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Yokohama Rubber's New Medium-Term Management Plan— Yokohama Transformation 2023

Tokyo—The Yokohama Rubber Co., Ltd., today announced its new medium-term management plan—Yokohama Transformation 2023 (YX2023), which will serve as the platform for the growth over the next three years, 2021–2023. The new plan is the successor to Grand Design 2020 (GD2020), a three-year plan launched in 2018.

The automotive industry is entering an era of great change, including the trends toward CASE^{*1}, MaaS^{*2}, and digital transformation (DX). During YX2023, Yokohama Rubber will “deepening” core strengths of the existing businesses while “searching” to create new value that responds to the needs being generated by this new era of great change. Through this two-pronged approach, Yokohama Rubber will “transform” into a corporate group that contributes to the growth during the next generation. By implementing the new plan’s many initiatives, Yokohama Rubber aims to achieve record sales revenue of ¥700 billion and business profit of ¥70 billion in 2023. The company also has set targets for sales revenue of ¥770 billion and business profit of ¥80 billion in 2025, as it seeks to realize the two unmet goals of its earlier longer-term Grand Design 100 (GD100) implemented from 2006 to 2017, which would be a fitting culmination of its efforts over the past 100 years.



YOKOHAMA Transformation 2023

Deepening × Searching = Transformation

GD2020 Review

Under GD2020, Yokohama's tire business sought to expand its presence in the premium tire segment of the consumer tire market while also positioning commercial tires as a revenue pillar in Yokohama's second century, with off-highway tires (OHT) the main growth driver. Meanwhile, the company's MB (Multiple Business) segment focused on allocating its resources to businesses that represented its core strengths. Each business group's strategy sought to create new core strengths by strengthening its product and brand power, enhancing its product lineup, and expanding its production and sales networks. While the global economic slowdown caused by the spread of the COVID-19 pandemic resulted in fiscal 2020 sales revenue and business profit falling short of GD2020 targets, Yokohama Rubber succeeded in improving its financial condition, sharply reducing interest-bearing debt to ¥207.8 billion at the end of fiscal 2020, down from ¥335.9 billion following its acquisition of the Alliance Tire Group (ATG) in 2016. As a result, the company's debt/equity ratio is now 0.5, lower than GD2020's target of 0.6. The company also surpassed its GD2020 target of ¥200 billion in cumulative operating cash flow over the plan's three years, generating a total of ¥236.5 billion. It also achieved its initial goal of sustaining a dividend payout ratio of at least 30%.

Overview of Yokohama Transformation 2023

■ Tire business

The current tire market can be divided into "consumer tires" for passenger cars and "commercial tires" used on trucks and buses, agricultural machinery, and other industrial vehicles. The two markets are roughly thought to be equal in scale. However, as CASE^{*1}, MaaS^{*2} and other similar trends become more widespread, individual car ownership will decline and infrastructure-type vehicles used to move people and goods will increase. As a result, what were once consumer tires will become commercial tires. Accordingly, Yokohama Rubber will respond to this changing market through a two-pronged approach. First, the consumer tire business will deepen focus on the initiatives such as expansion of sales of high-value-added tires. Second, the commercial tire business will search for and seize new business opportunities presented by the market changes in four thematic areas.

Consumer tires

Maximize sales ratio of high-value-added tires

The consumer tire business will strive to maximize the sales ratio of its core high-value-added tires, comprising the global flagship ADVAN brand, the GEOLANDAR brand of tires for SUVs and pickup trucks, and various winter tires. The initiatives taken to achieve this goal will include (1) expansion of ADVAN and GEOLANDAR tires as original equipment on new cars, (2) strengthen sales in the tire replacement market and expand the size lineups for these brands and the company's winter tires, and (3) product and regional business strategies that will increase sales of tires that respond to specific trends in each regional market. Through these initiatives, Yokohama Rubber aims to increase ADVAN brand sales by 50%, GEOLANDAR brand sales by 15%, and winter tire sales by 20% over their respective 2019 levels in 2023, thus raising the combined sales ratio of these three core tire brands from the current 40% to 50%.

Commercial tires

Further strengthen the business by capturing market changes

Responding to the dynamic market changes being brought about by CASE^{*1}, MaaS^{*2} and other new trends, the commercial tire business will search for new ways to provide value through initiatives taken in four thematic areas. It also will strengthen its OHT and TBR businesses.

Cost

To meet the expected growth in demand for lower cost tires caused by changes in the market, Yokohama Rubber will position its passenger car tire plant in India as the lowest cost tire factory in the Yokohama Rubber Group and create a new, low-cost production model. The company will also consider using a low-cost production model to expand output at its TBR tire plant in Thailand.

Service

With corporate ownership of vehicles expected to increase, Yokohama Rubber will package tire-related after-sales services with the tires it sells. Yokohama Rubber will strengthen its service system by leveraging its nationwide sales and logistics network and increasing its service trucks.

DX

Yokohama Rubber will accelerate its development of tire sensors and create new value-added services by gradually expanding services and customers as new functions are added to the tire sensors.

Product lineup

The transportation and logistics industries are expected to need a wide variety of tires to meet a range of mileage and usage conditions as electric and driverless vehicles become more common. Yokohama Rubber will help facilitate this transformation in logistics by expanding its already wide-ranging tire lineup, thus further enhancing a core strength that provides it with a distinct advantage in this market.

OHT business: Build into driver of future growth

The ongoing integration of the OHT businesses of Yokohama Rubber and Group companies ATG and Aichi Tire will further accelerate the growth of the Yokohama Rubber Group's OHT business. The business will be strengthened by a multi-brand approach to market development and responsiveness to customer needs. The company also is aggressively investing to expand production capacity as it targets OHT sales revenue of ¥140 billion in 2025, the equivalent of 30% of Group-wide profit at that time.

TBR business: Strengthen foundations for growth

The company will continue its efforts to bolster its Mississippi plant's ability to provide a stable supply of truck and bus tires in the United States. The company plans to increase the TBR production capacity to meet robust demand and expand sales revenue to ¥100 billion by 2025.

■ MB segment

MB segment during YX2023 is to transform its product portfolio into one providing both strong growth potential and stable profits. The MB segment will concentrate its resources in its two strongest business domains—hoses & couplings and industrial products—as it transforms itself into a growth driver capable of generating stable profits. At the same time, MB's Hamatite business will improve its business structure by refocusing on areas of expertise, and the aerospace products business will undergo restructuring aimed at developing business in tune with trends in today's aerospace industry.

■ Strengthening management foundations: HR strategy and ESG initiatives

YX2023's HR strategy includes reforming the personnel system to strengthen staffing at the company's management and administrative levels, building a stronger organization that can quickly respond to changes in the environment, and implementing work-style reforms that will benefit all employees. In line with the company's CSR slogan "Caring for the Future," ESG initiatives will continue to focus on providing environmentally friendly products, achieving carbon neutrality, and supporting activities in communities that are home to Yokohama Rubber operations. Management also will strengthen corporate governance and continue the company's efforts to create safe, secure, and comfortable workplaces.

■ Financial targets (goals for 2023)

Sales revenue: ¥700 billion

Business profit: ¥70 billion

Business profit margin: 10%

D/E ratio: 0.4

ROE: 10%

ROIC: 7%

Operating CF: ¥250 billion (3-year total)

Capital investment: within depreciation (excluding strategic investments)

*1 The first letters of "connected", "autonomous", "shared" and "services" (sometimes only "shared"), and "electric"

*2 Mobility as a Service. The provision through packaged search, reservation, payment, and other related functions of optimal combinations of public transport and other mobility services for addressing the mobility needs of local residents and of travelers