase in USA production.

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The characteristic functions of our tire plants are on this slide.

The USA tire plant will focus on more of the SUV/CUV tires.

Japanese tire plants will enhance premium tires and basic tires will be transferred to Malaysia.

The Malaysia tire plant will have the function of being a global supply hub with production flexibilities to meet world-wide tire market demands.

The merged Silverstone tire plant will enhance the implementation of our manufacturing philosophy and provide technology to upgrade product lines.

The Chinese tire plant will reinforce production mixes.

With eyes on market demands, market strategies and portfolio revenue, we will also continue to consider the best candidates for establishing new tire plants.

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The last part of the “Tire Business” is technology strategies.

Our SUV/CUV tires feature supreme performance and quality with unique design.

To balance those specifications, our original optimizing technology is utilized and this is one of the sources of our competitiveness.

We now move into the next stage which is to shorten the development period and enrich our product lines, especially through innovation in raw materials as well as enhancement of design and production technology.

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Next is “Diver Tech Business”.

The upper section of this slide is indicating business environments and desired challenges.

“Diver Tech Business” is closely related to the ups and downs of the economy. To stabilize our own business activities, we will manage to grow through enhancement of cost competitiveness and the uniqueness of our products.

Automotive manufacturers are moving forward to create new vehicles through efficient modules and globalization.

To catch up, our management resources must be in order and there is a need to establish a reliable revenue base.

The key performance indicators for MTBP14 are shown on the lower part of this slide.

By December 2016, we target 90 billion Yen in Net Sales, 6 billion Yen in Operating Income and an Operating Margin of 6.7%.

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In the “Diver Tech Business” we have three business units and each of them will manage business consolidated accounts as well as establishing optimized frameworks towards quick execution.

The three Business Units are “Rubber Auto parts”, “Urethane Auto parts” and “Chemical & Industrial Products”.

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Our “Rubber Auto Parts” business unit will enhance global supply abilities and secure the position of a global supplier.

We will follow the requirements of progressive development technology for our customers and will minimize our costs to meet required lines in advance.

Product development will proceed at our business base in Mexico and ASEAN and will deliver cost competitiveness as well.

With activation throughout the world, we will target overseas Net Sales to be 45% in 2016.

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In the “Urethane Auto Parts” business unit, we will develop original products and restructure domestic production frameworks.

Still, the business itself is not so large, but we have functional products with customer satisfaction.

The main theme is to enhance these original high-functioning products to strengthen the fundamentals of this business.

We will enhance supply ability and aim to have functional products be 10% of our Net Sales in 2016.

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In “Chemical & Industrial Products” business units, we will enlarge our core business and open the door to businesses in rising nations.

With original core material blending and processing technology, we cover various types of businesses from transportation equipment, waterproof materials to industrial materials.

Within industrial materials, we will focus on air suspension for railways.

The Chinese plant is now in operation and the overseas production ratio in this air suspension business will be 35% in 2016.

As for the Urethane business, we will enlarge the sales of thermal insulation urethane products and enhance our current position as top share in domestic market.

For 2016, we will target an increase of 20% in Net Sales through activation in the world especially within rising nations.

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Last December, the Central Research Center was renewed in Kawanishi prefecture and began operating to not only support current business but also to create four growing sectors as shown on this slide.

Business in the field of Rubber and Urethane materials are our core and fundamentals. Collaboration with third parties is one activity creating innovative products and is aggressively moving forward.

The research theme will be turned into actual new Diver Tech business and will be featured to be a source of revenue.

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For “Corporate” we will enhance ESG, the relationships to Environment, Society and Governance, enabling Toyo group to operate as a sustainable growing enterprise.

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For the environment, we will continue to create environment-friendly products and minimize the environmental burden.

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For society, we will reinforce the improvement of working environments, social activities and will support fundamental standards in global human resources.

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For governance, as we have already invited external directors, we will enhance group governance and compliance.

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Regarding investment plans, we have planned 130 billion Yen in three years of MTBP14 and this is a record high in our history.

We are just at the gateway of strong sustainable growth and will continue to invest to utilize our growth.

The sources of capital will be financed through our own funds and some from banking loans, however, depending on the situation, we may consider equity financing.

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For dividend policy, we have announced 15 Yen for 2014.

With the planned merger of shares next July first, the dividend per share will be doubled to 30 Yen.

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To secure Toyo Tires group growth and financial strength, the dividend payout will be 20% as an index and balance investment and financing, we will target below 0.9 for the D/E ratio.

Toyo Tires group members will take an action to reach the milestones in MTBP14, while maintaining the highest standards and dedication. To shine with unique originality in the enterprise, we will solidify our fundamentals.

Thank you for your continuous support and attention today