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# FY 2023 First-Half Financial Results

## Briefing Material

August 10, 2023

The Yokohama Rubber Co., Ltd.

I am Michio Yoshitake from the Corporate Finance & Accounting Dept.

## Summary of today's presentation

### First-half results

<1H cumulative results>

Sales revenue: **¥443.2 bn**
(record 1H high)

Business profit: **¥25.6 bn**
(¥4.1 bn above forecast)

Net profit: **¥27.7 bn**
(up ¥4.4 bn YoY)

- **Tires**
  Sales & profit up (sales volume up, lower marine freight rates, higher unrealized profit)
- **YOHT**
  Sales volume down, but Maintained high profit margin
- **Y-TWS**
  Acquisition one-time costs
- **MB**
  Large profit increase (conveyor belts/marine & aerospace products)

### Forecasts

<Full year>

Sales revenue: **¥1.0 trn**

Business profit: **¥84.5 bn**

- **Full-year forecast**
  Unchanged

### Capital efficiency

☐ **Growth strategy**

✓ **Y-TWS**
1H profit up YoY
(excluding acquisition-related one-time costs)

☐ **Asset sales**

✓ **Sold cross-shareholdings**
Amount sold in 1H ≈**¥13.5 bn**
FY forecast ≥**¥30.0 bn**

☐ **Capital costs**

✓ **Refinance of acquisition funding**
End-June **¥314.7 bn**
(fixed rate, low-interest 10yr loan)

✓ **A+ credit rating reiterated**
(by JCR on June 29)

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This slide summarizes the contents of my presentation today. First, let's look at our first-half results.

Sales revenue increased 13% YoY to a record first-half high of ¥443.2 billion. This strong result reflects increased tire sales volume driven by overseas sales of replacement tires, the positive forex impact from a weak yen, and the consolidation of TWS from May. Business profit was ¥25.6 billion, ¥4.1 billion above forecast but ¥2.2 billion less than a year ago owing to an increase in unrealized profit and one-time costs related to the TWS acquisition. Net profit was ¥27.7 billion, up ¥4.4 billion YoY. The increase reflects the sale of a US tire sales subsidiary and gains on sales of real estate.

Tire segment profit excluding YOHT and Y-TWS increased ¥1.2 billion YoY as price hikes, lower marine freight rates and other cost improvements helped improve the business' profit margin and offset the negative impact from a rise in unrealized profit. YOHT's profit, however, was ¥3.7 billion less than a year ago, mainly owing to replacement tire inventory adjustments in North American and European aftermarkets. However, on a more positive note, YOHT maintained its high profit structure by reducing logistics expenses and other costs and posted a business profit margin of around 13%. At Y-TWS, business profit was depressed by ¥5.0 billion in one-time costs related to the acquisition. The MB segment's first-half business profit was ¥1.7 billion higher than a year ago thanks to a rebound in auto hose sales and strong demand for our conveyor belts, marine products, and aerospace products.

Next, I will briefly summarize our full-year forecasts for fiscal 2023. Our full-year forecasts for sales revenue of ¥1 trillion and business profit of ¥84.5 billion are unchanged from the figures announced at the end of the first quarter. While we expect conditions in the tire business to remain difficult, we expect further cost improvements, including lower raw material costs and marine freight rates, will enable the business to achieve the targeted increase in business profit. We expect cost improvements at YOHT and price management at Y-TWS will enable us to maintain the OHT business' profit level. As for the MB segment, we expect continued strong sales of conveyor belts and marine products to support profit growth in FY2023.

Lastly, the far right block on this slide shows the initiatives we are taking to improve capital efficiency. This year's growth strategy centers on Y-TWS, which was included in consolidated results from May. Despite difficult market conditions, Y-TWS increased sales of its high value-added tires for large agriculture machinery and achieved YoY profit growth in the first half. Asset sales are focusing on the unwinding of cross-shareholdings. In the first half, we sold off about ¥13.5 billion and plan to sell more than ¥30 billion over the full year. The funds secured from these sales will be used to repay loans used to finance the TWS acquisition, as we plan to quickly reduce our financial leveraging, which has been elevated by the acquisition. The capital costs shown here refer to a 10-year fixed-rate, low-interest yen loan we took out at the end of June to repay the bridge loan we used to finance the TWS acquisition. We were able to avoid the rate hikes that followed the BoJ's tweaking of its yield curve control at the end of July and succeeded in securing stable funding at a low rate. In addition, JCR affirmed our A+ long-term issuer rating, owing to its evaluation of our ability to use our high cash flow generation ability to quickly improve our financial structure to the pre-acquisition level.

# Results for FY 2023 First-Half

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I will now provide some more details about our first-half consolidated results.

## Profit and Loss (First-Half)

| | | | |
|---|---|---|---|
| Exchange Rates | US$ 135 yen | 123 yen (previous year) | +12 yen |
| | EUR 146 yen | 134 yen (previous year) | +12 yen |
| | RUB 1.8 yen | 1.7 yen (previous year) | +0.1 yen |
| TSR20* | 136 cents | 171 cents (previous year) | -35 cents |
| WTI | 75 dollars | 101 dollars (previous year) | -26 dollars |

*SICOM TSR20 1M

(billion yen)

| | 2023 Jan.-Jun. | 2022 Jan.-Jun. | Change | Change (%) | Exchange rate impact | Change excluding impact of exchange rates | Previous forecast | Change for previous forecast | Change for previous forecast (%) |
|---|---|---|---|---|---|---|---|---|---|
| Sales revenue | 443.2 | 391.5 | +51.7 | +13.2% | +20.6 | +31.1 | 450.0 | -6.8 | -1.5% |
| Business profit*1 (Business profit margin) | 25.6 (5.8%) | 27.7 (7.1%) | -2.2 (-1.3%) | -7.8% | +5.7 | -7.9 | 21.5 (4.8%) | +4.1 (+1.0%) | +18.9% |
| Operating profit (Operating profit margin) | 28.2 (6.4%) | 26.9 (6.9%) | +1.2 (-0.5%) | +4.6% | +5.8 | -4.6 | 23.5 (5.2%) | +4.7 (+1.2%) | +19.9% |
| Profit*2 | 27.7 | 23.3 | +4.4 | +18.8% | | | 17.5 | +10.2 | +58.2% |

*1 Business profit= Sales revenue- (Cost of sales + SG&A expenses)
*2 Profit attributable to owners of parent

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Forex rates and the key raw material costs were as shown in the upper half of the slide. Favorable exchange rates added ¥5.7 billion to first-half business profit, but raw material costs depressed profit by ¥5.2 billion.

Consolidated first-half results included sales revenue of ¥443.2 billion, business profit of ¥25.6 billion, and net profit of ¥27.7 billion.

# Business Segment (First-Half)

(billion yen)

| | | 2023 Jan.-Jun. | 2022 Jan.-Jun. | Change | Change (%) | Exchange rate impact | Change excluding impact of exchange rates | Previous forecast | Change for previous forecast |
|---|---|---|---|---|---|---|---|---|---|
| Sales revenue | Tires total | 389.5 | 341.2 | +48.2 | +14.1% | +18.6 | +29.6 | 396.0 | -6.5 |
| | (Tires) | (291.9) | (262.1) | (+29.8) | (+11.4%) | (+12.6) | (+17.2) | (297.0) | (-5.1) |
| | (YOHT) | (67.1) | (79.1) | (-12.0) | (-15.2%) | (+6.1) | (-18.1) | (69.0) | (-1.9) |
| | (Y-TWS) | (30.5) | - | (+30.5) | - | - | (+30.5) | (30.0) | (+0.5) |
| | MB | 49.0 | 45.1 | +3.9 | +8.6% | +1.9 | +2.0 | 49.0 | +0 |
| | Other | 4.6 | 5.1 | -0.5 | -9.2% | +0 | -0.5 | 5.0 | -0.4 |
| | Total | 443.2 | 391.5 | +51.7 | +13.2% | +20.6 | +31.1 | 450.0 | -6.8 |
| Business profit | Tires total | 23.0 | 26.4 | -3.4 | -13.0% | +5.3 | -8.7 | 19.7 | +3.3 |
| | (Tires) | (15.5) | (14.3) | (+1.2) | (+8.5%) | (+4.5) | (-3.3) | (14.5) | (+1.0) |
| | (YOHT) | (8.4) | (12.1) | (-3.6) | (-30.1%) | (+0.8) | (-4.4) | (8.8) | (-0.4) |
| | (Y-TWS) | (-1.0) | - | (-1.0) | - | - | (-1.0) | (-3.6) | (+2.6) |
| | MB | 2.7 | 1.0 | +1.7 | +171.8% | +0.5 | +1.3 | 2.1 | +0.6 |
| | Other | -0.2 | 0.3 | -0.5 | - | +0 | -0.5 | -0.3 | +0.1 |
| | Intersegment eliminations | 0 | 0 | -0 | -20.0% | - | -0 | – | +0 |
| | Total | 25.6 | 27.7 | -2.2 | -7.8% | +5.7 | -7.9 | 21.5 | +4.1 |

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This slide shows first-half results for each business segment.

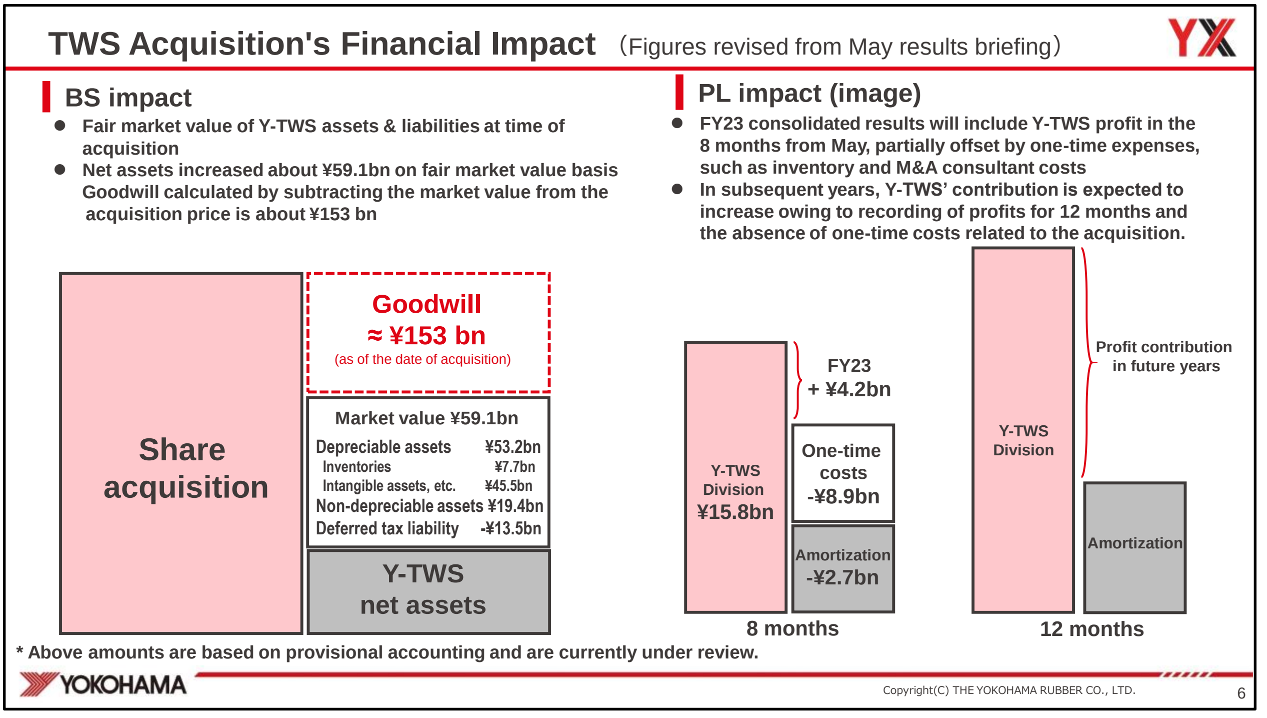
First, please look at the upper table showing segment sales revenue.

Tire segment sales revenue came to ¥389.5 billion, a ¥48.2 billion or 14.1% YoY increase.

The increase in tire sales was supported by ¥3.9 billion increase in sales of OE tires for new cars in Japan and a ¥4.8 billion increase in sales in the domestic replacement tire market. Overseas sales added another ¥21.0 billion to the increase in tire sales.

Meanwhile, a YoY decrease in YOHT sales depressed segment sales by ¥12.0 billion but the addition of Y-TWS contributed ¥30.5 billion to first-half tire segment sales.
MB segment sales revenue was ¥49.0 billion, 8.6% higher than a year earlier.

Business profit was down YoY, as a strong contribution from MB profit growth was outweighed by the decline in Tire segment profit caused by lower sales volume at YOHT and the one-time costs related to the acquisition of TWS. The next slide provides details about the loss at Y-TWS.




So, let's look at TWS's impact on our finances.

Looking first at the impact on our balance sheet, we allocated about ¥153 billion to goodwill and another ¥59.1 billion to intangible assets, etc.

Compared with the pre-Purchase Price Allocation (PPA) result I explained at our previous results briefing, the allotment to intangible assets has increased while the goodwill allotment has been decreased.

I will now explain the ¥4.2 billion contribution to FY2023 profit that we expect from TWS. We expect TWS to generate business profit of ¥15.8 billion in the eight months from May.

Subtracting from this ¥15.8 billion figure one-time acquisition-related costs totaling ¥8.9 billion, including ¥7.6 billion for PPA amortization of inventory values and ¥1.3 billion for M&A consultant fees, and another ¥2.7 billion in PPA amortization costs for eight months results in our forecast of a ¥4.2 billion contribution to business profit in FY2023.

While we now forecast TWS profit in the eight months from May will be about ¥2.0 billion higher than our previous forecast, the increased allocations to inventories and other assets explained in the section on BS impact has raised our estimate of one-time costs by about ¥2.0 billion, thus offsetting the increase in our TWS profit forecast. Accordingly, our forecast for TWS's contribution to Group business profit is unchanged at ¥4.2 billion. We expect TWS' profit contribution in 2024 and future years will be greater as it will include a full 12 months of earnings while the one-time acquisition-related costs will fall out of the picture.

# Y-TWS's Results

## Second-quarter results

(billion yen)

| | 2023 May-Jun. | 2022 May-Jun. | Change | Change (%) | Previous forecast | Change for previous forecast |
|---|---|---|---|---|---|---|
| Sales revenue | 30.5 | 31.0 | -0.5 | -1.6% | 30.0 | +0.5 |
| Business profit (before amortization)<br>(Business profit margin) | 4.7<br>(15.4%) | 4.3<br>(13.9%) | +0.4<br>(+1.5%) | +8.7% | 4.3<br>(14.5%) | +0.4<br>(+0.9%) |
| One-time costs | -5.0 | | | | -6.9 | +1.9 |
| Amortization | -0.7 | | | | -1.0 | +0.3 |
| Business profit (after amortization) | -1.0 | | | | -3.6 | +2.6 |

✓ One-time costs reduced ¥1.9 billion by revisions to value and allocation timeframe (increased by ¥1.9 billion per year)

## First-half sales

TWS

-7%

・Sales results (t)

AG market

-30%～-40%

・Unit sales of replacement tires in US & Europe (based on YRC estimates)

## 2023 forecast (May-Dec.)

(billion yen)

| | 2023 May-Dec. | 2022 May-Dec. | Change | Change (%) | Previous forecast | Change for previous forecast |
|---|---|---|---|---|---|---|
| Sales revenue | 110.0 | 117.1 | -7.1 | -6.0% | 110.0 | – |
| Business profit (before amortization)<br>(Business profit margin) | 15.8<br>(14.4%) | 12.9<br>(11.0%) | +2.9<br>(+3.4%) | +22.8% | 13.9<br>(12.6%) | +2.0<br>(+1.8%) |
| One-time costs | -8.9 | | | | -7.1 | -1.9 |
| Amortization | -2.7 | | | | -2.6 | -0.1 |
| Business profit (after amortization) | 4.2 | | | | 4.2 | – |

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This slide provides more details about TWS earnings.

Our first-half results include TWS results for the two months of May and June. On a pre-amortization basis, TWS's business profit for those two months was ¥4.7 billion, for a profit margin of 15.4%. Both figures are improvements over the same two months in 2022.

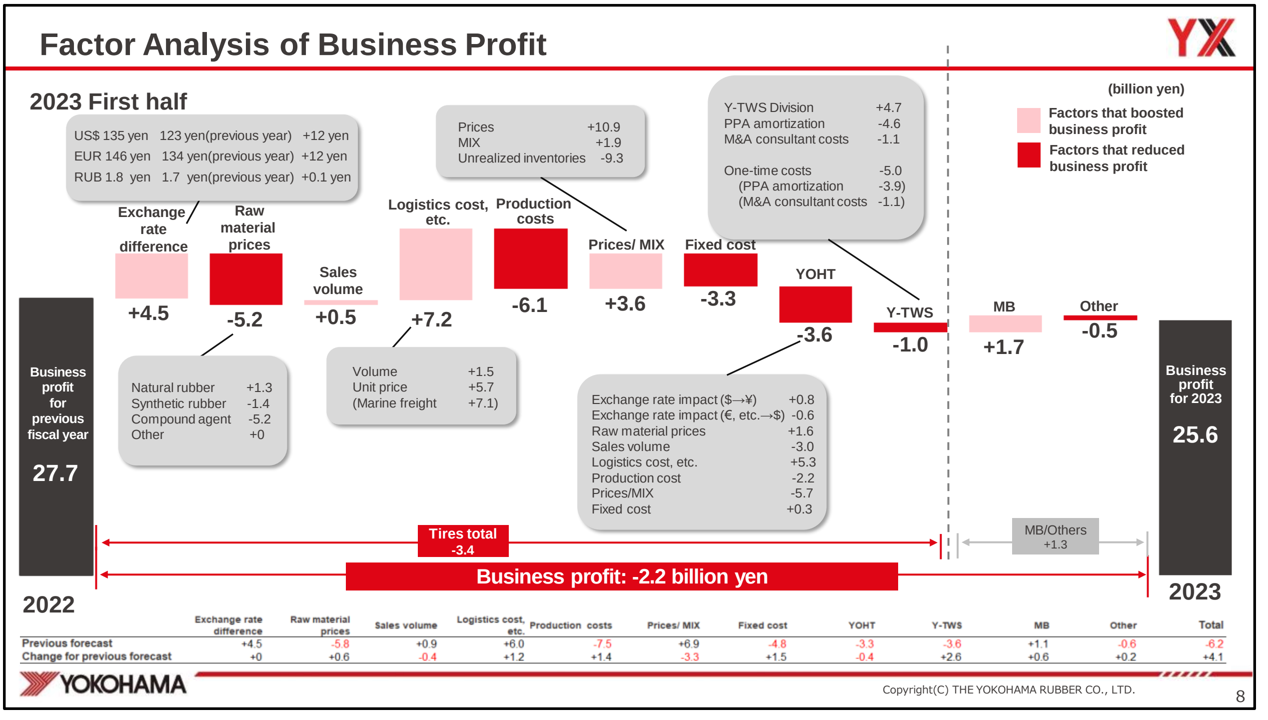
While overall unit sales of replacement tires for agricultural machinery in the US and European markets were down 30-40% YoY in 2023 1H, TWS sales were rather stable, with its unit sales declining only 7%. Thanks to strong sales of its tires for large agriculture machinery and thorough price management, TWS managed to increase its pre-amortization business profit.

On a post-amortization basis, however, TWS business profit in May-June was -¥1.0 billion, with one-time acquisition-related costs of ¥5.0 billion, including ¥3.9 billion for PPA amortization of inventory values and ¥1.1 billion for M&A consultant fees, and an another ¥0.7 billion for two-months' worth of PPA amortization being subtracted from the pre-amortization profit of ¥4.7 billion.

We previously forecast one-time costs totaling ¥7.1 billion would be entirely written off in the first half. However, the official calculation has raised total one-time costs to ¥8.9 billion, with ¥5.0 billion being posted in 1H and ¥3.9 billion in 2H.

As a result, 1H business profit is ¥2.6 billion higher than we previously estimated, owing to ¥2.2 billion decrease in one-time costs and amortization than our previous forecast and an additional ¥0.4 billion period profit improvement.

Our full-year forecast, as I previously explained, is unchanged despite changes to its contents.




This slide shows the factors that affected business profit in the first half.

First-half consolidated business profit was ¥25.6 billion, ¥2.2 billion less than the ¥27.7 billion result in FY2022 1H.

Tire segment business profit was ¥3.4 billion less than a year ago.

Tire segment profit was depressed by a ¥9.3 billion increase in unrealized profit on inventories, but this negative was offset by positive contributions of ¥10.9 billion from price hikes and ¥7.1 billion from lower marine freight costs, for a net improvement of ¥1.2 billion.

However, YOHT and Y-TWS made negative contributions of ¥3.6 billion and ¥1.0 billion, respectively. The MB segment profit increase contributed ¥1.7 billion to first-half business profit but that was partially offset by a ¥0.5 billion decline in profit in the Others segment.

## Profit and Loss (Quarterly)

| | Jan.-Mar. 2023 | Previous year | Change | Apr.-Jun. 2023 | Previous year | Change |
|---|---|---|---|---|---|---|
| Exchange Rates | US$ 132 yen | 116 yen (previous year) | +16 yen | US$ 137 yen | 130 yen (previous year) | +8 yen |
| | EUR 142 yen | 130 yen (previous year) | +12 yen | EUR 150 yen | 138 yen (previous year) | +11 yen |
| | RUB 1.8 yen | 1.3 yen (previous year) | +0.5 yen | RUB 1.7 yen | 2.0 yen (previous year) | -0.3 yen |
| TSR20* | 137 cents | 177 cents (previous year) | -40 cents | 135 cents | 165 cents (previous year) | -31 cent |
| WTI | 76 dollars | 94 dollars (previous year) | -18 dollars | 74 dollars | 108 dollars (previous year) | -35 dollars |

*SICOM TSR20 1M

(billion yen)

| | 2023 Jan.-Mar. | 2022 Jan.-Mar. | Change | Exchange rate impact | Change excluding impact of exchange rate | 2023 Apr.-Jun. | 2022 Apr.-Jun. | Change | Exchange rate impact | Change excluding impact of exchange rate |
|---|---|---|---|---|---|---|---|---|---|---|
| Sales revenue | 204.3 | 185.6 | +18.7 | +15.1 | +3.6 | 238.9 | 205.9 | +33.0 | +5.4 | +27.5 |
| Business profit*1 (Business profit margin) | 13.0 (6.4%) | 13.7 (7.4%) | -0.7 (-1.0%) | +4.6 | -5.3 | 12.6 (5.3%) | 14.1 (6.8%) | -1.5 (-1.5%) | +1.1 | -2.6 |
| Operating profit (Operating profit margin) | 13.2 (6.5%) | 13.5 (7.3%) | -0.3 (-0.8%) | +4.6 | -4.9 | 15.0 (6.3%) | 13.4 (6.5%) | +1.6 (-0.2%) | +1.2 | +0.3 |
| Profit *2 | 9.7 | 10.2 | -0.5 | | | 18.0 | 13.2 | +4.8 | | |

*1 Business profit= Sales revenue- (Cost of sales + SG&A expenses)

*2 Profit attributable to owners of parent

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Our second quarter results included sales revenue of ¥238.9 billion, up ¥33.0 billion YoY, and business profit of ¥12.6 billion, ¥1.5 billion less than a year ago. However, net profit increased to ¥18.0 billion, ¥4.8 billion higher than a year ago thanks to gains on asset sales.

## Business Segment (Second Quarter)

(billion yen)

| | | 2023 Apr.-Jun. | 2022 Apr.-Jun. | Change | Change (%) | Exchange rate impact | Change excluding impact of exchange rate |
|---|---|---|---|---|---|---|---|
| Sales revenue | Tires total | 209.8 | 178.3 | +31.5 | +17.7% | +4.8 | +26.7 |
| | (Tires) | (145.4) | (135.6) | (+9.8) | (+7.3%) | (+2.8) | (+7.0) |
| | (YOHT) | (33.9) | (42.8) | (-8.8) | (-20.7%) | (+1.9) | (-10.8) |
| | (Y-TWS) | (30.5) | – | (+30.5) | – | – | (+30.5) |
| | MB | 26.5 | 24.7 | +1.9 | +7.6% | +0.7 | +1.2 |
| | Other | 2.5 | 2.9 | -0.4 | -13.4% | +0 | -0.4 |
| | Total | 238.9 | 205.9 | +33.0 | +16.0% | +5.4 | +27.5 |
| Business profit | Tires total | 10.4 | 12.4 | -2.0 | -15.8% | +0.9 | -2.9 |
| | (Tires) | (7.2) | (5.7) | (+1.5) | (+26.9%) | (+0.7) | (+0.9) |
| | (YOHT) | (4.2) | (6.7) | (-2.5) | (-37.3%) | (+0.2) | (-2.7) |
| | (Y-TWS) | (-1.0) | – | (-1.0) | – | – | (-1.0) |
| | MB | 2.1 | 1.2 | +0.8 | +68.1% | +0.2 | +0.7 |
| | Other | 0 | 0.4 | -0.4 | -89.0% | +0 | -0.4 |
| | Intersegment eliminations | 0 | 0 | -0 | -18.8% | – | -0 |
| | Total | 12.6 | 14.1 | -1.5 | -10.7% | +1.1 | -2.6 |

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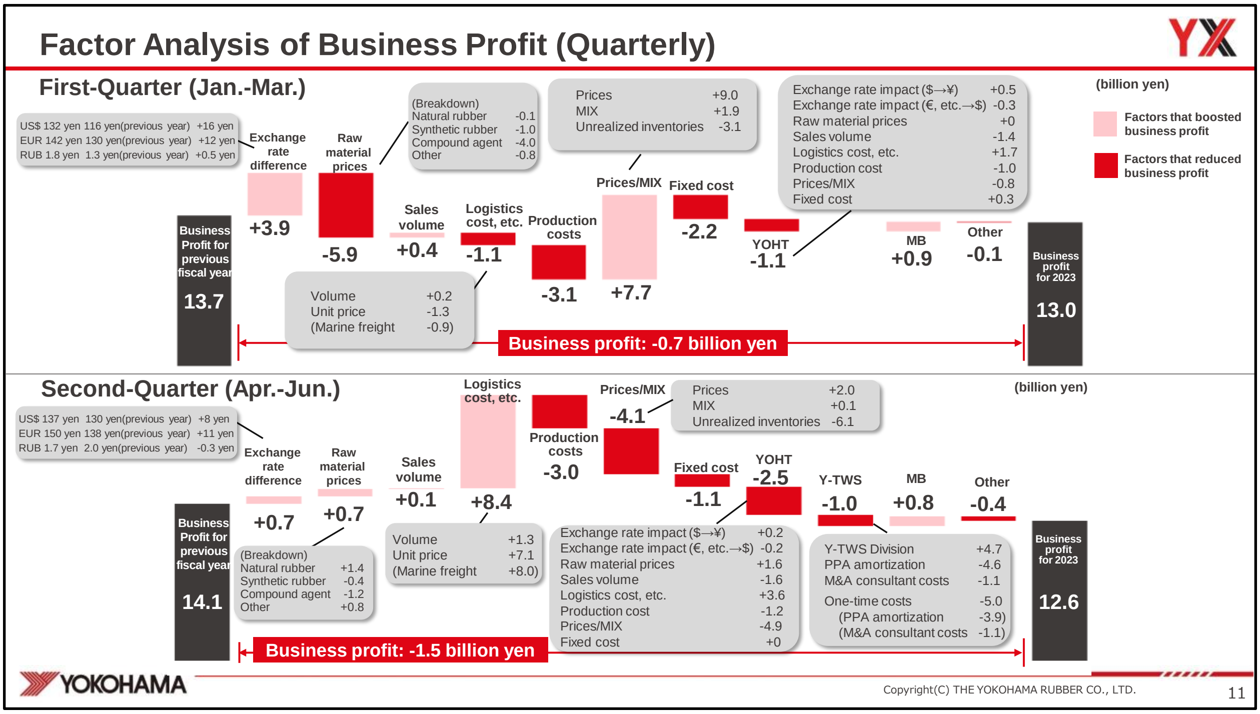
This slide shows second-quarter results for each business segment.

First, please look at the upper table showing segment sales revenue.

Tire segment sales revenue was ¥209.8 billion, ¥31.5 billion higher than in FY2022 2Q. Japan sales of OE tires contributed ¥2.4 billion to that increase, with another ¥3.1 billion coming from sales of domestic replacement tires. Overseas sales contributed ¥4.3 billion, but YOHT sales decreased ¥8.8 billion. The biggest contribution was from the addition of Y-TWS, which added ¥30.5 billion to 2Q sales revenue.

MB segment sales revenue was ¥26.5 billion, 7.6% higher than in FY2022 2Q.
As was the case with our 1H result, 2Q business profit was down YoY, as a strong contribution from MB profit growth was outweighed by the decline in Tire segment profit caused by lower sales volume at YOHT and the one-time costs related to the acquisition of TWS.




Next, this slide shows the factors that affected business profit in each quarter. Second-quarter business profit came to ¥12.6 billion, ¥1.5 billion less than ¥14.1 billion in FY2022 2Q.

The key factors include a ¥2.0 billion YoY decline in Tire segment profit. Excluding YOHT and Y-TWS, tire segment profit was up ¥1.5 billion, mainly thanks to a ¥2.0 billion contribution from price hikes and an ¥8.4 billion reduction in logistics costs, which offset a ¥6.1 billion increase in unrealized profit on inventories.

However, YOHT and Y-TWS made negative contributions of ¥2.5 billion and ¥1.0 billion, respectively. The MB segment profit increase contributed ¥0.8 billion to 2Q business profit but that was partially offset by a ¥0.4 billion decline in profit in the Others segment.

# Financial Position (Comparison with the end of the previous year)

(billion yen)

| | Jun. 30, 2023 | Dec. 31, 2022 | Change |
|---|---|---|---|
| Current assets | 630.3 | 504.0 | +126.3 |
| Cash and cash equivalents | 90.5 | 75.6 | +14.9 |
| Trade and other receivables | 232.1 | 193.7 | +38.3 |
| Inventories | 272.1 | 216.4 | +55.7 |
| Other assets | 35.7 | 18.3 | +17.4 |
| Non-current assets | 998.0 | 647.1 | +350.9 |
| Total assets | 1628.3 | 1151.1 | +477.2 |
| Liabilities | 906.2 | 528.0 | +378.2 |
| Equity | 722.1 | 623.1 | +98.9 |
| Total liabilities and equity | 1628.3 | 1151.1 | +477.2 |
| Interest-bearing debt*[1] | 551.4 | 238.7 | +312.7 |
| Ratio of equity attributable to owners of parent (%) | 43.8% | 53.4% | -9.5% |
| D/E ratio | 0.77 | 0.39 | +0.38 |
| Net D/E ratio | 0.65 | 0.27 | +0.38 |

* Interest-bearing debt does not include lease liabilities

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This brings us to our financial position.

The TWS acquisition's impact on our financial position is pretty much as expected, with our shareholders' equity ratio now 43.8% and the D/E ratio at 0.77.

## State of Cash Flows

(billion yen)

| | 2023 Jan.-Jun. | 2022 Jan.-Jun. | Change |
|---|---|---|---|
| CF from operating activities | 49.1 | 8.3 | +40.9 |
| CF from investing activities | -334.9 | -24.8 | -310.0 |
| Free CF | -285.7 | -16.6 | -269.2 |
| CF from financing activities | 296.1 | 36.5 | +259.6 |
| Closing balance of cash and cash equivalents | 90.5 | 71.8 | +18.7 |

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This slide summarizes our cash flows in FY2023 1H.

Operating cash flow totaled ¥49.1 billion, reflecting an increase in working capital. However, cash flow used in investing activities increased sharply to ¥334.9 billion.

# Earnings Forecast for FY 2023

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Next, I will present our full-year earnings forecast for FY2023.

## Profit and Loss Projections (Full Year) No changes from the previous forecast

**Forecasts after July 2023**

| | | | |
|---|---|---|---|
| **Exchange Rates** | US$ 130 yen | 133 yen (previous forecast) | -3 yen |
| | EUR 143 yen | 146 yen (previous forecast) | -3 yen |
| | RUB 1.6 yen | 1.7 yen (previous forecast) | -0.2 yen |
| **TSR20*** | 130 cents | 126 cents (previous forecast) | +4 cents |
| **WTI** | 75 dollars | 78 dollars (previous forecast) | -3 dollars |

*SICOM TSR20 1M

(billion yen)

| | 2023 forecast | 2022 result | Change | Change (%) | 2023 previous forecast | Change for previous forecast |
|---|---|---|---|---|---|---|
| Sales revenue | 1000.0 | 860.5 | +139.5 | +16.2% | 1000.0 | – |
| Business profit*1 | 84.5 | 70.1 | +14.4 | +20.6% | 84.5 | – |
| (Business profit margin) | (8.5%) | (8.1%) | (+0.4%) | | (8.5%) | – |
| Operating profit | 87.0 | 68.9 | +18.1 | +26.4% | 87.0 | – |
| (Operating profit margin) | (8.7%) | (8.0%) | (+0.7%) | | (8.7%) | – |
| Profit*2 | 57.0 | 45.9 | +11.1 | +24.1% | 57.0 | – |

*1 Business profit= Sales revenue- (Cost of sales + SG&A expenses)
*2 Profit attributable to owners of parent

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We have revised our assumptions for forex and raw material prices for the rest of FY2023, effective from July.

Our new forex assumptions are 130 for USD/JPY, 143 for EUR/JPY, and 1.6 for RUB/JPY.

Our raw material price assumptions are 130 cents for TSR20 grade natural rubber and $75 for WTI crude oil.

Our full-year sales and profit forecasts are unchanged, as we continue to target sales revenue of ¥1 trillion and business profit of ¥84.5 billion.

## Business Segment (Full Year Forecast) No changes from the previous forecast

(billion yen)

| | | 2023 forecast | 2022 result | Change | Change (%) | 2023 previous forecast | Change for previous forecast |
|---|---|---|---|---|---|---|---|
| Sales revenue | Tires total | 887.0 | 754.3 | +132.7 | +17.6% | 887.0 | – |
| | (Tires) | (636.0) | (598.5) | (+37.5) | (+6.3%) | (636.0) | – |
| | (YOHT) | (141.0) | (155.8) | (-14.8) | (-9.5%) | (141.0) | – |
| | (Y-TWS) | (110.0) | – | (+110.0) | – | (110.0) | – |
| | MB | 103.5 | 96.2 | +7.3 | +7.5% | 103.5 | – |
| | Other | 9.5 | 9.9 | -0.4 | -4.2% | 9.5 | – |
| | Total | 1000.0 | 860.5 | +139.5 | +16.2% | 1000.0 | – |
| Business profit | Tires total | 78.0 | 66.8 | +11.2 | +16.7% | 78.0 | – |
| | (Tires) | (56.1) | (44.7) | (+11.4) | (+25.4%) | (56.1) | – |
| | (YOHT) | (17.7) | (22.1) | (-4.4) | (-19.9%) | (17.7) | – |
| | (Y-TWS) | (4.2) | – | (+4.2) | – | (4.2) | – |
| | MB | 6.2 | 4.0 | +2.2 | +56.4% | 6.2 | – |
| | Other | 0.3 | -0.8 | +1.1 | – | 0.3 | – |
| | Intersegment eliminations | – | 0 | -0 | – | – | – |
| | Total | 84.5 | 70.1 | +14.4 | +20.6% | 84.5 | – |

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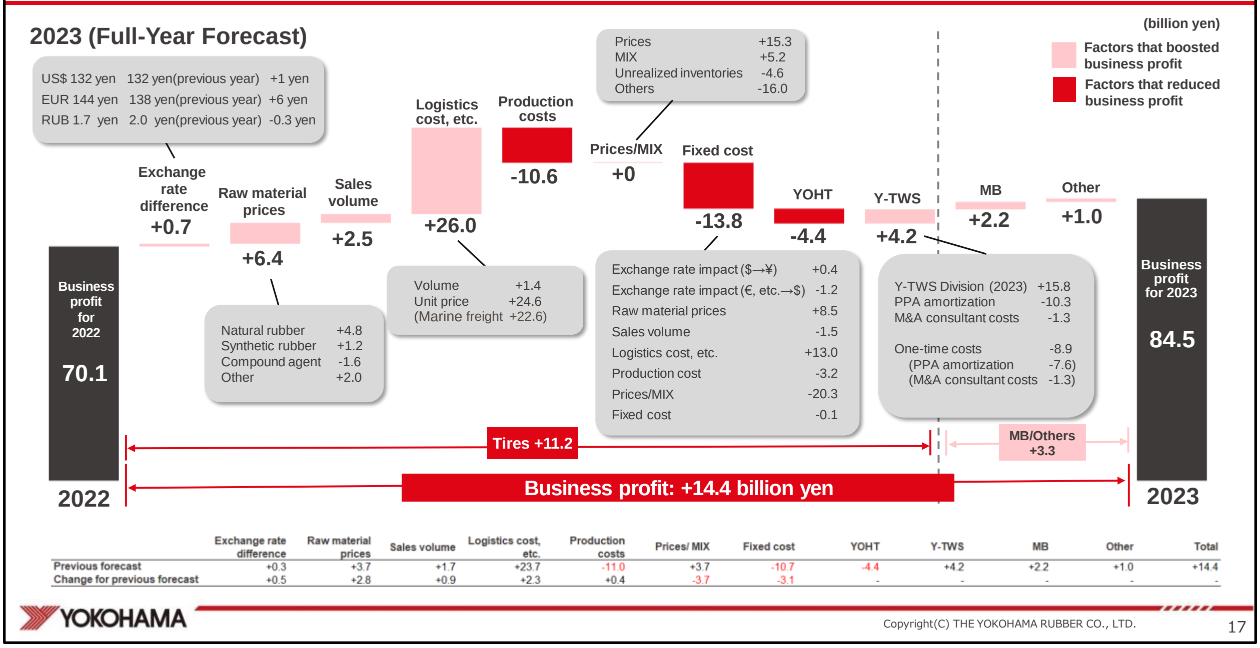
As this slide shows, our full-year forecasts for each segment are the same as we previously reported.

## Factor Analysis of Business Profit (Full Year)




| | Exchange rate difference | Raw material prices | Sales volume | Logistics cost, etc. | Production costs | Prices/ MIX | Fixed cost | YOHT | Y-TWS | MB | Other | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Previous forecast | +0.3 | +3.7 | +1.7 | +23.7 | -11.0 | +3.7 | -10.7 | -4.4 | +4.2 | +2.2 | +1.0 | +14.4 |
| Change for previous forecast | +0.5 | +2.8 | +0.9 | +2.3 | +0.4 | -3.7 | -3.1 | - | - | - | - | - |

This slide shows the factors we expect to affect business profit in FY2023.

We now expect a ¥0.7 billion positive impact from forex rate fluctuations, ¥0.5 billion more than we previously forecast.

Lower raw material costs now are expected to make a ¥6.4 billion contribution to profit, up ¥2.8 billion mainly thanks to lower cost of petrochemical raw materials.

Increased sales volume is expected to contribute ¥2.5 billion, ¥0.9 billion more than our previous forecast as we have slightly raised our projections for tire sales, especially in North America and China.

Lower logistics costs, including a ¥22.6 billion decrease in marine freight costs, are expected to boost profit some ¥26.0 billion, a ¥2.3 billion improvement over our previous projection.

We expect production costs to reduce profit by ¥10.6 billion, ¥0.4 billion less than our previous estimate.

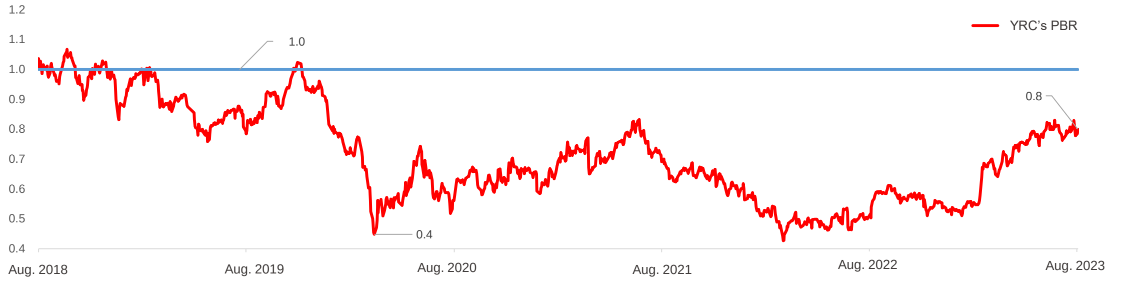
We now project a zero net impact from prices and MIX improvements, down from a positive impact of ¥3.7 billion previously forecast, owing to reductions in our projection for contributions from prices (-¥1.5bn) and other factors (-¥3.0bn), partially offset by increases from MIX improvements (+¥0.5bn) and lower unrealized profits on inventories (+¥0.5bn).

There is no change to our estimate that YOHT’s contribution to profit will be ¥4.4 billion less in FY2023. While we now project YOHT sales volume to be less than we previously forecast, we expect that negative to be fully offset by efforts to reduce costs, including logistics costs. We also have not changed our projections for Y-TWS, MB and Other.


I will now explain our efforts to improve capital efficiency.

# Improving Capital Efficiency ①Market Valuation

## ☐ Market valuation－PBR 5-year trend




- ✓ PBR fell to 0.4x in 2020, in part reflecting COVID-19's impact. Now improved to 0.8x, but still below 1.0x.
- ✓ Feedback provided from dialogue with the capital market indicates investors think we need to provide more information about our OHT business and the overall OHT market,, as the OHT business is a future growth driver
- ✓ We plan to increase dialogue with investors and improve disclosures in order to achieve a better understanding of our growth strategy and a higher market valuation

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This slide shows the trend in our PBR over the past few years.

While it has recently improved to 0.8x, it is still below 1x.

Recent dialog with the capital market has revealed that many investors think we need to provide more information about the attractiveness of the OHT market and the growth potential of our OHT business, which we have positioned as a future growth driver.

Based on that feedback, we plan to improve disclosures and continue constructive dialog with investors to gain a better understanding of our growth strategy and a higher market valuation.

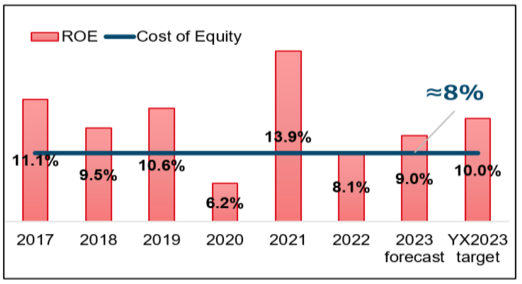
# Improving Capital Efficiency ②Return on Capital/Cost of Capital

## ☐ Return on Capital/Cost of Capital

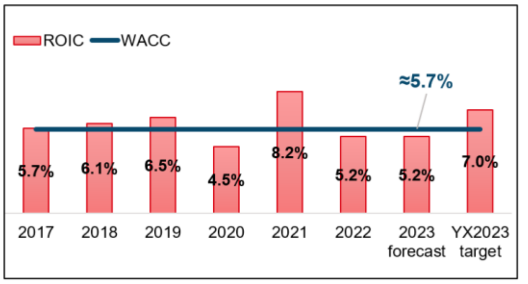
**Increasing return on capital**

- ✓ **Capital reduction:** Balance sheet management, including selling idle assets and reducing cash on hand, is targeted at improving capital efficiency and reducing interest-bearing debt
- ✓ **Growth investments:** Using funds generated by operating CF and sales of cross-shareholdings and other idle assets to fund investments in growth areas, such as the TWS acquisition, that will increase our earnings potential
- ✓ **Capital cost management:** Using strict criteria (discount payback period method/country-specific hurdle rates for overseas investments) to select new investments and improve return on capital

**ROE & Cost of Equity**




**ROIC & WACC**




*1.Cost of equity: Estimate based on CAPM and dialog with investors
*2.WACC：CAPM basis

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That brings me to our initiatives to improve capital efficiency.

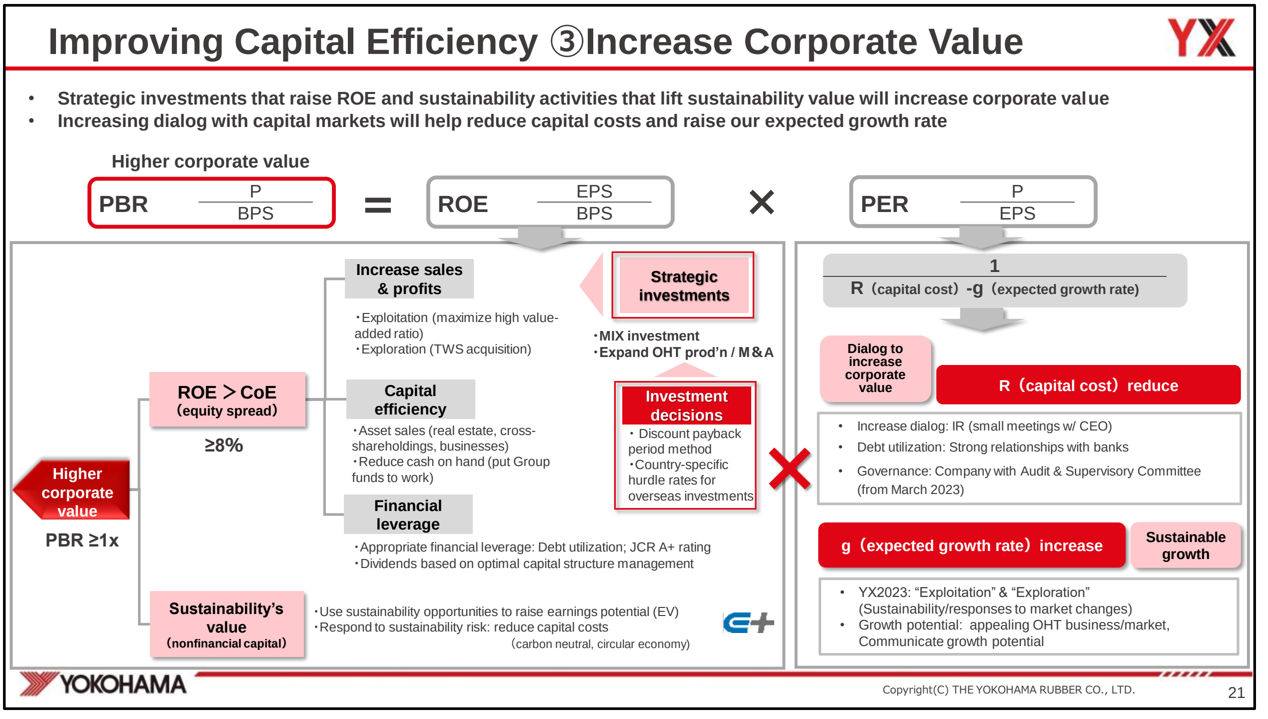
We expect our ROE to rise to 9% this year, above our 8% cost of equity.

Meanwhile, we project ROIC will be 5.2%, slightly below WACC, but the same as in FY2022 despite a large increase in invested capital due to the TWS acquisition, etc.

To increase our return on capital, we will continue to reduce idle assets, invest in growth, and strengthen our capital cost management.

Asset reduction is focused on balance sheet contraction that reduces both assets and debt by selling off such idle assets as cross-shareholdings and reducing cash on hand.

Growth investments are focused on investments in growth areas that will increase our earnings potential. All investment decisions are based on strict selection criteria focused on the cost of capital and consideration of such factors as the discount payback period method and country specific hurdle rates.




Lastly, I would like to explain in a bit more detail our plan to increase PBR.

We are making efforts to improve both ROE, a measure of current profitability, and PER, which essentially reflects investor expectations of our future growth.

To raise ROE, we will continue our "Exploitation & Exploration" strategy to increase sales and profits, use sound financial strategies to improve capital efficiency, and reduce our cost of capital by pursuing an appropriate level of financial leveraging.

In addition, we will create sustainability value by taking advantage of new sustainability opportunities, such as the E+ mark introduced today, and responding appropriately to risks associated with efforts to achieve carbon neutrality.

To achieve a higher PER, we will increase our dialog with the capital market to reduce our cost of capital and improve the market's expectation for our profit growth by gaining a better understanding of our OHT business' growth potential.

That concludes today's presentation.

**Cautionary Notes Regarding Forecasts**

Forecasts and outlooks included in this material are based on the judgment of the Company's management using currently available information. Actual results and earnings may differ from the forecasts and outlooks included in the material due to various risks and uncertainties.

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# (Reference) Tire Unit Sales YoY Growth

Year-on-Year Tire Sales Growth (%)

| Tire Business | | 2022 2Q | 2022 1H | 2022 Annual | 2023 2Q | 2023 1H | 2023 Annual forecast |
|---|---|---|---|---|---|---|---|
| Japan | OE | 80% | 84% | 98% | 117% | 112% | 115% |
| | REP | 106% | 115% | 108% | 97% | 98% | 100% |
| Overseas | OE | 95% | 104% | 100% | 91% | 83% | 92% |
| | REP | 103% | 102% | 102% | 105% | 107% | 104% |

Year-on-Year Tire Sales Growth by region, quarterly & annual bases (%)

| | 2022 | | | 2023 | | | Regional sales composition | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2Q | 1H | Annual | 2Q | 1H | Annual forecast | 2022 full year | 2023 2Q | 2023 2H |
| Japan | 96% | 103% | 105% | 103% | 102% | 104% | 39% | 36% | 37% |
| No. America | 99% | 102% | 103% | 102% | 101% | 100% | 20% | 21% | 21% |
| Europe | 110% | 114% | 101% | 89% | 102% | 103% | 6% | 6% | 7% |
| Russia | 31% | 63% | 59% | 273% | 126% | - | 2% | 3% | 3% |
| China | 94% | 100% | 97% | 94% | 85% | 96% | 16% | 15% | 14% |
| Asia | 137% | 121% | 119% | 100% | 106% | 107% | 12% | 13% | 12% |
| Others | 106% | 96% | 101% | 101% | 121% | 101% | 5% | 6% | 6% |
| Total | 99% | 103% | 103% | 102% | 101% | 102% | - | - | - |

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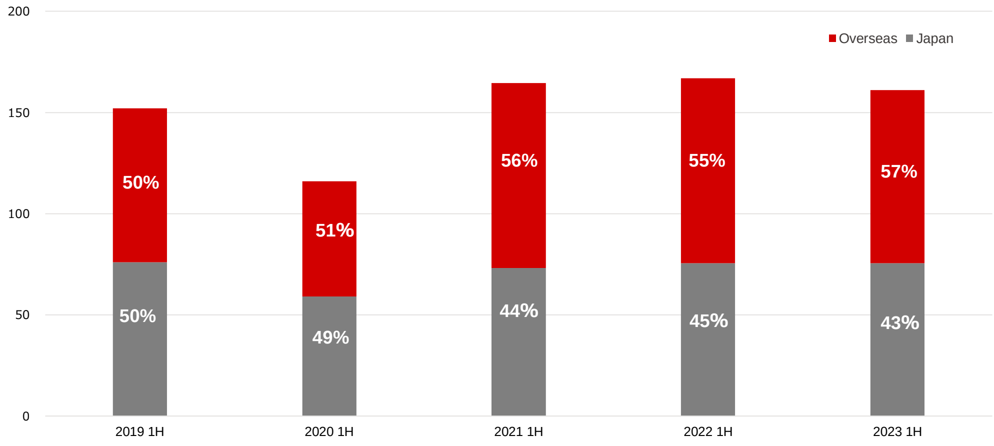
## (Reference) Tire Rubber Production Volumes




| (Unit: thousand tons) | 2019 1H | 2020 1H | 2021 1H | 2022 1H | 2023 1H |
|---|---|---|---|---|---|
| Japan | 76 | 59 | 73 | 76 | 75 |
| Overseas | 76 | 57 | 91 | 92 | 86 |
| Total | 153 | 116 | 165 | 167 | 161 |

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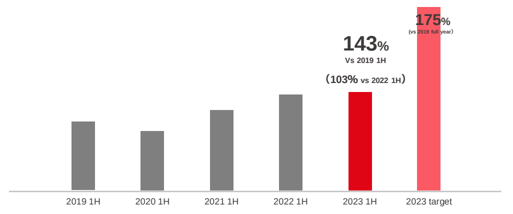
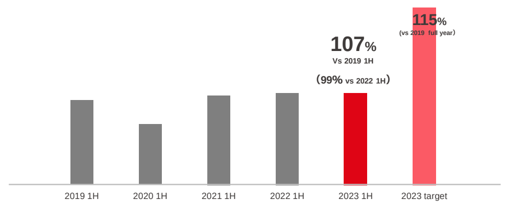
# (Reference) Cumulative Unit Sales of Consumer Tire Products

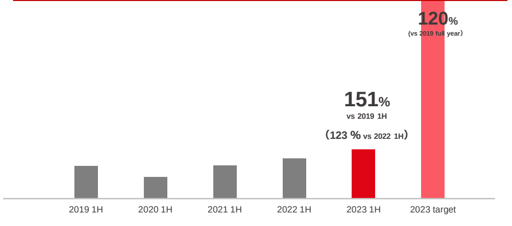
## ADVAN



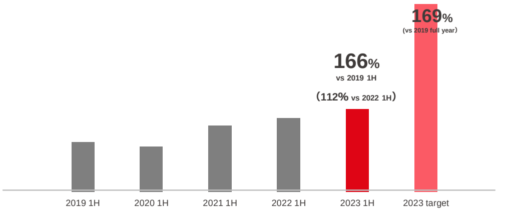

## GEOLANDAR




## WINTER




## 18-inch and larger

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