# Dialogue Between Outside Directors

## Governance Supporting the Sustainable Growth of Yokohama Rubber

Yokohama Rubber is accelerating its business restructuring and global expansion under the banner of "Hockey Stick Growth." While pursuing an aggressive growth strategy, we are also focusing on improving the effectiveness of our governance and developing the next generation of management talent. What are Outside Directors focusing on right now, and how are they overseeing management? We asked Hirokazu Kono and Hisako Takada.



**Hirokazu Kono Member of the Board (Outside Director) and Member of the Audit and Supervisory Committee (photo right)**
Career summary: 1991, Ph.D. in Engineering, Keio University. 1991, Visiting Scholar at Harvard Business School (until July 1992). 1998, Professor at Keio University. 2009, Dean of the Graduate School of Business Administration, Keio University and Dean of the Keio Business School. 2011, Member of the Independent Committee of Yokohama Rubber. 2013, President of the Japan Industrial Management Association (until May 2017). 2018, Member of the Board of Yokohama Rubber. 2023, Member of the Audit & Supervisory Committee of Yokohama Rubber. 2023, Professor Emeritus and Project Professor, Keio University (present).

**Hisako Takada Member of the Board (Outside Director) (photo left)**
Career summary: April 1993, Joined Goldman Sachs Japan Co., Ltd. July 1998, Graduated from London Business School. August 1998, Joined Sony Corporation. August 2000, Joined UBS Securities Japan Co., Ltd. December 2005, Joined GCA Corporation (currently Houlihan Lokey). April 2014, Joined OMRON Corporation. March 2021, Senior General Manager of the CEO Office, OMRON Corporation. April 2021, Executive Officer, OMRON Corporation. March 2024, Member of the Board (Outside Director) of Yokohama Rubber. April 2025, Senior Executive Officer and CFO, Advantest Corporation (present).

### Evolution Toward a Discussion-oriented Board of Directors

**Kono** Compared to 2018, when I first joined the Board as an Outside Director, I feel that the current Board has made significant strides in terms of the effectiveness of corporate governance. In 2023, we transitioned to a company with an Audit and Supervisory Committee. Through our ongoing efforts to enhance diversity—including increasing the proportion of Outside Directors and female executives, and appointing individuals with diverse areas of expertise—we have strengthened our diversity and expertise to a level that exceeds the standards expected by society and capital markets. In light of the continuous changes in the global landscape and the growing needs of our shareholders, as we formulate Yokohama Rubber's growth strategy—which also takes into account the growth of the tire industry itself—I truly feel that the functions of the Board of Directors are being strengthened.

**Takada** Although I have only been serving as an Outside Director for a little over two years, what I've noticed while observing the Board meetings is that important matters requiring discussion are being thoroughly discussed. There are no so-called rubber-stamp meetings that have become mere formalities, nor do we, conversely, get too involved in the day-to-day operations of the executive branch. I get the impression that the Board of Directors is focusing on the issues it should be addressing.

Also, if you look at the profiles of our Outside Directors, you'll see that they bring a wide variety of perspectives to the table. Members with diverse backgrounds and areas of expertise have come together to share their perspectives from multiple angles. And after engaging in thorough discussions, the decisions that need to be made are made promptly. I believe this balance is what contributes to the Board of Directors' high level of effectiveness.

**Kono** With regard to reporting items—such as quality issues, safety issues, and product mix issues—we have established a system whereby we receive regular reports within our annual schedule on topics we wish to monitor on an ongoing basis. Documents are shared several days before Board meetings, and a detailed explanation of the agenda items is provided at a preparatory briefing held the day before. The Board of Directors conducts its deliberations with this prior understanding in mind and engages in in-depth discussions on pending issues. Furthermore, if there are any agenda items that require further discussion, a new meeting is scheduled at a later date to ensure that proper reports are presented and discussions are held. I recognize that this high level of transparency in our operations is another area that has changed significantly compared to the past.

### How to Capitalize on a Growth Phase

**Takada** Regarding the current growth phase, often referred to as "Hockey Stick Growth," while it holds tremendous potential, I believe we must also plan on the assumption that things may not go exactly as planned. For example, while we are implementing aggressive strategies—such as pursuing M&A for inorganic growth and building a factory in China within a year—there may be deviations from our initial plans, such as a decline in profits in the OHT business due to a slump in the North American agricultural machinery market. What's important is to quickly detect these changes on the ground, share information swiftly across national, organizational, and hierarchical boundaries, and conduct reviews to gain insights. How quickly can we get this cycle moving and, based on that, make the next decision? I believe this is precisely what adaptability is. In fact, I feel that the discrepancies between the initial plan and reality, as well as the challenges we face, are being shared with the Board of Directors at a relatively early stage. I think this culture is one of the Company's strengths.

**Kono** I don't think we should interpret the term "Hockey Stick Growth" as simply meaning growth. Opportunities for skyrocketing growth—such as acquiring a company or acquiring a portion of its business through a carve-out—are, after all, merely one type of opportunity. It is important to determine how we can achieve growth that is truly characteristic of Yokohama Rubber in terms of divisional synergy, the Yokohama Rubber brand, as well as quality and reliability.

Let me take a case of our approach to safety and quality as an example. As a researcher to specialize in production research, I strongly feel that as our operations expand globally, we need to monitor safety and quality control in great detail. We must not allow defects to slip through or safety concerns to arise simply because quality standards or work procedures were overlooked at some plant site.

At Yokohama Rubber, the Company strictly adheres to the philosophy of designing equipment to prevent accidents even when human errors occur, and

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of halting production when necessary to prioritize safety. However, in some overseas companies, a culture that prioritizes efficiency still persists. It will be extremely important to ensure that Yokohama Rubber's safety and quality standards are thoroughly implemented worldwide. Furthermore, as the number of locations increases, the number of entities subject to audits will also increase dramatically. With operations expanding worldwide, even the smallest mistake could pose a reputational risk. This is precisely why we need to further raise the effectiveness of our audits.

**Takada** As we achieve inorganic growth and more operating companies join the Yokohama Rubber Group, it is crucial that Yokohama Rubber's philosophy and culture are truly understood and resonate with them. I also believe we need to put more effort into ensuring a thorough understanding of YX2026 and ensuring that the direction we have set is fully embraced throughout the entire Group. Once a year, we receive a report on our global internal control system. However, in addition to these internal controls, we intend to utilize tools such as engagement surveys to closely monitor whether executives and employees at companies that have recently joined the Group are sharing the same values and culture.

### In M&A, Post-merger Integration (PMI) is Crucial After the Agreements are Signed

**Kono** I believe that, more than what is discussed in theory, M&A is heavily influenced by how management assesses the target company. In price negotiations, while due diligence—including assessing the investment recovery period, capital efficiency, growth potential, and risks—is certainly important, it is also crucial to share all information openly throughout the process and to make flexible adjustments while comprehensively taking into account the intentions of the executives in charge and external opinions.

It is also important to recognize that steps toward post-merger integration (PMI) are already underway from the very start of negotiations. For large-scale acquisitions, integration work—including product supply agreements and technical agreements—can continue over a long period, with the transition phase sometimes lasting as long as three or five years. Throughout this process, it is also extremely important to ensure that key personnel at the target company remain with the organization. It is necessary to thoroughly understand which personnel are responsible for which functions—including their technical skills, expertise, and sales capabilities—in order to design optimal roles and incentive structures.

**Takada** A common pitfall in M&A is losing sight of the rationale for the acquisition partway through the process, to the point where completing the acquisition becomes the sole objective. However, in the Company's case, M&A is positioned as a part of a clear strategy, YX2026, and the purpose for each acquisition is clearly defined. In addition, I feel it is extremely important for the person leading the M&A to be the same as the person responsible for subsequent business operations. At the Company, the person responsible for business is also involved in the M&A and has responsibility for subsequent business operations. For that reason, decisions are made with a view to everything from the time of acquisition through to post-acquisition operations, and I believe this is a major strength. Of course, things don't always go according to plan. What's important at such times is conducting timely reviews based on changes in the market and business environments and revising plans as needed.

### For the Development of the Next Generation of Management Leaders

**Takada** With Outside Directors now comprising a majority of the Personnel Remuneration Committee for Corporate Officers and Directors, and Mr. Kono assuming the role of chair, I feel that the Committee's objectivity has been further enhanced. As a Committee member, I place great importance on assessing a candidate's character through various interactions, such as Board meetings, preliminary briefings, and site visits.

**Kono** Preparations for a succession plan need to begin at a fairly early stage. Unless we select candidates, assign them roles, and nurture them over a period of several years—while also utilizing external evaluations and coaching—we will not be able to develop the next generation of management talent. I understand that we are currently at a stage where the process of developing the next generation of candidates is beginning in earnest. It is also important to develop not only potential candidates for president but also the entire management team that supports them. As our business expands globally, we are seeking individuals who can understand and oversee a wide range of business operations and regions. For that reason as well, we believe that developing the next generation of management leaders is a critically important priority for supporting our future sustainable growth.

### Toward Enhancement of Corporate Value Over the Medium to Long Term

**Kono** I feel that Yokohama Rubber has largely laid the groundwork to further increase its sales and profits and enhance shareholder returns going forward. The overall strength of the Company—including its brand, technological capabilities, human resources, and workplace satisfaction—is steadily increasing. It can be said that we are now entering the phase where we are truly beginning to reap the rewards of our efforts. Rather than simply chasing after new catalysts, it is important to steadily implement the growth strategy that Yokohama Rubber has built up over the years. If our stakeholders agree with this approach, I believe there is a high likelihood that it will ultimately lead to returns that exceed our shareholders' expectations. It is also important to create an environment in which shareholders, customers, employees, and their families can share and understand the direction Yokohama Rubber is pursuing, taking into account their expectations. For that reason as well, we sincerely hope you will place your trust in the discussions and oversight functions of our current Board of Directors, which comprises members with diverse areas of expertise.

**Takada** Japanese companies are now being challenged to prove their value in the global market. In light of this, the Company needs leaders who can manage talented individuals regardless of their nationality. To that end, I believe it is important—from the perspective of one who is responsible for evaluating and overseeing management—to continually verify whether a culture that welcomes challenges and diversity, tolerates failure, and makes course corrections is being maintained. It is not just the growth strategy itself, but also assessing whether the organizational culture and governance that underpin that growth are functioning soundly that leads to the enhancement of corporate value over the medium to long term. Yokohama Rubber is a company with the potential to grow further in the global market, and I have high hopes for its future growth.

